

# Currency Hedged Indexes: Why Do They Matter?

- Currency exposure has substantially impacted the performance and the volatility of global equity indexes at times—both positively and negatively
- While there are periods in the investment cycle when investors may be comfortable taking on both equity *and* currency risk, there are other times when decoupling the two can be desirable
- MSCI has developed a range of hedging and currency indexes that reflect various ways to capture and/or hedge currency risk in an equity opportunity set. Hedging currency exposure allows an investor to take currency risk out of the equation when investing in companies abroad.

## The Importance of Currency Risk

- Currency returns, which reflect changes in exchange rates, can fluctuate considerably
- The US dollar, for example, has gone through multi-year periods of appreciation and depreciation relative to other major developed market currencies like the Euro and the Yen over the past few decades
- The effects of currency exposure on an international equity portfolio's returns and risk have been sizable at times

## Effects of Hedging Currency Risk in the Past Year: Examples

- Over the past year (since September 2013), many major currencies have depreciated relative to the US dollar (USD)
- As the US dollar has strengthened over this period, hedging exposure to foreign currencies has benefited US investors holding stocks of foreign companies
- The MSCI Japan Index expressed in USD, for example, earned annualized returns of 0.62% from Sept 2013 to Sept 2014. If its currency exposures had been hedged, the index would have returned 11.90%
- On the other hand, because the USD lost ground to the Euro over the same period, the MSCI UK Index expressed in USD returned 6.12%, outperforming the MSCI UK Hedged to USD Index which returned 5.86%

## Performance Characteristics of Unhedged & Hedged MSCI Indexes (USD)—(Sept 2013 – Sept 2014)

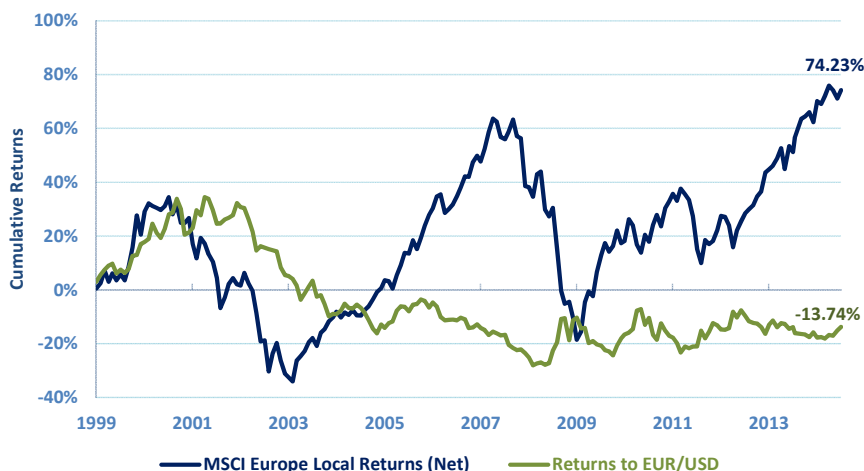
	Unhedged Index	Hedged Index
<b>Annualized Returns</b>		
MSCI EAFE	4.25%	10.50%
MSCI Emerging Markets	4.30%	5.12%
MSCI Brazil	-4.65%	-3.54%
MSCI Germany	1.94%	9.57%
MSCI Japan	0.62%	11.90%
MSCI UK	6.12%	5.86%
MSCI Europe	5.82%	10.98%
MSCI AC Asia Pacific ex Japan	5.96%	6.50%
MSCI Korea 25-50	0.74%	-3.04%
MSCI Mexico IMI 25-50	9.32%	8.54%
MSCI ACWI ex USA	4.77%	9.96%
<b>Annualized Volatility</b>		
MSCI EAFE	9.58%	6.55%
MSCI Emerging Markets	13.67%	9.44%
MSCI Brazil	31.15%	21.27%
MSCI Germany	14.52%	10.24%
MSCI Japan	9.08%	13.00%
MSCI UK	12.59%	9.91%
MSCI Europe	11.74%	7.82%
MSCI AC Asia Pacific ex Japan	12.80%	9.28%
MSCI Korea 25-50	12.54%	9.03%
MSCI Mexico IMI 25-50	13.06%	10.48%
MSCI ACWI ex USA	9.97%	6.43%

**Past performance is no guarantee of future results.  
Index returns assume reinvestment of all dividends.  
It is not possible to invest in an index.**

## Why Hedge Currency Risk?

- Currency moves can be quite substantial depending on the time period
- From peak to trough (May 2007 to Feb 2009), the EUR/USD exchange rate lost nearly 50% of its value (See chart.)
- Currency losses can be large in magnitude when compared to equity market returns
- In the short run, currency returns can be driven by an array of factors, including Central Bank decisions, changes in inflation, the balance of trade and cross-country capital flows
- Hedging currency exposure is an option for investors in foreign equities who do not want to be exposed to currency fluctuations

**Comparison of the MSCI Europe Index Returns in Local Currency versus the EUR/USD Currency (Jan 99 – Sept 14)**



Past performance is no guarantee of future results.

## MSCI Currency Hedged Indexes

- MSCI has constructed hedged versions of a range of its market cap weighted indexes including base currencies such as the USD, EUR, GBP, JPY, and AUD
- MSCI Hedged Indexes represent a close estimation of the return that can be achieved by hedging the currency exposures of the parent index by selling foreign currency forwards at one-month forward rates
- The MSCI Hedged Indexes weight each currency in correspondence to the relative market cap weight of the securities quoted in that currency in the underlying MSCI parent index

Learn more: [MSCI Currency Hedged Indexes](#)

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