

Understanding Currency Risk and How to Manage It

Investing in global markets offers you the benefits of increased portfolio diversification and enhanced growth potential. It also exposes your portfolio to foreign currencies, which can enhance or detract from your returns, depending on the strength of the Canadian dollar.

Impact of Currency Fluctuations on Investment Returns

Figure 1 is an example of how a change in our dollar's value can affect an investment made in a foreign currency, in this case the U.S. dollar. An original investment of CAD \$100,000 is invested for one year and returns 6%. At the time of investment, the Canadian and U.S. dollars are at par. Three scenarios for the investment are shown: 1) Canadian dollar appreciated 2) Canadian dollar's value remained the same and 3) Canadian dollar depreciated.

In Figure 1, when the Canadian dollar appreciated, the value of the investment's return went down. This is an example of **currency risk** – the risk that your investments may lose value due to foreign currency fluctuations.

Figure 1 – For Illustrative Purposes Only

	Investment of CAD \$100,000 at Par with USD	Value at 6% Return	Exchange Rate (USD/CAD)	Value of Investment
CAD Appreciation	USD \$100,000	USD \$106,000	1.05	CAD \$100,952
No Rate Change	USD \$100,000	USD \$106,000	1.00	CAD \$106,000
CAD Depreciation	USD \$100,000	USD \$106,000	0.95	CAD \$111,579

How the Canadian Dollar Affects Your Investments

When the Dollar Falls

A depreciation in the Canadian dollar (or appreciation of foreign currencies) will typically **enhance the return** of a Canadian-dollar-priced fund that invests in securities denominated in a foreign currency.

When the Dollar Rises

An appreciation in the Canadian dollar (or depreciation of foreign currencies) will typically **detract from the return** of a Canadian-dollar-priced fund that invests in securities denominated in a foreign currency.

Currency Risk Over Time

In general, the impact of currency risk is greatest over shorter periods of time. Over longer periods, the effects of currency risk are less noticeable. This is illustrated below through the returns of the S&P 500 Index in both U.S. and Canadian dollars.

As at February 29, 2016

S&P 500	1 Year	5 Year	10 Year	20 Year
Returns (USD)	-6.19%	10.13%	6.44%	7.67%
Returns (CAD)	1.77%	17.63%	8.31%	7.61%
Difference	-7.96%	-7.50%	-1.87%	0.06%

Source: Morningstar Direct

Currency risk, whether you are investing for the short or long term, can be managed through use of a **currency-hedging** strategy.

Using Currency Hedging to Manage Currency Risk

Currency hedging works to mitigate the impact of currency fluctuations on investment returns via currency forward contracts, which guarantee a specific exchange rate at the contract's maturity date, regardless of currency fluctuations over the contract period.

Is Currency-Neutral Investing Right for You?

Currency-neutral investing may be suitable for shorter-term investors who wish to remove the potential impact of currency fluctuations on their investments, while longer-term investors may benefit if they take a particular view on the direction of the Canadian dollar.

Currency-Neutral Investing with Renaissance Investments

To help investors combat the effects of currency risk, Renaissance Investments offers the following currency-neutral solutions:

Currency Neutral Funds

- ➔ Renaissance U.S. Equity Growth Currency Neutral Fund
- ➔ Renaissance International Equity Currency Neutral Fund
- ➔ Renaissance Global Growth Currency Neutral Fund
- ➔ Renaissance Global Focus Currency Neutral Fund
- ➔ Renaissance Optimal Global Equity Currency Neutral Portfolio
- ➔ Renaissance Global Infrastructure Currency Neutral Fund
- ➔ Renaissance Global Real Estate Currency Neutral Fund
- ➔ Renaissance Flexible Yield Fund (via hedged class option)
- ➔ Renaissance Floating Rate Income Fund (via hedged class option)
- ➔ Renaissance U.S. Equity Income Fund (via hedged class option)

Why Renaissance Investments?

It's easy to think of financial security as a future goal. But at Renaissance Investments, we strive to help Canadians feel more prosperous each and every day.

With a full range of quality portfolio solutions, mutual funds and access to investment managers from around the world, we can help you start living better right now.

To discuss adding currency-neutral investments to your portfolio, contact your investment advisor.