



Share class hedging at Invesco

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Invesco's UCITS funds domiciled in Luxembourg and Dublin feature a number of different share classes, including hedged share classes, to cater to different investor needs. Hedged share classes are designed to mitigate the effects of exchange rate movements and significantly reduce, or, insofar as possible, eliminate the exposure to currencies other than the currency of the fund or share class. Read on to learn more about currency-hedged, portfolio-hedged, and hedged-plus share classes available for many funds within Invesco's UCITS fund range.

	Currency-hedged share classes	Portfolio-hedged share classes
Description / intention	<ul style="list-style-type: none"> Limit investors' currency risk by reducing the effect of exchange rate fluctuations between the fund's base currency and the currency in which the hedged share class is denominated 	<ul style="list-style-type: none"> Limit investors' currency risk by reducing the effect of exchange rate fluctuations between the share class currency and the currencies in which the underlying fund assets are denominated
Implementation	<ul style="list-style-type: none"> Any subscriptions/redemptions into the hedged share classes are converted into the fund's base currency using the spot rate as at the valuation point Simultaneously a forward currency contract is placed using the same spot rate with forward points applied to hedge out the subscription/redemption activity at share class level The valuation is monitored daily and a hedge adjustment placed to hedge changes in the value of the share class caused by market movements The forward currency contracts are rolled on a monthly basis and can be rolled more frequently during periods of extreme volatility 	<ul style="list-style-type: none"> A valuation report is produced on a daily basis. This is broken down by the currencies of the underlying assets in the fund Forward currency contracts are executed at share class level, based on this report, to hedge the underlying currency exposure within the fund back to the base currency of the share class The forward currency contracts are rolled on a monthly basis and can be rolled more frequently during periods of extreme volatility
Use / application	<ul style="list-style-type: none"> Investors who wish to take exposure to the underlying assets of the fund, in a share class that hedges the invested currency to the base currency of the fund Returns in the currency-hedged share class are very similar to returns in the base currency share class 	<ul style="list-style-type: none"> Investors who wish to take exposure to the market segment represented by the fund but do not wish to have the currency exposure to the underlying assets Depending on the currency exposure of the underlying fund assets and the magnitude of FX movements, returns in the portfolio-hedged share class can deviate from returns in the base currency share class
Example	<ul style="list-style-type: none"> By investing in a US fund's EUR-currency-hedged shares, a Eurozone-based investor would capture the investment performance of the US equity market without taking on the additional risk of movements between euro and US dollar 	<ul style="list-style-type: none"> By investing in a Pan European fund's EUR-portfolio-hedged shares, a Eurozone-based investor would capture the investment performance of the Pan European market without taking on the additional risk of movements in non-euro-denominated (GBP, CHF, NOK, SEK) portfolio exposures

	Currency-hedged share classes	Portfolio-hedged share classes
Limitations	<ul style="list-style-type: none"> ▪ Hedges are never perfect in practice and do not completely eliminate investor's exposure to exchange rate fluctuations ▪ One important factor for a performance deviation between the fund's base currency share class and the currency-hedged share class is the interest rate differential between the two currencies ▪ Transaction costs detract slightly from the overall return ▪ Changes in the market value of the fund's assets attributed to the share class cannot be hedged until after the valuation point. This causes a currency exposure between the valuation point and the time the adjusting forward is placed ▪ Hedging may not always be at 100% to avoid transaction costs for minor adjustments ▪ The gain or loss on the currency hedge is reflected in the daily NAV calculation for the relevant hedged share class and therefore in its performance, but will be booked as an unrealised profit or loss until the contract is rolled. At this point the impact of the forward is crystallised and a new forward currency contract is put in place ▪ The share class does not hedge the currency positions of the underlying fund assets and therefore investors may bear currency risk within the fund 	<ul style="list-style-type: none"> ▪ Hedges are never perfect in practice and do not completely eliminate investors' exposure to exchange rate fluctuations ▪ One important factor for a performance deviation between the fund's base currency share class and the portfolio-hedged share class is the interest rate differential between the fund's base currency and the hedged share class currencies ▪ Transaction costs detract slightly from the overall return ▪ Intra-day volatility of the value of the fund's assets deviating from the base currency of the fund in relation to the existing hedge are not accounted for ▪ The hedge can only be placed on a T+1 basis after the NAV has been struck (unlike base currency hedge share classes). This incorporates the subscription and the redemption flows for the previous day and the subsequent portfolio currency exposure weightings ▪ Hedging may be only partially or not at all implemented (e.g. small share class volume or small residual currency positions in the fund) or it may be imperfect (e.g. some currencies cannot be traded at any time)

Excursus: Maximising currency-hedged share class distributions: Gross income hedged plus share classes

The two main features of these share classes are 'gross income' and 'hedged-plus' which - in combination - maximise the distribution available to investors:

- **Gross income:** Share classes fees and expenses are charged against capital of the share classes, resulting in an increase of distributable income. At the same time this results in a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment.
- **Hedged-plus:** The hedging mechanism that applies to these share classes is conceptually similar in nature to that which is employed on currency hedged share class. The variation is due to the fact that the interest rate differential, which is reflected in the difference between the spot rate and forward rate, is treated as an income component of return. On standard hedge share classes it is treated as part of the capital gain on the hedge. The hedge plus share classes are denominated in currencies where at present, the central banks have higher interest rates than those of the base currency of the fund. Positive interest rate differential is a factor of policy in the respective economies and cannot be guaranteed to continue into the future.

Important information

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The value of investments and any income from them will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

While great care has been taken to ensure that the information contained herein is accurate, no responsibility can be accepted for any errors, mistakes omissions or for any action taken in reliance thereon.

All data provided by Invesco unless otherwise stated. Data as at 30 October 2014, unless otherwise stated.

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