

# Currency movements and your portfolio

Protecting your portfolio against adverse currency movements is an important part of investing. Currency-neutral solutions can help to mitigate exposure to changes in exchange rates between developed market currencies and the Canadian dollar.

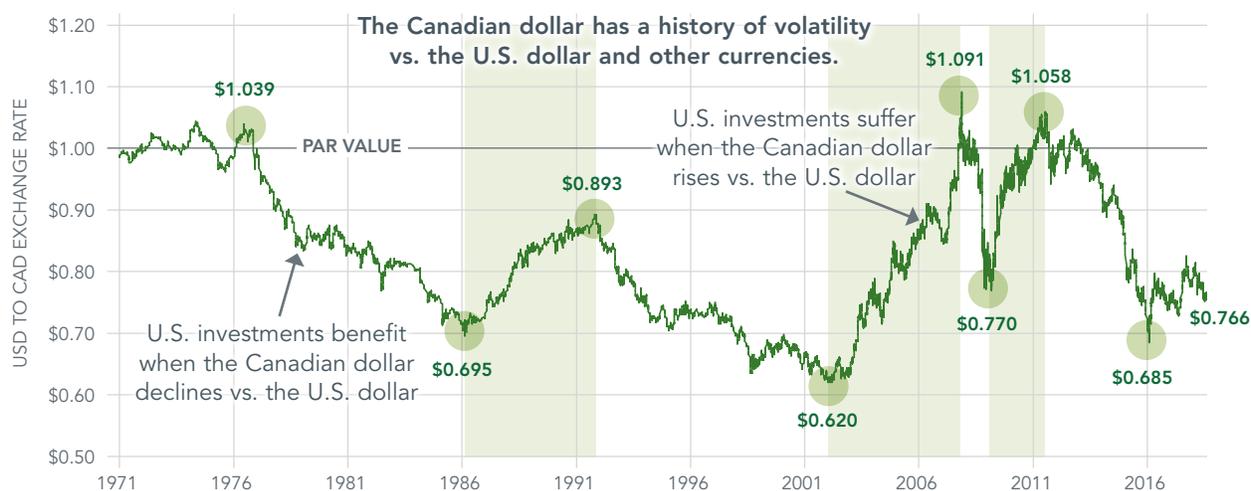
Increased diversification, lower correlation between asset classes and a greater variety of attractive investment opportunities are just some of the potential benefits that can come from investing in foreign markets.

However, when investors expand into foreign stocks and bonds, the potential for fluctuations in exchange rates and the impact that they may have on returns must also be considered.

A mutual fund that buys and sells securities that are denominated in currencies other than the Canadian dollar can lose money when the Canadian dollar rises against those foreign currencies. These fluctuations in currency values can either enhance or reduce the returns associated with foreign investments. This is called *currency risk*.

## KEY TAKEAWAYS

- Currency-neutral solutions can reduce risk associated with currency fluctuations.
- You can move to a currency neutral version of a fund or back to the unhedged version at any time.
- Using a currency-neutral option helps place the focus on Fidelity's core strength – finding good investment opportunities regardless of currency.



Source: U.S. Federal Reserve, Datastream. As at July 31, 2018.  
This chart is used solely to represent the historical volatility of the Canadian dollar versus the U.S. dollar.

## Currency movements and your portfolio

### Foreign currency volatility can affect portfolio returns.

Movements in exchange rates can affect the day-to-day value of a mutual fund, especially if it holds a lot of foreign investments. These movements can have either a positive or negative effect.

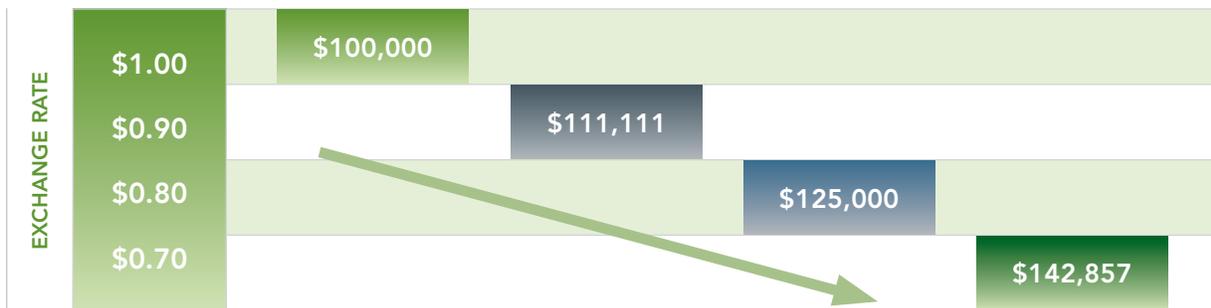
Mutual funds can use derivatives to help offset losses that other investments might suffer because of changes in stock prices, commodity prices, interest rates or currency exchange rates. This process is called *hedging*. An investor can use a currency-neutral version of a fund or pool to mitigate against the potential losses from a change in exchange rates.

Switching to a currency-neutral option will enable you to mitigate the effects of currency risk, yet allow you to continue to reap the benefits of investing in foreign markets.

Let's consider two scenarios:

#### Home currency is devaluing: When the exchange rate declines, performance increases.

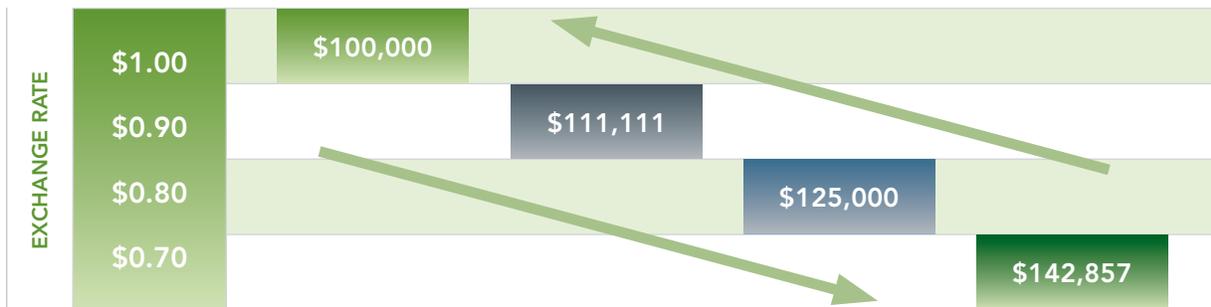
You have invested in a U.S. equity fund in Canadian dollars. As the Canadian dollar depreciates against the U.S. dollar, the value of your investment will rise, and your portfolio performance increases.



Source: Fidelity Investments Canada ULC; value of US\$ investment expressed in CDN\$.

#### Home currency is appreciating: When the exchange rate increases, performance declines.

When the Canadian dollar once again begins appreciating against the U.S. dollar, the performance of your investment declines, and you begin to lose the currency benefits you had previously gained.



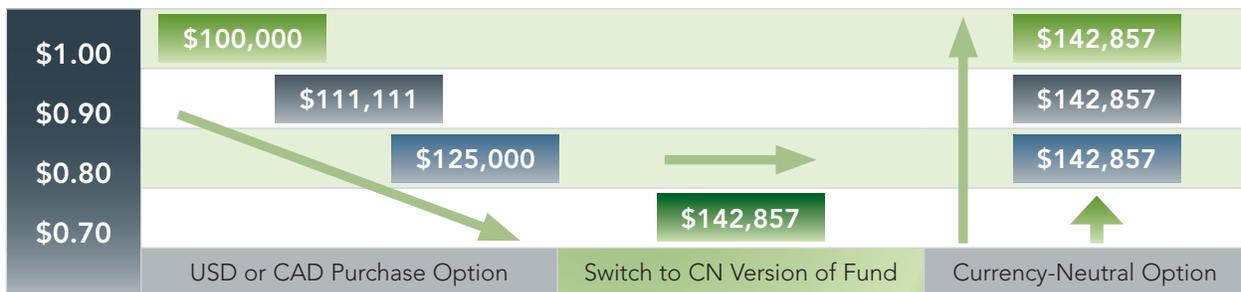
Source: Fidelity Investments Canada ULC; value of US\$ investment expressed in CDN\$.

# A currency-neutral option can help mitigate foreign currency volatility.

With a currency-neutral option, exchange rate fluctuations are hedged to mitigate any impact on performance. Investors have the ability to switch between the hedged and non-hedged options. However, it's important to remember that switching between these two options in non-registered accounts may have tax implications.

## How currency-neutral works

The chart below illustrates that as the Canadian dollar devalues relative to the U.S. dollar, the performance of your U.S. investment portfolio improves from a Canadian dollar perspective. When the Canadian dollar begins to grow again, instead of losing the currency gains you made, you can switch into a currency-neutral option, which will use currency hedging to mitigate currency risk.



Source: Fidelity Investments Canada ULC; value of US\$ investment expressed in CDN\$. A currency-neutral fund uses derivatives to mitigate the fund's currency exposure. The investment approach used by such a fund, while effective in reducing exchange rate risk, will not completely eliminate the impact of currency fluctuations. The fund's returns will differ from the local currency returns of its underlying investments.

## U.S. dollar purchase option

Certain funds are also available for purchase in U.S. dollars. This can be useful for investors who hold U.S. dollars. It does not change the investment performance of a fund; whether you purchase in Canadian or U.S. dollars, it's the underlying investment performance that matters. If you are a Canadian investor, and your aim is to mitigate against currency risk, you should consider a currency-neutral fund.

## Remember, a longer-term time horizon can show the big picture

There can be significant short-term fluctuations in currencies, however, over time the impact on investments is reduced. The chart below shows a comparison of the highest appreciation and the highest depreciation experienced by the Canadian dollar relative to the U.S. dollar over various rolling investment time frames from 1971 to July 2018.



For example, the results for the one-year investment time frame are based on 559 sample one-year periods: Jan. '71 to Jan. '72...Jul '16 to Jul '18. Sources: Bloomberg. Currency used: CAD/USD. Based on monthly returns. Past performance is no guarantee of future results. The currency returns presented are calculated monthly returns in CDN\$ from January 1971 to July 2018. The three-, five-, seven-, ten-, fifteen- and 20-year periods reflect annualized returns. Returns are in CDN\$. As at July 31, 2018.

For more information about Fidelity's currency-neutral solutions, talk to your financial advisor or visit [fidelity.ca](http://fidelity.ca)

**Read a fund's prospectus and consult your financial advisor before investing.** Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated. Investors will pay management fees and expenses, may pay commissions or trailing commissions and may experience a gain or loss.

A fund's volatility is determined using a statistical measure called "standard deviation." Standard deviation measures the amount of variability of returns that has historically occurred relative to the average return. The higher the standard deviation of a fund, the greater the range of returns it has experienced in the past. Other types of risk, both measurable and non-measurable, exist. In addition, just as historical performance may not be indicative of future returns, a fund's historical volatility may not be indicative of its future volatility.

Currency-neutral funds use derivatives to mitigate the funds' exposure to changes in exchange rates between developed market currencies (or U.S. currency) and the Canadian dollar. The investment approach used by the funds (or pools), while effective in reducing exchange rate risk, will not completely eliminate the impact of currency fluctuations. The funds' (or pools') returns will differ from the local currency returns of their underlying funds.

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