Hedged Share Classes

During times of market volatility, fluctuations in both the foreign exchange (FX) and security markets can affect returns in an investment portfolio. Investors can take proactive steps to mitigate FX risks from their portfolio's return. UOBAM offers hedged share classes on a range of funds to assist investors in managing the impact of currency risks on their investments.

Benefits of investing in hedged share classes

Hedged share classes are able to safeguard investor returns against uncertain FX fluctuations that can result in potential losses. A series of FX hedges are employed to mitigate the impact of FX movements.

Hedged share classes also offer investors the familiarity of dealing in their base currency.

Options available to investors

With the availability of both hedged and unhedged share classes, investors are able to invest according to their preference of either minimising FX risks, or to leave the portfolio unhedged and be exposed to FX gains or losses.

How will the performance differ between a hedged and unhedged share class?

In an unhedged share class, investor returns are a combination of fund performance and the impact of any currency movements between the investor's base currency and the underlying currency of the fund. We can express this as:

Fund Performance + **Currency Performance** = **Total Return**

Let us consider the impact on hedged and unhedged share classes, assuming the following:

- Investor base currency in SGD
- Fund buys into underlying securities denominated in USD
- Assumption that hedging costs are zero

Hedged Classes

Scenario	Fund Performance	Currency Performance	Total Return	Rationale
Weakening SGD vs USD	5%	Nil	5%	The total return only reflects fund performance since the currency performance has been removed due to the employment of hedging strategy.
Strengthening SGD vs USD	5%	Nil	5%	

Suited for investors who are:

- Looking to minimise FX risk
- Seeking returns predominately from the investment performance of the fund
- Seeking to deal in their base currency (e.g. SGD) rather than a fund's underlying currency

Unhedged Classes

Scenario	Fund Performance	Currency Performance	Total Return	Rationale
Weakening SGD vs USD	5%	3%	8%	Assuming the SGD depreciates by 3% against the USD. The fund currency (in USD) is converted into the investor base currency (SGD) at a higher rate, enhancing the returns.
Strengthening SGD vs USD	5%	-3%	2%	Assuming the SGD appreciates by 3% against the USD. The fund currency (in USD) is converted into the investor base currency (SGD) at a lower rate, offsetting the total return.
Suited for investors who are: • Willing to undertake exposure in currency movements • Looking to gain from FX opportunities				

Investors should be aware that no hedging strategy will eliminate currency risk entirely. While hedged share classes aim to protect the portfolio's performance from currency fluctuations, investors should also note that a hedging strategy would also exclude participation from currency gain upsides.