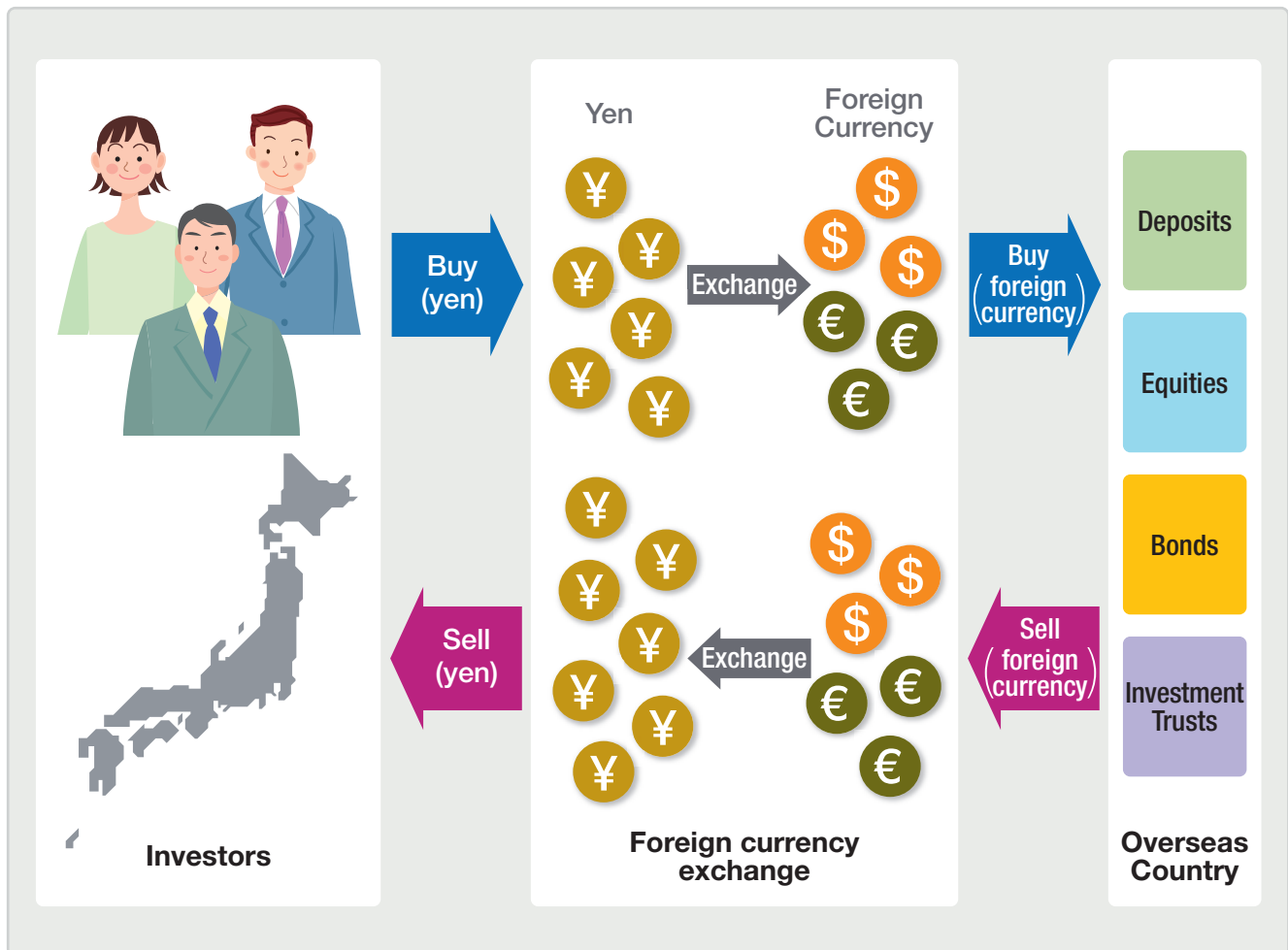


Asset Class: Foreign Assets

Some investment trusts invest in equities and bonds which are traded in foreign currencies. The most remarkable feature of foreign assets is that values of the assets fluctuate according to changes in exchange rates. “Currency exchange” means exchanges between currencies based on exchange rates for currency pairs (e.g. JPY for USD). Exchange rates fluctuate due to various factors such as changes in economic and political situations. Therefore, when investing in foreign assets, it is necessary to consider fluctuations in exchange rates as well.

Image



When investing in foreign assets, investors exchange domestic currency for the foreign currency to buy foreign deposits, equities and bonds. Likewise, when selling such products, investors need to exchange the proceeds from the sale in the foreign currency for the domestic currency. Thus, investment in foreign assets can be affected not only by fluctuations unique to the investment product, but also those in exchange rates. Either a profit or a loss can be generated, depending on fluctuations in the exchange rate, which could result in higher risk.

Main risks:

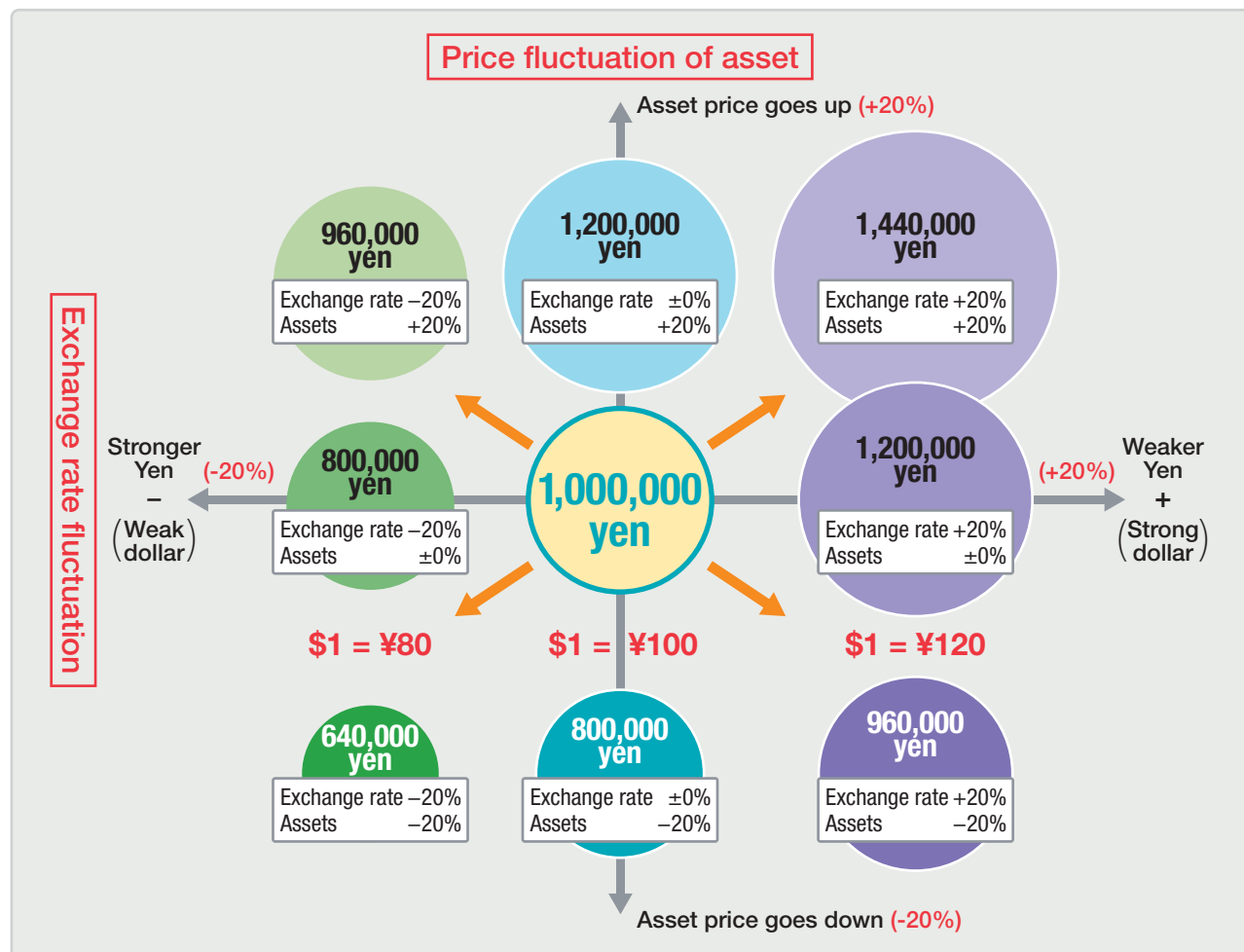
On top of the specific risks associated with foreign assets including equities and bonds, etc., exchange risk and country risk will come up when investing in foreign assets.

Fluctuations in asset price and exchange rate

Yen based value of foreign currency denominated assets fluctuates in response to the price fluctuations of the assets as well as the fluctuation of exchange rate.

Let's see how these fluctuations would affect results when 1 million yen is invested in dollar-denominated assets at 100 yen to the dollar (the circle in the center).

Image of fluctuation



Currency Hedging

Currency hedging is a technique used to hedge against price fluctuations caused by exchange rate movement when investing in foreign assets. Investment products which invest in foreign assets can be divided into two groups: one with currency hedging and the other without currency hedging. Currency hedging incurs extra transaction costs.

<Relationship between FX hedging and profit>

