

Share class FX hedging

Improving operational efficiency to reach best-in-class hedging performance



The nature of current markets requires institutional investors to be well informed about the potential impacts of the share-class hedging process

- Currently the number of queries regarding hedging performance from investors is increasing. Therefore it is crucial to clearly identify the **sources** of the factors impacting hedging performance.
- In addition to using internal resources to identify the **best market practices** regarding share class hedging processes, an independent view of the market may help to avoid any bias in the analysis.
- A share class hedging **Target Operating Model (TOM)** might not always be in line with specific business strategies and organizational structures. For example depending on the strategy, the calculation of the hedge ratio or/and the execution of the trades can be performed in-house or delegated.
- The **risks** in case of miscalculation are critical. An imperfect hedging process can expose an organisation to major financial and reputational risk.
- The ability to **control** and **monitor** the potential risks through the appropriate set of indicators is a crucial requirement during this period of high FX market volatility.
- An imperfect hedging process might lead to deviations in the performance of the fund's share classes and increased **volatility**.

Our approach

Our share class hedging service offer consists of the following steps:

1. Review of the best market practices
2. Review of the current hedging process in place through the back-testing of the clients' data
3. Definition of a new Target Operating Model (TOM) and hedging process
4. Development of a dynamic hedging program aimed at reducing the performance deviation and volatility linked to the share class hedging
5. Assistance in the implementation of the necessary tools, standard document development and project management practices, working with our client through the different steps of the project.

How can we help?

In addition to reshaping our client's share class hedging process as a whole, we can propose a wide range of services to improve the quality of specific processes:

- Assistance in the definition of a new hedging strategy through:
 - The allocation of the responsibilities
 - The remodelling of the organizational architecture (TOM).
- Back-testing of the NAV to identify the various sources of performance difference (hedging and accounting) between the share classes
- Comparison of our client's hedging performance with peers or with benchmarks
- Development of an optimization program through a set of identified parameters that will help our clients maximise the risk reduction while minimising the cost of the hedge
- Test of As-If scenarios to assess the level of admissible impacts linked with the hedging thresholds and parameters defined by the optimization program
- Assistance in the implementation of specific KPI/KRI's to monitor and control the hedging process

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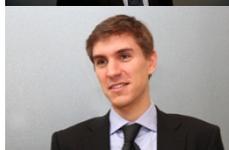


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