Practitioner Paper

Monetising Derivative Hedges - A Practical Framework

Why most institutional hedges never pay – even when they are right

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By Mike Duncan, Para Bellum Advisors

www.parabellumadvisors.com

1. Executive Summary

Institutional hedges fail far less often because they are wrong than because nothing happens when they are right.

Across FX, rates, credit, equity, and volatility, portfolios routinely implement hedges that perform exactly as designed. Mark-to-market gains accumulate, risk metrics improve, and governance bodies are reassured that protection is in place.

Yet in most cases, those gains are never converted into usable capital, re-locked protection, or improved portfolio resilience. They are observed, reported, and then quietly given back.

This paper argues that the problem is not hedging technique. It is the absence of a monetisation doctrine.

An unrealised hedge gain is not protection. It is an unmade decision.

A monetisation doctrine should be calibrated to the hedge objective. A solvency hedge protecting statutory capital should monetise differently from an optics hedge managing quarterly volatility. The distinction matters because the right trigger for one objective may be wrong for another. This paper argues that regardless of objective, the absence of any monetisation framework guarantees protection will fail when it is needed most.

Through a series of cross-asset case studies drawn from real institutional outcomes, this paper shows how hedges that "work" still fail to change results because organisations lack:

- predefined monetisation triggers
- delegated authority to act
- mechanical re-hedging logic
- integration between hedging and liquidity management

The result is a persistent failure pattern: hedges generate paper protection, but portfolios remain exposed to give-back, liquidity stress, and missed opportunities precisely when protection is most valuable.

The paper concludes by setting out a practical monetisation doctrine – procedural, not philosophical – that institutions can implement without new systems, new staff, or increased trading activity **(and in practice often with *less* trading, as decisions are batched into predefined trigger events rather than debated ad hoc).**

Table of Contents

2. The Hedge That Worked – And Still Failed

A European pension fund holds a substantial allocation to US infrastructure debt. The investment is sound: long-dated, investment-grade, generating predictable cashflows. The currency exposure is structural and persistent.

The fund implements a rolling FX forward programme to hedge 50% of the USD exposure. The hedge is clean, liquid, and accounting-compliant. Risk committee approves. Reporting shows volatility reduction. Everything is working.

Over eighteen months, the USD weakens materially against the EUR. The FX forwards move deep in-the-money. The MTM gain accumulates steadily – first €5 million, then €12 million, eventually €18 million.

The hedge is doing exactly what it was designed to do.

No action is taken.

There are no monetisation triggers. No authority to crystallise partial gains. No re-hedging doctrine. The prevailing view is simple: "We're hedged. The hedge is working. Why would we touch it?"

The USD reverses. Over the next twelve months, it strengthens back toward original levels. The MTM gain compresses to €8 million, then €3 million. Eventually it sits at €1.2 million.

Meanwhile, carry costs have continued throughout. The opportunity to re-lock protection at materially better levels has passed. The capital that could have been crystallised – and redeployed or used to re-hedge – was never realised.

The hedge worked. The portfolio is still worse off than it should have been.

The failure was not market timing. The failure was structural inaction.

3. Protection Lives in Action, Not Accounting

An unrealised hedge gain is not protection. It is an unmade decision.

Mark-to-market accounting creates a dangerous illusion. A hedge shows a gain in the risk report. The number is positive. Volatility has been reduced. The narrative is: "We are protected."

But protection only exists when gains can be:

- converted to cash
- re-locked at better levels
- re-expressed defensively

Until one of those things happens, the gain is conditional. It can disappear. It can reverse. It can decay.

An MTM gain that sits untouched is not capital. It is optionality you have not exercised. And optionality expires – sometimes slowly through carry bleed, sometimes violently through mean reversion.

The distinction matters because institutional governance typically treats hedge MTM as if it were owned. It is reported as protection. It is discussed as a success. But no one has authority to act on it.

This creates a persistent failure mode: hedges generate paper protection that never converts to actual protection.

The problem is not the hedge. The problem is the absence of a doctrine for what to do when it works.

4. The Failure Pattern

What follows are five case studies across FX, rates, credit, equity, and collateral.

Different asset classes. Different instruments. Different portfolios.

But the same failure pattern repeats:

1. The hedge works.
2. MTM gains accumulate.
3. No monetisation path exists.
4. Gains erode or vanish.
5. Portfolio ends up worse than expected.

This is not bad luck. It is not poor market timing. It is not sophisticated markets punishing naive investors.

It is a governance gap that exists in many institutional portfolios.

The case studies that follow are composites drawn from real outcomes. No hypotheticals. No hindsight heroics. Just the mechanics of how protection fails when monetisation is structurally absent.

5. FX Case Study: The FX Hedge That Was Right – And Still Useless

Portfolio Context

A USD-based investor holds a long-term investment in offshore assets. The mandate requires FX volatility reduction, not FX alpha.

The exposure is economically long foreign currency, structurally persistent, and approved as a strategic holding.

Hedge Structure

A rolling FX forward programme is implemented to hedge a fixed percentage of the foreign currency exposure.

The structure is:

- simple
- liquid
- accounting-aligned
- approved by committee

By all conventional standards, it is "clean".

What Went Right

A sustained move in FX causes the hedge to move materially in-the-money.

The forward MTM gain grows steadily:

- volatility is reduced
- reporting looks good
- the hedge is visibly "working"

There is no execution error. No modelling failure.

What Was Not Done

No action is taken.

There are:

- no monetisation triggers
- no partial crystallisation authority
- no re-hedging doctrine

The prevailing logic is: "We're hedged. The hedge is doing its job."

Monetising the gain is viewed as:

- directional risk
- unnecessary activity
- indistinguishable from trading

What Was Lost

The FX move reverses over time.

The accumulated MTM gain:

- compresses
- then disappears

Meanwhile:

- carry costs persist
- opportunity to re-lock at better levels is missed

- no capital is ever realised

The hedge "worked" throughout – and still delivered nothing.

The Real Failure

The failure was not FX timing. It was not instrument choice.

It was the absence of a monetisation doctrine.

The hedge generated protection in theory, but no protection in action.

What Would Have Changed the Outcome

Any one of the following would have altered results materially:

- partial crystallisation at predefined thresholds
- mechanical re-hedging after monetisation
- delegated authority to act without committee escalation

The issue was not sophistication. It was permission and procedure.

6. Rates Case Study: When DV01 Becomes a Position

Portfolio Context

An insurance company holds a portfolio of long-dated liabilities with significant interest rate sensitivity. The asset-liability mismatch creates material DV01 exposure.

A rates hedging programme is implemented to neutralise duration risk and stabilise economic capital.

Hedge Structure

Long-dated interest rate swaps are sized to neutralise DV01 at inception. The hedge is:

- structurally appropriate
- properly documented
- approved by both CRO and CFO

The risk reports show duration-matched. All initial governance boxes are ticked.

What Went Right

Interest rates move sharply and persistently in the direction the hedge was designed to protect against.

Swap MTM gains accumulate quarter after quarter:

- hedge effectiveness tests pass
- accounting treatment remains clean
- economic capital volatility is visibly reduced

The hedge is performing exactly as modelled.

What Was Not Done

No action is taken as the exposure evolves.

Specifically:

- no resizing as liability duration drifts
- no partial monetisation as gains accumulate
- no re-expression of protection

The swap remains at its original notional. The organisation continues to report it as "the hedge" even as the underlying exposure it was meant to protect has changed materially.

What Was Lost

The swap becomes oversized relative to the evolved exposure.

What was once a hedge now behaves like a position:

- it drives P&L volatility
- it creates liquidity demands through variation margin
- it dominates risk committee discussions

Eventually, rates reverse. The accumulated MTM gain compresses. The organisation is left with:

- a swap that no longer fits the exposure
- liquidity stress from VM flows
- no realised capital from what was once a substantial paper gain

The Real Failure

A hedge without re-expression rules becomes a position.

The failure was not the swap itself. It was the assumption that a static hedge structure could protect a dynamic exposure indefinitely without adjustment.

In prolonged low-rate environments, long-dated receiver swaps can deliver duration at inception but embed persistent negative carry as conditions change. Over time, the reluctance to realise losses turns the hedge into a capital-consuming position, defended on the basis of original intent rather than current economics.

What Would Have Changed the Outcome

Predefined resizing or monetisation bands tied to exposure drift would have prevented the hedge from becoming a liability.

Simple procedural rules – "if MTM exceeds X, evaluate partial monetisation" or "if liability duration shifts by Y, resize notional" – would have kept the hedge aligned to its purpose.

7. Credit Case Study: Protection That Never Paid in Time

Portfolio Context

A credit-focused hedge fund runs a leveraged portfolio of corporate bonds and structured credit. The strategy targets spread carry but is exposed to tail events in credit markets.

The portfolio is explicitly positioned for "carry until crisis". Tail protection is a stated part of the risk framework.

Hedge Structure

CDS index protection is purchased at regular intervals. The protection is:

- clearly documented
- sized to offset a portion of spread widening
- approved as portfolio insurance

Premium costs are accepted as the price of protection. Risk reporting shows the hedge in place.

What Went Right

Credit spreads widen sharply during a period of market stress. Risk-off flows dominate. The CDS protection moves significantly in-the-money.

The MTM gain grows rapidly:

- spread sensitivity is reduced
- the protection is "working"
- the hedge shows up positively in risk reports

There is no technical failure. The hedge did what it was supposed to do.

What Was Not Done

No monetisation triggers exist.

Specifically:

- no predefined spread levels for crystallisation
- no authority to act intra-month
- no doctrine for when protection should be taken off and re-established

The prevailing logic is: "Spreads could widen further. We should stay protected."

What Was Lost

Policy intervention arrives. Central bank support is announced. Credit markets stabilise rapidly.

Spreads retrace within weeks:

- the MTM gain compresses
- protection value decays
- carry costs continue to accumulate

By the time the next investment committee meeting occurs, the crystallisation opportunity is gone.

The protection "worked" – spreads widened, the hedge paid – but no capital was ever realised.

The Real Failure

Monetisation lag exceeded market intervention speed.

The failure was not the CDS. It was the assumption that committee-based governance could operate at the speed required to monetise credit protection during volatile periods.

What Would Have Changed the Outcome

Pre-authorised monetisation tied to spread levels, not sentiment, would have allowed the fund to crystallise gains before policy intervention compressed them.

A simple rule – "if CDS MTM exceeds X basis points, monetise 50% within 48 hours" – would have converted paper gains into actual capital.

8. Equity Case Study: Convexity Without Authority

Portfolio Context

A family office holds a concentrated equity portfolio with substantial exposure to growth stocks. Volatility is accepted as part of the strategy, but tail risk is a governance concern.

The family mandate explicitly requires downside protection during severe market dislocations.

Hedge Structure

Put spreads and out-of-the-money tail overlays are implemented on a rolling basis. The structures are:

- cost-efficient
- designed to capture convexity during vol spikes
- approved as portfolio insurance

The hedges are sized, documented, and monitored. Premium costs are disclosed and accepted.

What Went Right

A sharp equity drawdown occurs. Volatility spikes violently. The put spreads move deep in-the-money.

Within three trading days:

- options are worth multiples of premium paid
- convexity has delivered exactly as designed
- the protection is visibly working

There is no execution error. No modelling failure. The hedge has performed.

What Was Not Done

No one has authority to act.

The CIO identifies the monetisation opportunity and prepares a recommendation. But:

- authority to monetise sits with the investment committee
- committee meets monthly
- next meeting is eleven days away

By the time the committee convenes:

- VIX has collapsed from 45 to 22
- put values have decayed by 70%
- the convexity window has closed

The recommendation is discussed, but the opportunity is gone.

What Was Lost

The options decay back to near-zero value. Premium costs remain sunk. The family office has paid for protection that delivered convexity – but captured none of it.

The hedge worked. The governance cycle did not.

The Real Failure

Decision cycle incompatible with optionality.

The failure was not the options. It was the structural mismatch between the speed at which convexity decays and the speed at which decisions could be made.

Equity vol monetisation windows are measured in hours, not days. Monthly governance cannot act on hourly opportunities.

What Would Have Changed the Outcome

Authority aligned to intraday or same-day action would have allowed the CIO to monetise while convexity was live.

A pre-delegated authority framework – "CIO authorised to monetise up to X notional of option gains without committee approval" – would have captured the value the hedge generated.

8. Collateral & liquidity Case Study - The Variation Margin Trap

Portfolio Context

A pension fund uses interest rate swaps and FX forwards to manage duration and currency risk across a diversified portfolio. The derivatives book is substantial but operationally embedded.

Treasury manages day-to-day liquidity. Investment team manages hedge positioning. The two functions coordinate but operate on different cadences.

Hedge Structure

Long-dated interest rate swaps and rolling FX forwards are in place. All hedges are cleared through major CCPs. Variation margin is posted and received daily.

The hedge structures are:

- liquid
- well-documented
- approved by risk committee

Collateral requirements are understood and factored into liquidity planning.

What Went Right

Interest rates move sharply. The swaps move materially in-the-money. The MTM gain on the hedge book accumulates steadily.

From a risk perspective:

- duration exposure is reduced
- hedge effectiveness is confirmed
- risk reports show protection is working

What Was Not Done

The liquidity impact of two-way variation margin is not actively managed.

Specifically:

- no integration between hedge monetisation and liquidity planning
- no trigger to crystallise gains when VM outflows elsewhere create cash drag
- no doctrine for using hedge gains to release liquidity stress

Meanwhile, other positions in the portfolio are moving against the fund. Variation margin is being paid out daily on those positions.

Treasury is managing the cash drain. Investment team is monitoring the hedge gains. But no one connects the two.

What Was Lost

The fund experiences sustained liquidity pressure. Cash is sourced from:

- redemptions of liquid holdings at unfavourable prices
- drawdowns on committed facilities
- delayed rebalancing opportunities

At the same time, the hedge book is sitting on substantial unrealised gains – gains that could have been monetised to relieve the liquidity pressure.

Eventually, rates reverse. The MTM gains compress. The liquidity stress eases, but only after forced sales and opportunity costs have been incurred.

The hedge was right. The organisation still bled cash.

The Real Failure

Risk was transformed into a liquidity problem.

The failure was not the swaps or the VM mechanics. It was the absence of integration between hedge monetisation and liquidity management.

Hedges were governed as risk tools. Liquidity was governed as a treasury function. The gap between the two created losses.

What Would Have Changed the Outcome

Integration of hedge monetisation with liquidity planning would have allowed the fund to use hedge gains proactively.

A simple procedural link – "if VM outflows exceed X and hedge MTM gains exceed Y, evaluate partial monetisation within 48 hours" – would have converted paper gains into usable liquidity when it was most needed.

9. Why This Keeps Happening

The failure pattern across FX, rates, credit, equity, and collateral is not random. It is not incompetence. It is not bad luck.

It is structural.

Four institutional pathologies create and sustain the problem:

9.1 Career Risk Asymmetry

Monetising a hedge gain feels like trading. Staying hedged feels like prudence.

In practice, repeated attempts to monetise hedge gains are often resisted not because the economics are unclear, but because altering a hedge that is visibly "working" feels harder to defend than leaving it untouched. Over time, this creates a bias where give-back is tolerated, but crystallisation is viewed as discretionary risk.

For a CIO or portfolio manager, the risk calculus is brutally asymmetric:

If you monetise and markets continue moving:

- You are second-guessed
- You appear to be taking directional views
- You are accused of "trading the hedge book"

If you stay hedged and gains evaporate:

- You followed policy
- You maintained protection
- The loss is attributed to markets, not decisions

The incentive is clear: inaction is safer than action, even when action would improve outcomes.

This is not a personal failing. It is what happens when institutional memory punishes decisive monetisation but forgives passive give-back.

9.2 Optionality Worship

Keeping a hedge in place preserves optionality. It maintains the appearance of protection. It keeps the narrative intact: "We are hedged."

Monetising a hedge removes that optionality. It creates a new decision point: do we re-hedge, and if so, how?

For many organisations, preserving optionality is more comfortable than exercising it – even when exercising it would lock in gains.

The problem is that optionality has a cost. In some cases, it is explicit (premium decay, carry bleed). In other cases, it is implicit (opportunity cost, give-back risk).

But organisations treat the preservation of optionality as inherently valuable, regardless of cost.

The result: hedges are held long after the decision to monetise should have been made, simply because removing the hedge feels like losing protection.

9.3 Measurement Mismatch

Hedge P&L is reported quarterly. Investment committee meetings occur monthly. Board discussions happen quarterly.

But monetisation decisions often need to be made weekly, daily, or intraday.

This creates a structural mismatch:

The instruments move faster than the governance.

Equity vol windows close in hours. Credit spread reversals happen in days. FX mean reversion can occur within weeks.

If the decision cycle operates on a monthly or quarterly rhythm, monetisation opportunities will consistently arrive and expire between meetings.

The problem is not that committees are slow. The problem is that committees exist at all for decisions that require speed.

9.4 Fake Sophistication

"We are long-term investors."

This statement is used to justify inaction on hedge monetisation more than any other.

The logic is: short-term MTM fluctuations do not matter to long-term portfolios, therefore monetising hedge gains is unnecessary activity.

But this confuses horizon with passivity.

Being a long-term investor means your liabilities or return objectives are long-dated. It does not mean you ignore opportunities to lock in protection at better levels, reduce costs, or release capital.

A long-term investor should care **more** about monetisation, not less – because give-back over time compounds into structural drag.

But "long-term investor" has become shorthand for "we do not manage hedge books actively", which in practice means "we do not manage them at all."

These four forces – career risk asymmetry, optionality worship, measurement mismatch, and fake sophistication – are mutually reinforcing.

They create an environment where:

- monetisation is seen as risky
- inaction is seen as prudent
- governance speed is structurally misaligned to instrument behaviour
- and the whole arrangement is rationalised as long-term discipline

The result is the same failure pattern, repeated across every asset class.

Practitioner's note
Across multiple institutions, attempts to introduce even modest hedge monetisation rules were resisted less on technical grounds than on perceived career risk. In every case, the cost of inaction only became obvious after gains had already been given back.

10. The Audit Questions

Does any of the following describe your organisation?

1. When did your investment committee last discuss a hedge that was working?
2. What percentage of your hedge MTM gains over the last five years were actually crystallised?
3. Can your CIO monetise 50% of any hedge position without board approval?
4. How many times has variation margin caused liquidity stress while you were sitting on hedge gains?
5. Do you have written rules for when a hedge gain should trigger action?
6. If a hedge moves 3x its annual carry cost in your favour, what happens next?
7. Can you point to a documented instance where a hedge gain was deliberately monetised *before* the risk that created it had fully played out?
8. Has your organisation ever deliberately monetised a hedge, re-locked protection at better levels, and documented the decision as normal procedure?

11. A Practical Monetisation Doctrine

A hedge should only exist if the following are in place at inception:

11.1 Trigger Thresholds

Define explicit levels at which monetisation must be evaluated.

Examples:

- MTM gain exceeds 2x annual carry cost → evaluate within 48 hours
- Hedge notional drifts >20% from current exposure → resize or monetise
- Variation margin outflows elsewhere exceed $X while hedge gains exceed $Y → evaluate liquidity relief

Numerical illustration: A $100 million notional interest rate swap with 40 basis points annual carry generates $400,000 in annual cost. Under a 2x trigger, monetisation evaluation is triggered when MTM gain reaches $800,000. At 3x, the trigger is $1.2 million. The organisation can calibrate thresholds to suit risk appetite, but the key is that they exist and are written down.

Thresholds should be mechanical, not discretionary. They do not mandate action. They mandate evaluation.

11.2 Partial Monetisation Bands

Allow and encourage partial crystallisation.

Full monetisation is often unnecessary. Partial monetisation allows:

- capital realisation
- maintenance of some protection
- reduced career risk (you are not "closing the hedge")

Example framework:

- Monetise 25% at 1.5x carry cost
- Monetise 50% at 3x carry cost
- Monetise 75% at 5x carry cost

This creates graduated action, not binary decisions.

11.3 Mechanical Re-Hedging Logic

If you monetise, what replaces it?

The re-hedging path should be defined before the hedge is established.

Examples:

- If FX forwards are monetised, do you re-establish at current spot with tighter strike?
- If rate swaps are monetised, do you resize to current duration exposure?
- If CDS is monetised, do you replace with cheaper protection or remain unhedged until spreads retrace?

Re-hedging should not require a fresh strategic debate. It should be procedural.

11.4 Authority Matrix

Working Within Accounting, Benchmark, and Solvency Constraints

Most institutional constraints limit *how* monetisation is done, not *whether* it can be done.

Some mandates impose accounting, benchmark-tracking, or solvency constraints that appear to limit monetisation flexibility. In practice, most constraints permit partial monetisation, overlay structures, or phased adjustments. The doctrine should be designed within these boundaries, not despite them. For example, if accounting hedge relationships constrain full monetisation, partial crystallisation combined with replacement hedges can preserve treatment while capturing gains. The key is to define what is permitted, not to assume everything is prohibited.

Authority and Decision Rights

Who can act, on what size, without escalation?

This is the single most important operational requirement.

Example authority structure:

- CIO: monetise up to $10m notional or 25% of any hedge, same-day
- CFO + CIO jointly: monetise up to $50m notional or 50% of any hedge, within 48 hours
- Committee: monetise >50% or full hedge termination

The principle: **authority should be aligned to decision speed required by the instrument.**

For equity vol, that might mean intraday authority. For rates, 48 hours. For FX, one week.

If authority sits at committee level for all decisions, monetisation will fail.

One brutal truth:

If your hedge P&L volatility exceeds your operational decision-making speed, you don't have a hedge – you have a management problem.

A proper monetisation doctrine does not require complex analytics. It does not require additional staff. It does not require new systems.

Example reporting line items:

1. Total hedge MTM gain/loss this period,
2. Crystallised gains this period,
3. Percentage of available gains crystallised,
4. Re-hedging activity,
5. Authority exceptions requiring committee review.

Standard reporting should distinguish between realised and unrealised hedge P&L.

A simple table showing cumulative MTM gains, crystallised gains, and give-back over rolling 12-month periods makes the cost of inaction visible. This is not additional work – it is reclassification of data already captured. Without it, committees cannot assess whether monetisation doctrine is working.

11.5 Reporting Requirements

It requires:

- written rules
- delegated authority
- procedural discipline

For most institutions encountered in practice, none of these elements exist for hedge monetisation.

That is why the failure pattern repeats.

Caveat: In genuinely catastrophic regimes – market closure, clearing house stress, or complete liquidity withdrawal – monetisation itself can become constrained. This framework assumes functioning markets. When markets are not functioning, the priority shifts from monetisation to liquidity preservation and counterparty management.

12. What Good Looks Like

A UK-based asset manager holds a portfolio of US corporate bonds. Currency exposure is hedged using a rolling programme of USD/GBP forwards.

Sterling weakens. The forwards move materially in-the-money. MTM gains accumulate to approximately £4.2 million over six months.

The organisation has a written monetisation policy. The threshold is triggered: hedge MTM gain exceeds 3x annual forward points cost.

The CIO has delegated authority to monetise up to 50% of any FX hedge position without committee approval, provided action is documented and reported at the next meeting.

The CIO evaluates. Decision: monetise 50% of the position, realising £2.1 million.

Re-hedging doctrine is mechanical: replace monetised notional with new forwards at current spot, maintaining total hedge ratio at 70%.

Action is executed within 48 hours. Gain is crystallised. New forwards are established. Total hedge coverage remains consistent with policy.

Three months later, sterling reverses. The remaining forwards compress in value, but £2.1 million has already been locked. The portfolio is materially better off than it would have been under a "hold and hope" approach.

No heroics. No market timing genius. Just competent execution of a predefined process.

That is what good looks like.

It is boring. It is procedural. It works.

Delegated authority does not remove oversight – it simply shifts review from pre-decision to post-execution.

13. What Changes When This Is Done Properly

When a monetisation doctrine is in place, the following outcomes improve materially:

13.1 Less Give-Back

Hedge gains are crystallised before mean reversion erodes them. The portfolio retains more of the protection value generated.

This is not about perfect timing. It is about reducing the structural bleed that occurs when all gains sit unrealised until they vanish.

13.2 Better Crisis Liquidity

Hedge gains can be converted to cash when liquidity is most constrained. This reduces forced sales, facility drawdowns, and opportunity costs.

The variation margin trap – where the organisation bleeds cash while sitting on paper gains – stops happening.

13.3 Fewer False Hedging Narratives

Hedges that "worked" but delivered nothing stop being reported as successes.

The organisation develops a clearer view of what protection actually means: not MTM gains observed, but capital realised or protection re-locked.

13.4 Capital That Actually Shows Up When Needed

When monetisation is procedural, hedge gains become usable capital during the exact periods they are most valuable: dislocations, liquidity stress, rebalancing opportunities.

Protection stops being theoretical. It becomes operational.

These are not promises. They are the mechanical consequences of having a monetisation doctrine in place.

Many organisations do not have one.

Their hedges exist. Their monetisation doctrine does not.

14. Conclusion

Modern portfolios are complex, long-dated, and governed by layers of process designed to reduce risk. But without a doctrine for monetising protection, those same processes ensure that hedge gains remain theoretical.

This is not a failure of intent, skill, or sophistication. It is the predictable outcome of default institutional settings.

Hedges that cannot be monetised when they work do not reduce risk – they defer it.

Most institutions believe they are conservative because they do not trade their hedge books. In practice, they are conservative because they allow hedge gains to evaporate **by default**.

If your hedges exist but your monetisation doctrine doesn't, we should talk.

15. Further Reading and Practitioner Resources

Para Bellum Advisors publishes practitioner papers and CIO Briefs: **www.parabellumadvisors.com/insights**.

16. About Para Bellum Advisors

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The firm works with lean investment teams managing complex, long-dated portfolios across FX, rates, credit, equity, and volatility risk. Its focus is not on product distribution or transaction volume, but on structure: how hedges are designed, how capital is consumed, and how portfolios behave under stress.

Para Bellum Advisors is practitioner-led. Its work draws on decades of experience across trading, structuring, and portfolio management in banks, asset managers, and insurance balance sheets. The objective is not theoretical optimisation, but durable improvement in capital efficiency, liquidity resilience, and realised outcomes.

For more information, visit **www.offers.parabellumadvisors.com**

For discussion or enquiries contact with **Mike Duncan** at **mike.duncan@parabellumadvisors.com**.

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