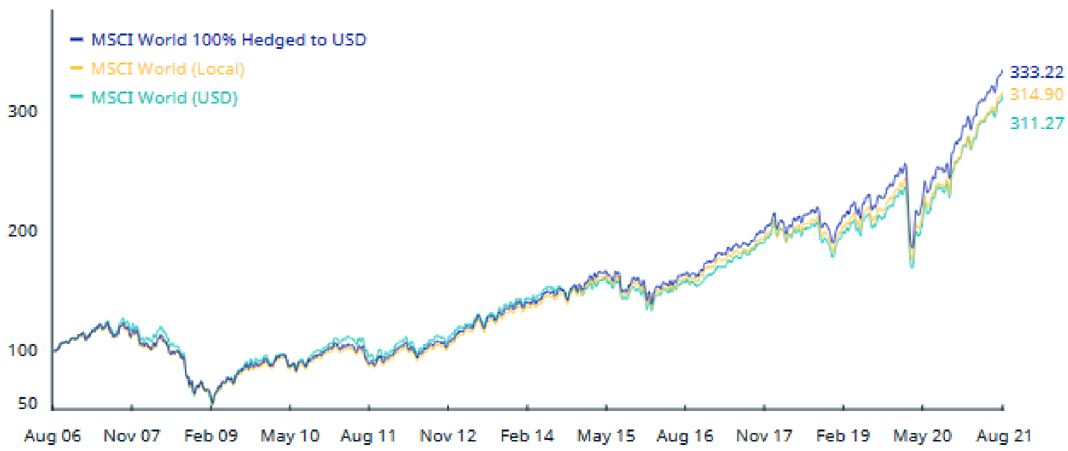
Currency Risk

It has been a long-dated discussion about how an investor should treat risk from a foreign exchange standpoint. Currency fluctuations can be extreme and the additional volatility from currency exchange rates can impact portfolio returns. If, for example, a French stock goes up by 15% but the euro falls by 20% against the USD then a USD-based investor whose portfolio has a 5% in that French company would lose 25bp instead of earning 75bp. Foreign exchange volatility could also work in the investors' benefit. If the Euro would appreciate and the stock would rise as well, then the USD investor would additionally benefit from the currency appreciation. Currency swings can be meaningful over shorter periods of times. However, over longer periods, currency swings have had much less impact.

CUMULATIVE INDEX PERFORMANCE — NET RETURNS (USD)
(AUG 2006 – AUG 2021)



Source: MSCI – "MSCI World 100% Hedged to USD Index (USD)"

As illustrated by the graph, the impact has been negligible. The year-over-year volatility can be considerable but, over the long run, the impact is essentially neutral. Investors will see currencies go through cycles. At certain times they can amplify returns and at others they represent a headwind. The last two years overall currency volatility has increased which again has raised the question about hedging the overall currency exposure. Typically, there is a cost attached to hedging. In addition, there are potential opportunity costs. A currency hedge may mitigate short-term movements, but hedging exposure can limit the upside potential from favorable currency movements.

Our Hedging Approach

At Osiris Asset Management, when we pick stocks, we believe that exposure to foreign currency is another form of diversification. At certain times we will have a strong view on the direction of the underlying currencies, which will lead us to either partially or totally hedge the foreign exchange risk.