

## Faculti Summary

<https://faculti.net/currency-management-by-international-fixed-income-mutual-funds/>

This video discusses the complexities and strategies involved in managing international fixed income portfolios, particularly focusing on the impact of currency risks in investment management. The author expresses a long-standing interest in investment management and notes the significant growth in fixed income mutual funds, moving beyond traditional equity investments.

Key points include:

1. **Risk Management in Fixed Income vs. Equity Portfolios**: The author highlights the differences in risks associated with managing international fixed income portfolios compared to equity portfolios, particularly the substantial impact of currency fluctuations on fixed income investments.
2. **Investment Strategies**: Many investors prefer U.S. dollar-denominated bonds to avoid currency risk, which can limit their investment options. The author suggests that diversifying into foreign currency-denominated bonds can enhance portfolio diversification but requires effective currency risk management.
3. **Hedging Approaches**: Mutual fund managers often use forward contracts to hedge currency risks. This video states that approximately 90% of mutual funds in the sample utilize these instruments, with varying extents of hedging based on the fund's strategy and investor profile.
4. **Factors Influencing Hedging Decisions**: The extent of hedging may depend on the fund's mandate, relative performance compared to peers, and the investor base (retail vs. institutional). Retail-focused funds tend to hedge more due to investor's limited capacity to manage currency risk independently.
5. **Performance Analysis**: The study from 2010 to 2018 suggests that fully hedged mutual funds typically perform better in terms of risk-adjusted returns compared to unhedged or selectively hedged funds. However, the author mentions potential limitations and transaction costs associated with hedging practices.

In summary, the text emphasizes the importance of understanding and managing currency risk in fixed income investments and illustrates how hedging can significantly impact performance and risk levels in investment portfolios.