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2020**

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10/19-10/29

Hedging fundamentals: **The essentials of a corporate program**

October 22, 2020

3:00 – 4:00 PM

Panel discussion

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Financial risk management solutions that take your organization further

Chatham Financial delivers financial risk management advisory and technology solutions to organizations across industries and around the world — helping companies maximize value in the capital markets.



\$6.6 trillion hedged
notional since 1991



3,000+ clients
around the world



200,000+ daily valuations



3,000+ ISDAs reviewed
annually



Seven global offices

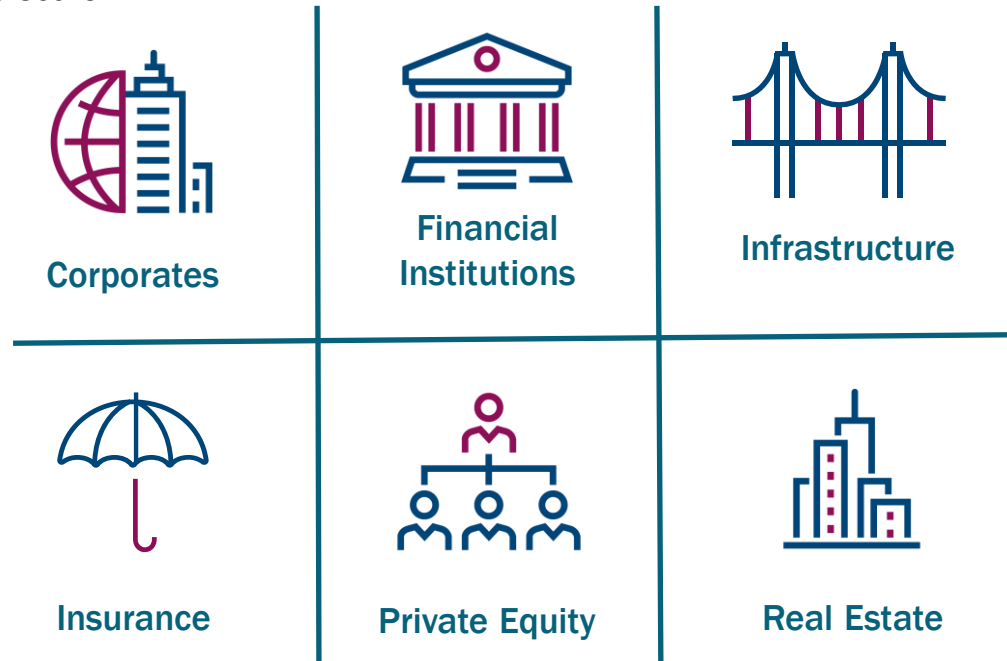


600+ employees



Access unequalled expertise that spans industries

Unlike most financial risk management companies, we offer advisory and technology solutions across a wide range of industries. This provides us with a broader perspective and allows us to see the marketplace on a macro-scale.



Solutions:

Interest rate, foreign currency, and commodity hedging

Hedging execution and processing

Hedge accounting

Valuations

Regulatory compliance advisory

Defeasance and prepayment

Debt management

Financial risk management technology



Agenda

- **Panelist introductions**
 - Chatham Financial
 - Peloton
 - FloraCraft
 - Ortho Clinical Diagnostics
- **Corporate hedging program overview**
- **Key elements of an FX hedging program**
- **Key takeaways**



Panelist introductions



Today's panelists



Amol Dhargalkar

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Chatham Financial

Amol Dhargalkar, Corporates Managing Director

Chatham
FINANCIAL



Company overview

Chatham Financial specializes in the debt and derivatives markets with solutions that combine expert advisory with proprietary technology.

Bio

Amol is a Managing Director leading the Global Corporate Sector, serving companies focusing on interest rate, foreign currency, and commodity risk management. He earned his B.S. in Chemical Engineering and Economics from Pennsylvania State University and his MBA from The Wharton School at the University of Pennsylvania, where he was a Palmer Scholar.



Peloton

Dana Laidhold, Treasurer



Company overview

Peloton uses technology and design to connect the world through fitness, empowering people to be the best version of themselves anywhere, anytime.

Bio

Dana Laidhold is Treasurer of Peloton, a global technology company that meshes the physical and digital worlds to create an immersive connected fitness experience. Prior, she was Treasurer at The Carlyle Group, a global alternative asset management company where she designed and built the Treasury functions. She has served on the Board of Directors of the Association of Financial Professionals. In her current role, Dana is very involved in community service as a leader for Peloton's Diversity and Inclusion initiatives. Additionally, she served on the Board of Directors of Doorways for Women and Families, a Northern Virginia-based organization that creates pathways out of domestic violence and homelessness, leading to safe and stable lives. In 2015, Dana received the Highly Commendable distinction as Woman of the Year at the Adam Smith Awards.



FloraCraft

John Nielsen, Chief Financial Officer

The FloraCraft logo is displayed in white, serif, all-caps font on a dark blue rectangular background.

Company overview

A family-owned and Michigan-based company, FloraCraft is the world's leading manufacturer of foam products for the craft and floral industries. For more than 70 years, we have made it easy for creators everywhere through our innovative craft and floral foam products. FloraCraft is the industry leader for creators through our house of brands.

Bio

John Nielsen is the CFO of FloraCraft Corporation, and is responsible for all aspects of Finance, Treasury, A/R & A/P, Expense Management, Internal Control, Risk Management and Audit. Prior to FloraCraft, John was Treasurer of Henniges Automotive where his responsibilities also included global financing and funding initiatives, cash flow forecasts, lender compliance and risk management. He has extensive experience in treasury, bank relations, liquidity planning, foreign exchange, and project management. Before Henniges, John was Head of Treasury with MAHLE Industries, Incorporated, worked in Treasury Operations at BorgWarner, Inc. and held various other financial analysis positions. John holds a dual MBA from Michigan State University in Finance and Information Systems and a Bachelor degree from Michigan Technological University. He is a Certified Treasury Professional and a member of the Association for Financial Professionals. He also is President and board member of the Great Lakes Association for Financial Professionals and serves on the Strategic Advisory Council of Comerica Bank.



Ortho Clinical Diagnostics

John Sanders, VP Finance



Company overview

Our mission is to improve and save lives with diagnostics. We do that by reimagining what's possible. It's what defines us. It's the Ortho difference.

Bio

John Sanders, VP Finance, Treasurer at Ortho-Clinical Diagnostics (Ortho), has a consistent record of leading change in complex global organizations undergoing transformation across multiple industries. Prior to joining Ortho in January 2014, Mr. Sanders was an independent consultant in a variety of interim finance and treasurer roles. Most recently, prior to joining Ortho, Mr. Sanders established the treasury organization and led the separation from DuPont at Axalta, a carve-out of the global multi-national coatings business sponsored by Carlyle Investment Partners. At Ortho, Mr. Sanders is responsible for global treasury operations, shared service operations, risk management and investor relations. He has led the separation of Ortho from Johnson & Johnson for the treasury function and has subsequently established a robust interest and foreign exchange risk management program, a global cash management structure and led several refinancings. Mr. Sanders holds a B.S. from Purdue University and an MBA from the Krannert School at Purdue University.



Corporate hedging program overview

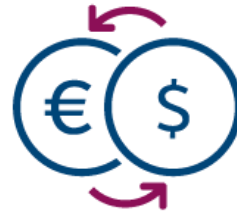


Hedging fundamentals

Understanding your company's exposures



Where do your company's exposures arise from?



What is your company's currency footprint?



How do you think about balance sheet and cash flow exposures?



Hedging fundamentals

Program evolution



How did you get your program to where it is?



Where would you like it to be in the future?



Hedging fundamentals

Policies and procedures



Trading

What is your company's process for executing and pushing down trades?



Banking

How does your company work with banks and maintain relationships?



Hedge accounting

Does your company apply hedge accounting or plan to in the future?



Forecasting

How does your company forecast exposures and ensure certainty in forecasts?



Hedging fundamentals

Organizational alignment



What are effective communication strategies for convincing key stakeholders why your company needs a hedging program and how it benefits more than just the treasury team?

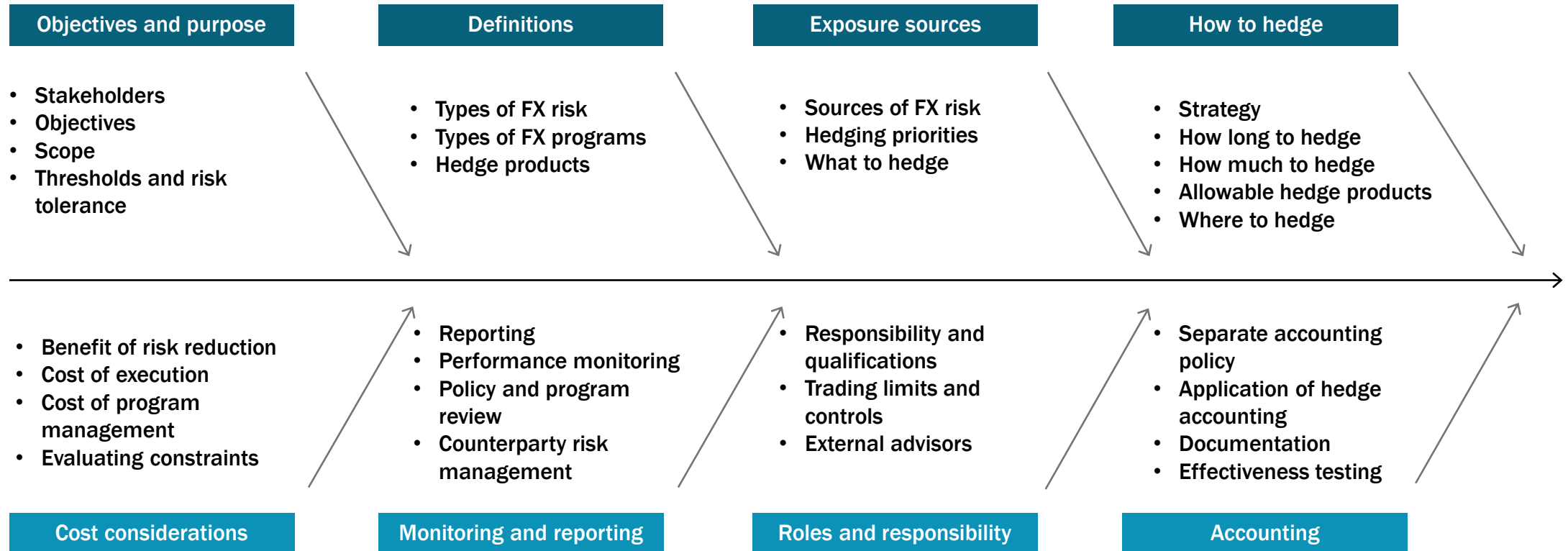


Key elements of an FX hedging program



Key elements of an FX hedging program

Policy framework



Key elements of an FX hedging program

Policy framework

	Building blocks	Considerations
Objectives and purpose	<ul style="list-style-type: none"> Stakeholders Objectives Scope Threshold and risk tolerance 	<ul style="list-style-type: none"> Who are internal and external stakeholders? What are measurable objectives? What entities are governed by this policy? What are quantified risk tolerance levels?
Definitions	<ul style="list-style-type: none"> Types of FX risks Types of FX programs Hedge products 	<ul style="list-style-type: none"> Transaction vs. translation, economic vs. accounting, etc. Cash flow vs. balance sheet What products will be used?
Exposure sources	<ul style="list-style-type: none"> Sources of risk Hedging priorities What to hedge 	<ul style="list-style-type: none"> Identify how and where FX risks arise How will you resolve conflicts between metrics? What currencies and exposure sources will be hedged?
How to hedge	<ul style="list-style-type: none"> Strategy How long to hedge How much to hedge Allowable hedge products Where to hedge 	<ul style="list-style-type: none"> Will selective hedging be applied? What tenor will be hedged? How accurate are forecasts? What products are authorized? Which entities will hedge?

Visit [chathamfinancial.com](https://www.chathamfinancial.com) for additional information.



Key elements of an FX hedging program

Policy framework

	Building blocks	Considerations
Cost considerations	<ul style="list-style-type: none"> Benefit of risk reduction Cost of execution Cost of program management Evaluating constraints 	<ul style="list-style-type: none"> Assessing risk reduction to program cost Premiums, credit charges, execution process, etc. Ongoing administrative requirements Tangible and intangible cost factors
Monitoring and reporting	<ul style="list-style-type: none"> Reporting Performance monitoring Policy and program review Counterparty risk management 	<ul style="list-style-type: none"> What information is reported? With what frequency? How will performance be measured? How often will program be reviewed or amended? How will counterparty exposures be managed?
Roles and responsibilities	<ul style="list-style-type: none"> Responsibilities and qualifications Trading limits External advisors 	<ul style="list-style-type: none"> What personnel will carry out which function? Who is authorized to perform various functions? When is the use of external advisors appropriate?
Accounting	<ul style="list-style-type: none"> General Application of hedge accounting Documentation Effectiveness testing 	<ul style="list-style-type: none"> Will there be a separate accounting policy? How will transactions be designated for hedge accounting? Hedge designation memos, journal entries, etc. What method of effectiveness testing will be used?

Visit chathamfinancial.com for additional information.



Key elements of an FX hedging program

Key stakeholders

	Stakeholders	Metrics
Internal	Executive management	• Total company risk
	Subsidiaries	• Business unit performance
	Treasury	• P&L impacts
	Procurement and sales	• Competitive pricing
External	Lenders	• Covenants and ratios
	Investors	• Return volatility
	Regulators	• Dodd-Frank and EMIR compliance



Key elements of an FX hedging program

Risk management considerations

Program benefits



- ✓ Reduce P&L volatility
- ✓ Quantify risk exposure
- ✓ Cash flow certainty
- ✓ Manage covenants

Program costs

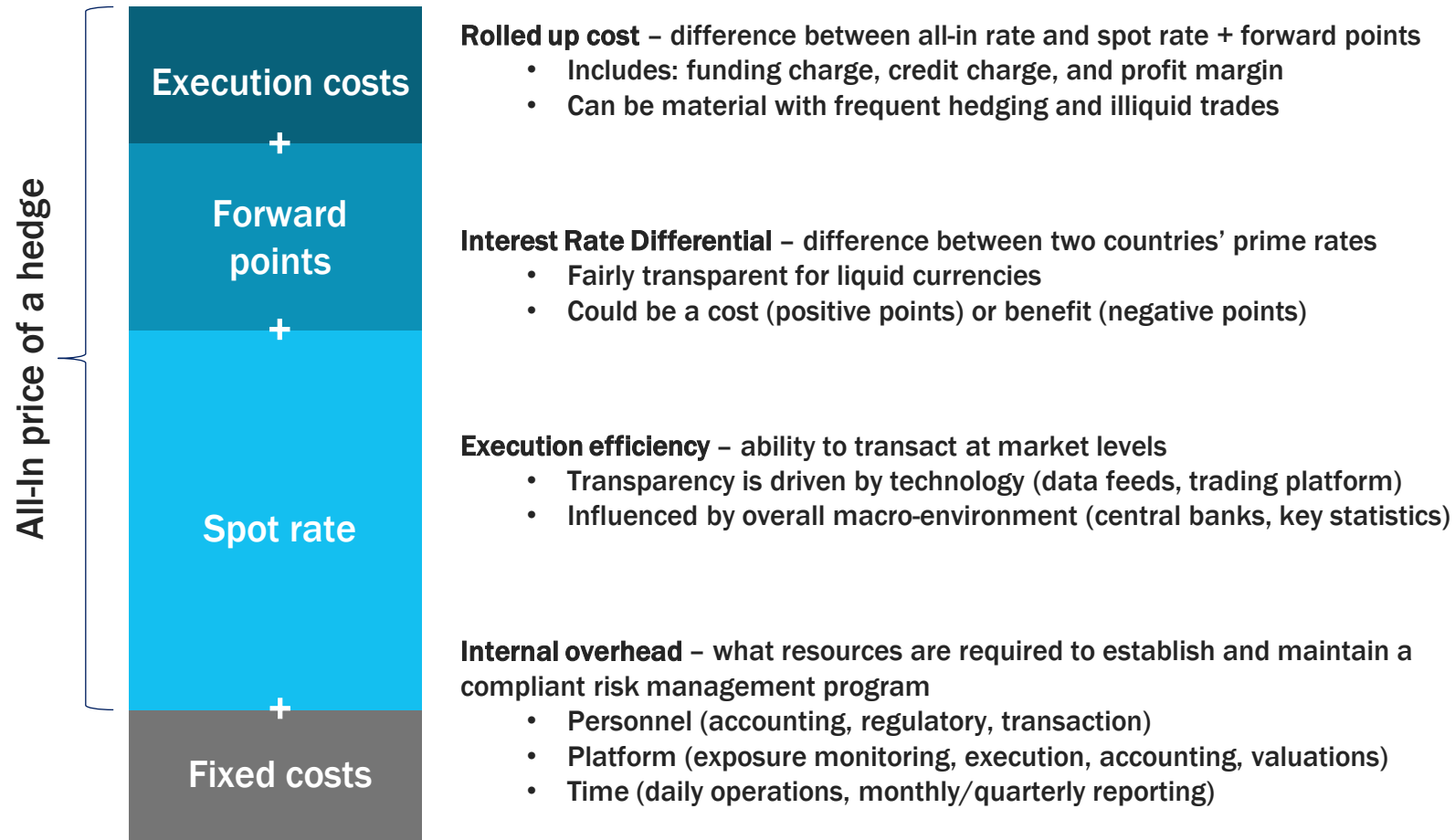


- × Trading costs
- × Program management
- × Cost of not hedging



Key elements of an FX hedging program

Cost of hedging



Key takeaways



Key takeaways

What is something you know now that you wish you had known about corporate treasury and FX risk when you first began?



Key takeaways

What tips do you have for convincing your colleagues on why your company should create a hedging program?



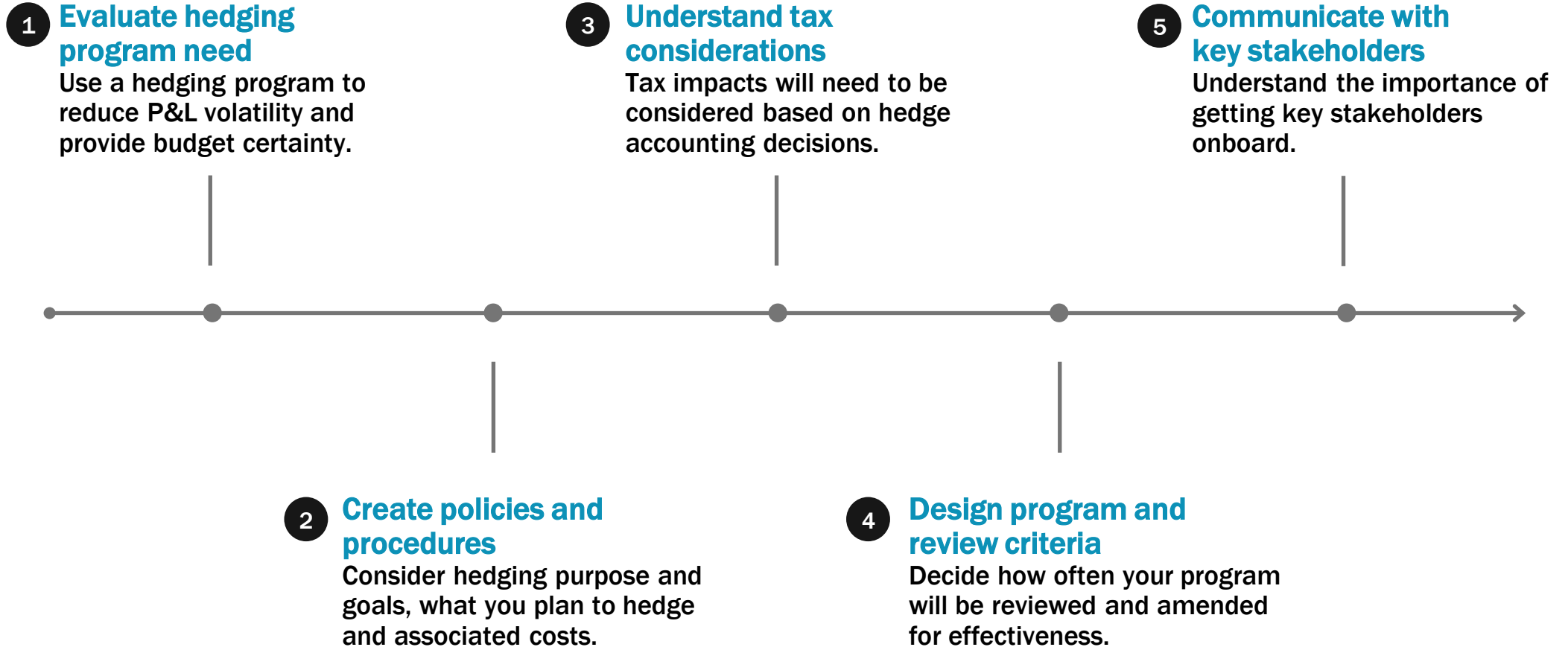
Key takeaways

Audience questions



Summary

Essentials of a corporate hedging program



Contact for additional hedging program insight



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