Faculti Summary
https://faculti.net/currency-management-by-international-fixed-income-mutual-funds/

Here are five key points derived from the video:

1. **Evolution of Mutual Funds**: Over the last decade, there has been significant growth in fixed income investments within mutual funds, expanding beyond traditional equities to include corporate and sovereign bonds. This diversification presents different risk management challenges, particularly concerning currency exposure.

2. **Currency Risk in Fixed Income vs. Equity Portfolios**: The management of currency risk differs significantly between fixed income and equity portfolios. In fixed income, about 50% of the risk comes from the bond itself and 50% from currency fluctuations, whereas in international equity portfolios, the general consensus is that only about 10% of the risk comes from currency.

3. **Hedging Strategies**: Mutual fund managers often employ hedging strategies to manage currency exposure, with around 90% of the sampled funds using foreign currency forwards. While some funds fully hedge their currency risks, others adopt a partial or selective hedging approach based on market assessments and competition among peers.

4. **Differences Based on Investor Type**: The clientele of mutual funds influences hedging strategies; funds sold to retail investors tend to hedge more comprehensively than those sold to institutional investors, who may have their means of managing currency risks independently.

5. **Performance of Hedged vs. Unhedged Funds**: Analysis of data from 2010 to 2018 indicates that fully hedged international fixed income funds typically achieve better return volatility metrics, suggesting that they may provide slightly better returns while taking on less risk compared to their unhedged or selectively hedged counterparts during that period.

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