NAVIGATING FX COMPLEXITY

in Semi-Liquid Private Funds

One of the most profound changes taking place in private markets involves the use of share class hedging in semi-liquid fund structures. Strategies once aimed primarily at institutional investors are increasingly being adapted for global private wealth channels, and managers are broadening distribution across borders in search of new pools of capital. That opportunity is significant, but it also raises a new set of product design, liquidity and operating model questions. One of the most important is how to approach share class hedging in semi-liquid fund structures.

As managers raise capital across currencies, investors increasingly want exposure to the underlying private market strategy without assuming the fund's base currency risk. Share class hedging can help address that need. Done well, it can improve product fit, reduce perceived FX friction and support a stronger distribution proposition. But in semi-liquid structures, the challenge is not simply whether to hedge. It is whether the fund's liquidity framework, governance model and operational infrastructure are equipped to support hedging in a scalable and resilient way.

Share Class Hedging: Turning FX Risk into a Distribution Advantage

The private markets industry is in the middle of a structural shift. Assets that were once largely the domain of institutional investors are increasingly being packaged for global private wealth channels, and demand is growing. For managers, this is a meaningful opportunity to broaden their investor base and diversify sources of capital. But it also introduces a set of structural and operational questions that become more important as distribution expands across currencies and jurisdictions.

At the center of many of those questions is currency. As private markets managers broaden distribution across borders, investors often want exposure to the underlying strategy rather than to fluctuations in the fund's base currency. Share class hedging is the mechanism that can help make that possible. Viewed in that way, it is more than a technical overlay. It is increasingly part of the commercial architecture supporting private wealth distribution.

KEY TAKEAWAYS

- Share class hedging is becoming an important enabler of private wealth and cross-border distribution for private markets managers.
- In semi-liquid structures, the key challenge is the timing mismatch between hedge-related cash needs and the liquidity profile of the underlying assets.
- A durable approach is to treat share class hedging as a product design and operating model question, not simply an execution task.
- Coordinated hedging, explicit liquidity planning and strong operational oversight can help reduce structural strain and improve resilience.
- Managers that approach share class hedging deliberately may be better positioned to broaden investor access and scale international distribution more sustainably.

That opportunity is clear. Hedged share classes can improve product fit for non-base currency investors, reduce perceived FX friction and strengthen the fundraising proposition across global wealth channels. But in semi-liquid structures, the question is not simply whether to hedge. It is whether the manager has the liquidity design, governance framework and execution discipline to support hedging effectively through both normal and stressed market conditions.

The Structural Shift in Private Markets

There have been substantial changes in how private market strategies reach investors in recent years. Regulatory evolution, product innovations and a sustained push by managers to diversify investor base have helped open private markets to a broader audience. Semi-liquid fund structures — vehicles that offer periodic liquidity windows while investing in largely illiquid underlying assets — have become one of the main channels driving this growth.

The appeal is clear: Investors gain access to private market strategies with a degree of liquidity they would not typically have in a traditional closed-end structure, while managers gain access to a larger and more diversified capital base. But these vehicles involve significant trade-offs, and they become more complex as distribution extends across currency boundaries.

For managers operating across multiple jurisdictions, this complexity often leads to a central design decision: whether and how to offer hedged share classes.

Why Share Class Hedging Matters

Share class hedging allows a fund to offer investors exposure to the underlying private market strategy in their home currency, reducing the impact of currency movements on reported returns. On the surface, this is a risk management service. But there are much wider implications.

For investors in non-base currencies, unhedged returns can introduce a source of volatility that is not central to the investment thesis. For private wealth investors, such FX exposure may be seen as a friction point rather than a desired feature. Thus, offering a hedged share class can improve the product's utility, widen the available market and support a more compelling cross-border distribution proposition.

Viewed this way, share class hedging is not only a way to reduce currency noise. Increasingly, it is also a strategic opportunity for managers seeking to scale internationally and make private market products more accessible across investor segments and jurisdictions.

The Liquidity Challenge in Semi-Liquid Funds

The strategic case for share class hedging may be strong, but semi-liquid structures introduce a specific structural complication. The underlying assets in these vehicles are, by design, not readily monetizable on short notice. Yet FX hedging can generate cash flows through settlement, roll activity, mark-to-market movements and, where relevant, collateral or margin requirements that crystallize on a much shorter timetable.

The result is a timing mismatch between the liquidity profile of the portfolio and the cash demands created by hedging. In more benign market conditions, this mismatch may be manageable. Under stress, however, it can become a real source of pressure. Currency moves can increase hedge-related cash outflows precisely when the underlying portfolio is hardest to refinance, rebalance or monetize.

This is why share class hedging in semi-liquid funds should be viewed as a balance sheet design question as much as an execution task. If hedge-related cash needs cannot be met efficiently, managers may be forced to hold excess liquidity, which can act as a drag on returns, or rely more heavily on revolving credit facilities and other contingency tools, which may add cost and complexity. Either outcome can erode some of the commercial benefit the hedged share class was intended to create.

Building the Right Structure: The Hedging Lifecycle

A more resilient approach begins by treating share class hedging as an integrated part of the fund's broader liquidity and risk management framework, rather than as a standalone activity. In practice, the strongest models tend to connect distribution ambition, liquidity capacity and operational capability from the outset. Such integration extends across the full hedging lifecycle — from initial design through execution, monitoring, governance and stress management, with solutions such as BNY's FX Hedge Direct helping firms translate strategy into operational execution.

Coordination across the hedging lifecycle is an important starting point. Portfolio-level hedging and share class hedging should not always be managed as entirely separate activities. Managers may benefit from designing them together to better understand aggregate exposures, identify offset opportunities and reduce unnecessary cash fragmentation. Where funds hold non-base currency assets, there may also be natural offsets that reduce the gross hedge requirement.

Structuring choices can further improve resilience. Aligning hedge tenor across portfolio and share class hedges, and, where feasible, facing the same banking counterparty, may improve netting efficiency and reduce gross liquidity pressure. Managers can also be selective about where hedged share classes are offered — for example, prioritizing larger funds, targeting investor segments where demand is clearest, or focusing on portfolios where non-base currency exposures create more natural alignment between assets and liabilities.

Liquidity governance is equally important. A fund offering hedged share classes should have a defined liquidity waterfall that establishes how hedge-related cash demands will be met, in what order and with what limits. That framework may include liquidity buffers, subscription flows, distributions, credit facilities, reserve mechanisms or run-off from investments. What matters is not simply that these tools exist, but that there is clarity around how they are expected to function in both normal and stressed conditions.

Operational infrastructure is the final part of the equation. Share class hedging creates an ongoing operating requirement, not a one-time design decision. Exposure monitoring, hedge rolling, execution management, NAV review, reconciliation, counterparty oversight and escalation processes all need to be coordinated if the structure is to scale effectively. As private wealth platforms grow, weaknesses in any one part of that chain can quickly erode the strategic value of the model.

The Road to Scalable International Distribution

For managers expanding in private wealth, share class hedging represents both a commercial opportunity and a structural discipline. The opportunity is clear: investors across global wealth channels increasingly want private market exposure in their home currency, and product design can play an important role in meeting that demand. The discipline is equally clear: the fund structure has to be able to support it.

Managers that approach share class hedging only as a technical mechanism risk creating avoidable liquidity pressure and operational inefficiency. Those that approach it as part of broader product design are more likely to improve investor fit, strengthen cross-border fundraising and support more sustainable distribution growth. In that sense, the question is no longer simply whether FX complexity exists. It is whether that complexity can be managed in a way that supports scale.

Done well, share class hedging can help turn a source of structural friction into a more durable distribution advantage — not by eliminating complexity, but by building the liquidity framework, governance and operating model needed to manage it with greater discipline.