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Integrate Strategy, Process, and Technology to Build a Resilient, Flexible Hedging Program Panel Discussion

Chatham
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November 8, 2021
10:30AM - 11:45AM



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Your success is our mission

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.



\$6.4 trillion hedged
notional since 1991



3,000+ clients
around the world



190,000 end-of-day
valuations run nightly



3,000+ ISDAs reviewed
annually



Seven global offices



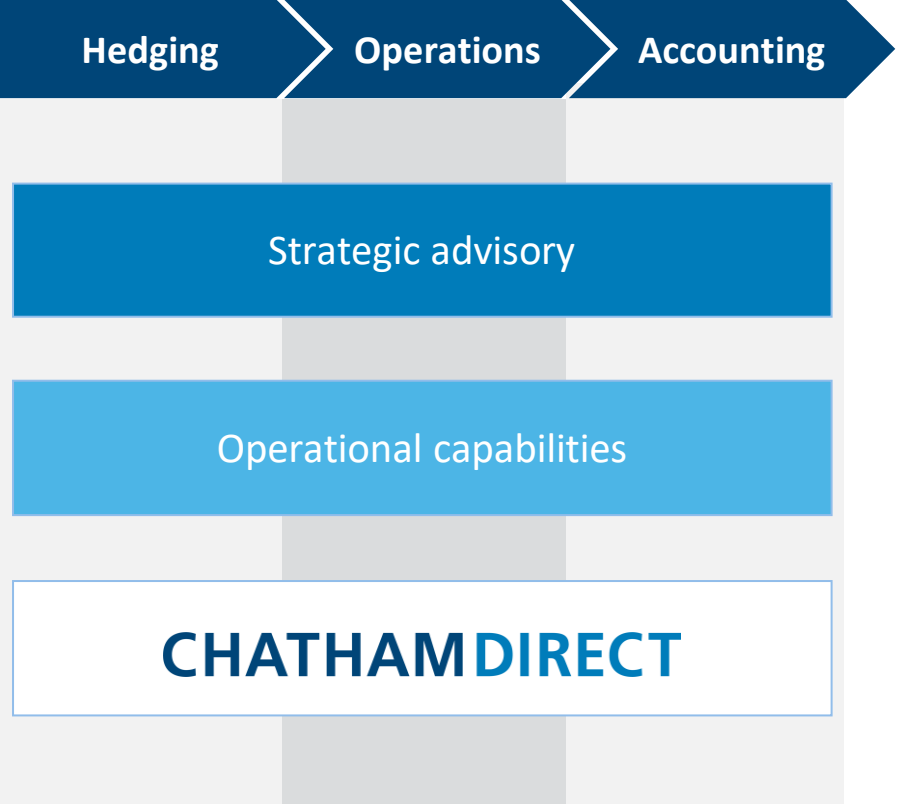
600+ employees

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Access advantage

Integrated advisory, operations, and technology for financial risk

Partnership that propels you forward - Chatham partners with your team, leveraging a unique mix of advisory, operational capabilities, and technology so you can manage risk better and take advantage of opportunities.



Solutions for FX, Interest Rate, and Commodity Risk:

- Hedging advisory
- Hedge execution
- Hedge accounting & valuations
- CHATHAMDIRECT™ for treasury risk management
- Derivatives compliance
- ISDA advisory

Agenda

Today's panel

Building blocks of a successful risk management program

Policy and strategy

Process and technology

- Foreign exchange
- Interest rate
- Commodities

Questions

Chatham Financial

Amol Dhargalkar, Managing Partner, Global Head of Corporates

Chatham
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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.

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Coca-Cola Bottling Company United

Craig Neely, Vice President and Treasurer



Company overview

CCBCU is the second largest privately held Coca-Cola bottler in North America and is engaged in the production, marketing, sales, and distribution of a diverse portfolio of leading brands.

Bio

Craig Neely is Vice President and Treasurer of Coca-Cola Bottling Company UNITED and has been employed by the company since 2004. Craig is a Certified Public Accountant and previously worked in public accounting for Arthur Andersen and KPMG. He is a graduate of the University of Alabama.

Hedging program overview

CCBCU opportunistically hedge their floating rate debt and maintain a balanced fixed/floating mix. They also use a combination of swaps and collars to hedge their commodity risks on aluminum, diesel, and gasoline.

Brunswick Corporation

Brian Fey, Vice President and Treasurer

BRUNSWICK



Company overview

Brunswick Corporation is an American corporation engaged in designing, manufacturing, and marketing recreational marine products.

Bio

Brian leads a strong treasury team focused on process improvement and adding value throughout the enterprise. Brian is a graduate from the University of Wisconsin – Oshkosh and earned his MBA from the University of Wisconsin – Milwaukee.

Hedging program overview

Brunswick utilizes interest rate swaps to convert a portion of fixed rate debt to floating rates and uses forward-starting interest rate swaps to lock in rates for anticipated future debt issuances. Brunswick uses FX forwards and options to manage FX exposure related to anticipated transactions, and assets and liabilities that are subject to FX rate changes.

John Bean Technologies

Sherri Speaks, Senior Manager Treasury



Company overview

John Bean Technologies Corporation (JBT) is a leading global technology solutions provider to high-value segments of the food processing and air transportation industries.

Bio

Sherri Speaks is the Senior Treasury Manager at JBT Corporation in Chicago, IL, where she manages the FX hedging program and oversees the company's global cash management structure and debt portfolio. Sherri graduated from the University of Illinois, Urbana Champaign and earned her MBA from Keller Graduate School of Management. She also sits on the Certified Treasury Professional test development committee.

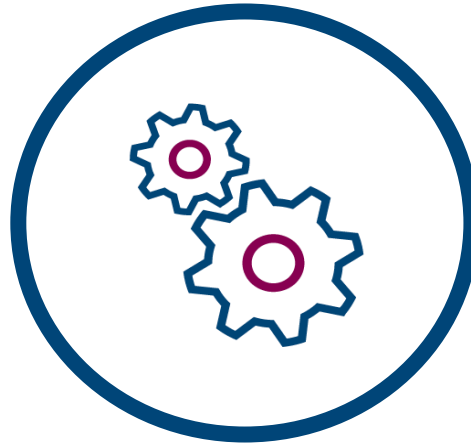
Hedging program overview

JBT leverages interest rate swaps to fix a portion of its floating rate debt, reducing exposure to volatility in interest rates. JBT is exposed to foreign currency translation and transaction risk, and economically hedges its recognized FX assets and liabilities to reduce risks of fluctuations in FX rates.

Building blocks of success in any financial risk management program



Policy



Process



Technology

Policy and strategy

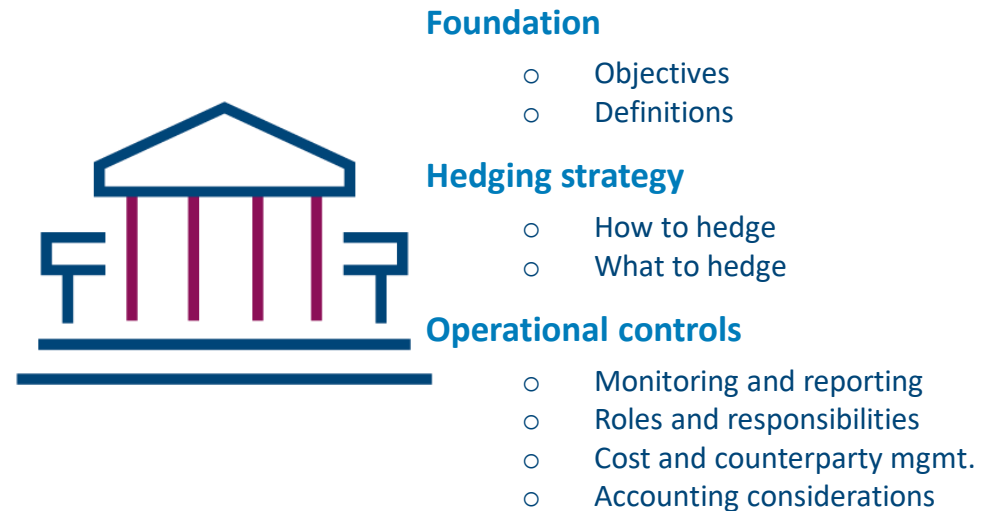
Policy fundamentals

Policy is an anchor for your risk management program



A risk management policy should provide guidance for strategic and operational decisions. As internal or external factors change and new strategies are required, the policy should be revisited as well.

Building blocks of an effective policy



Policies will vary in their level of detail but should thoughtfully consider inclusion of key elements that define direction and application of hedging practices.

Risk Policy Structure

Policies vary widely by company

Guardrails

“We will prudently manage financial risk and will not engage in speculative trading activity.”

- High level document providing minimum guardrails and maximum flexibility
- Primary audience is the Board or audit committee
- Purpose is to provide essential controls and directional guidance
- Infrequent review

Strategies & tactics

“We will employ a monthly rolling FX risk management program to mitigate FX G/L risk stemming from remeasurement of monetary assets and liabilities.”

- Strategic document articulating the program objectives as well as tactics being employed
- Primary audience is senior leadership across business functions
- Purpose is to align intent and actions
- Periodic review

Procedures

“The Treasury Manager will export SEK, EUR, and GBP cash balances on the 3rd business day of each month.”

- Detailed document providing prescriptive actions and procedures
- Primary audience is the staff executing on the program
- Purpose is to document operational processes to provide continuity and consistency
- Frequent review

Policy review

Event driven triggers for policy review



1

Changes in business

- Acquisition or organic global growth
- Change in risk profile
 - Organizational structure, pricing power, composition of exposures, natural offsets
- Public vs. private
- Change in capital structure
- Internal priorities (efficiency, technology, flexibility)

2

Change of key personnel

- Board/audit committee members
- Senior leadership
- Treasury staffing profile

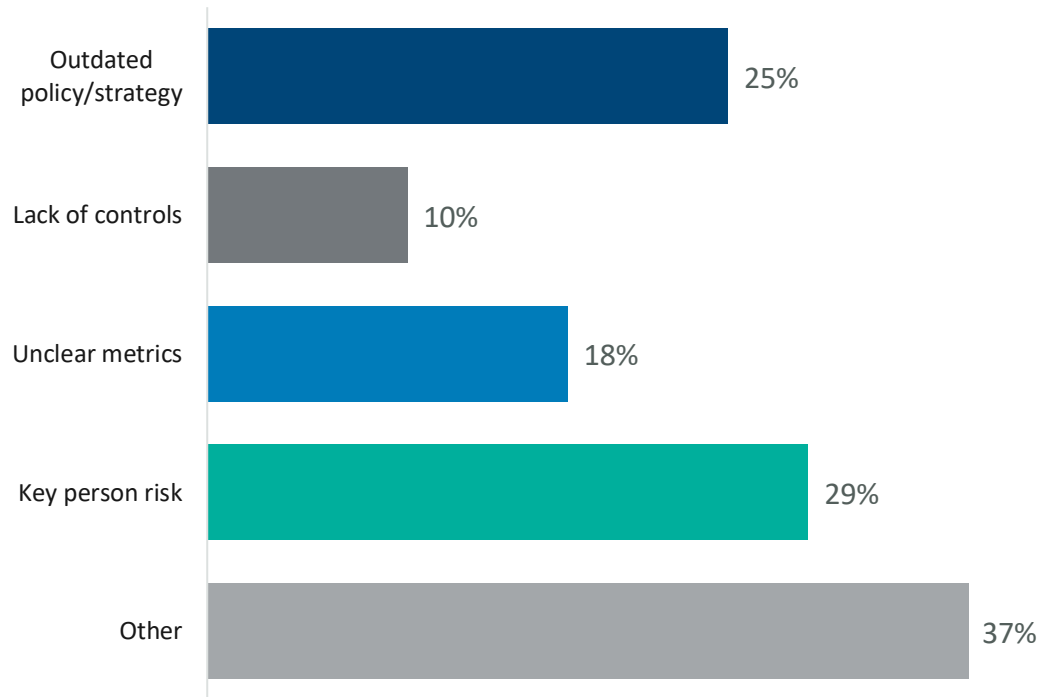
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Changes in market environment

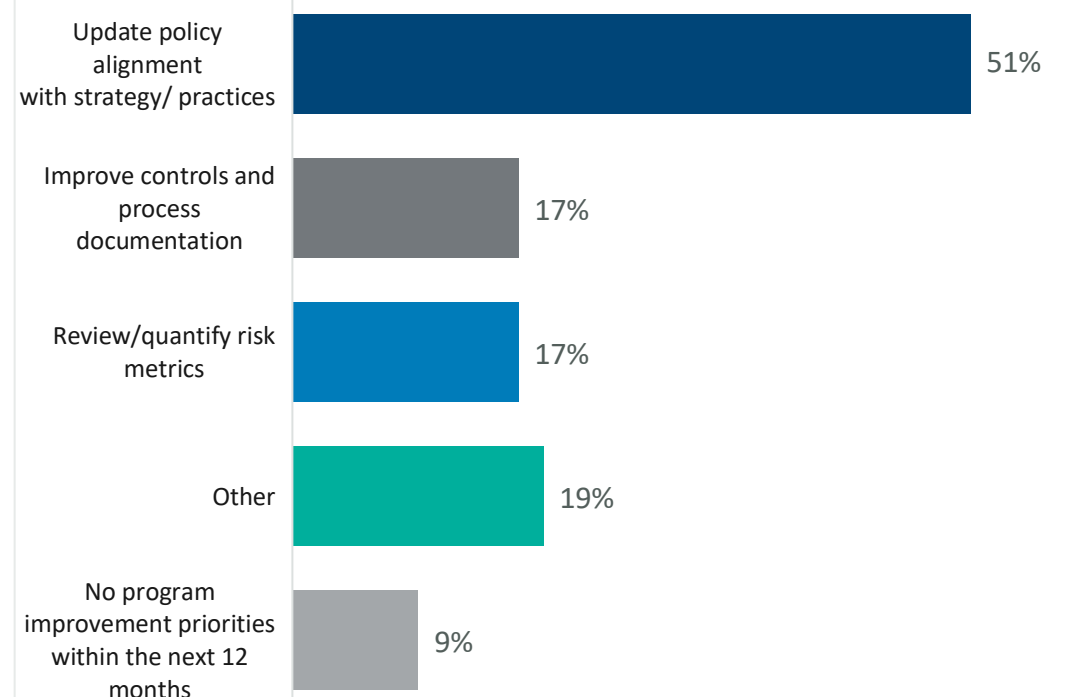
- Absolute levels of rates
- Market volatility
- Changes to accounting standards, regulations, tax law, etc.

Chatham Risk Summit polling data

What concerns do you have about your current policy/program?



What improvements do you hope to make to your program in the next 12 months?



Policy & strategy

Panelist Q&A

- What types of policies do you have in place governing your program?
- How are the board and senior management involved in setting strategies for hedging financial risks?
- How are new strategies or risks evaluated, and can you provide an example of how you handled a new strategy recently?



Process and technology

Foreign exchange risk

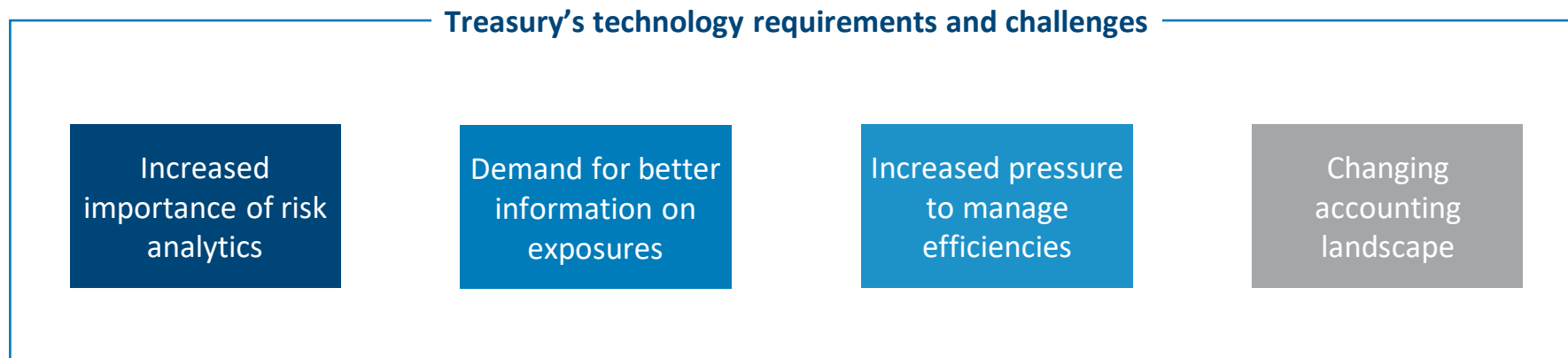
Hedging operations

Jobs to be done



Requirements on treasury technology continue to evolve

Treasury's core objective is to preserve liquidity and identify potential risks that threaten the financial position of assets. Such activities require flexible technology infrastructure that can support data integration, connectivity to trading platforms, and automation of manual processes.



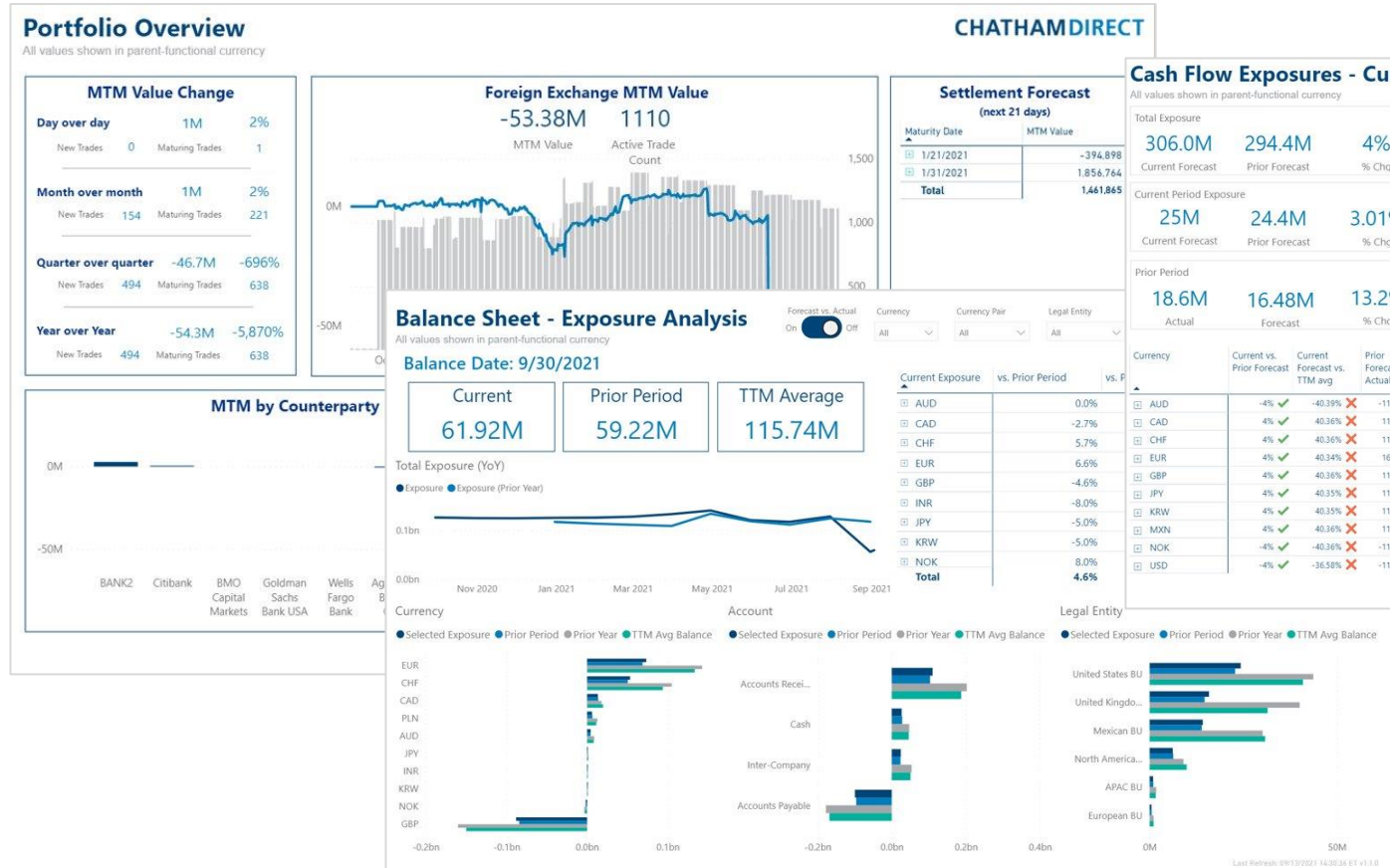
Treasury teams can gain efficiencies and streamline their daily operations with the help of automation.

Industry trends

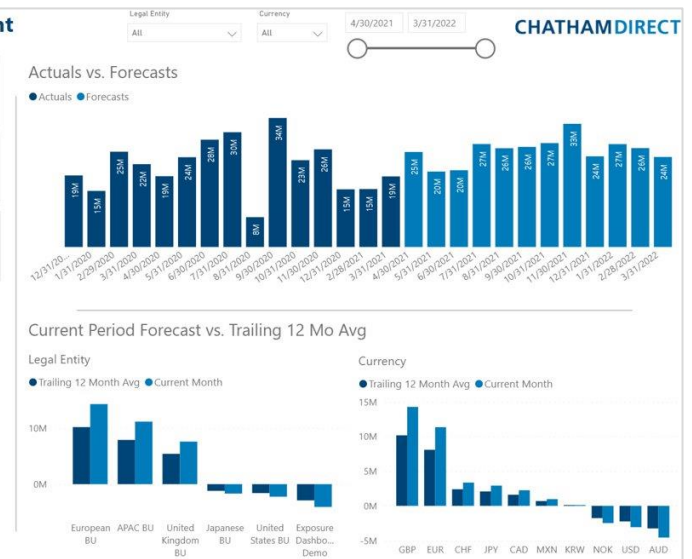
The growth of business intelligence tools

BI tools are starting to gain wider use within treasury teams for their dynamic visuals and increased automation.

High level information on valuations and positions



Historical forecast accuracy



FX program analytics

Processes & technology

Panelist Q&A – FX risk

- Who is involved in executing your FX program?
- Can you share at a high level the steps that you take in understanding and validating your exposures?
- What systems do you use in your FX hedging process and how do they fit together?
- How has technology enabled your hedging process?
- How do you incorporate new hedging strategies and approaches into your process?
- Who within your organization is responsible for hedge accounting in your FX program and how do they do it?
- What types of reporting do you provide for others around your company with respect to your hedging program?



Process and technology

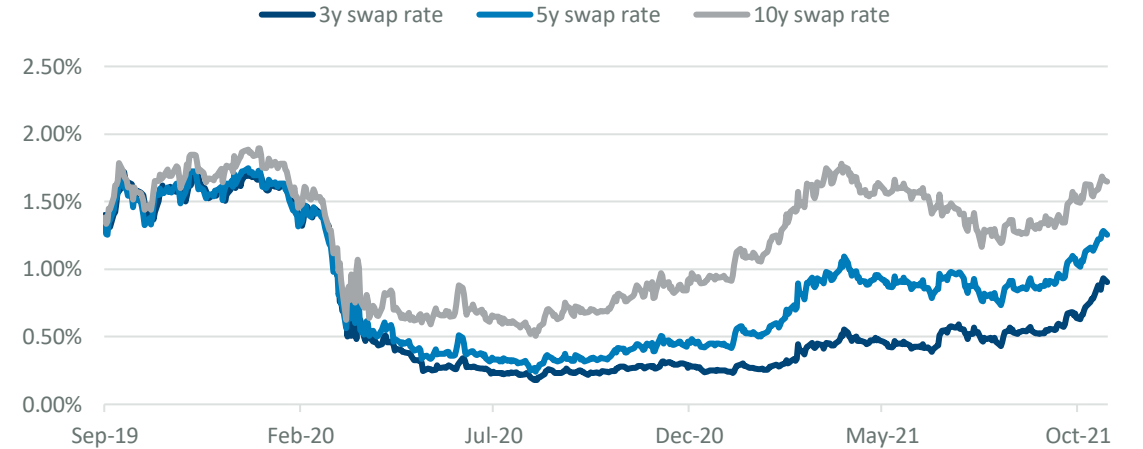
Interest rate risk

Market update: interest rates

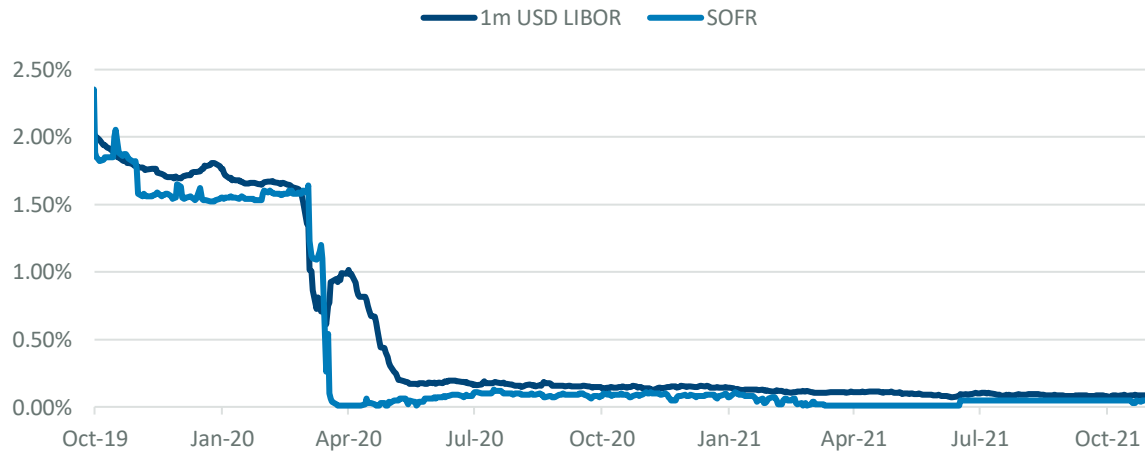
U.S. 10 Year Treasury Yield



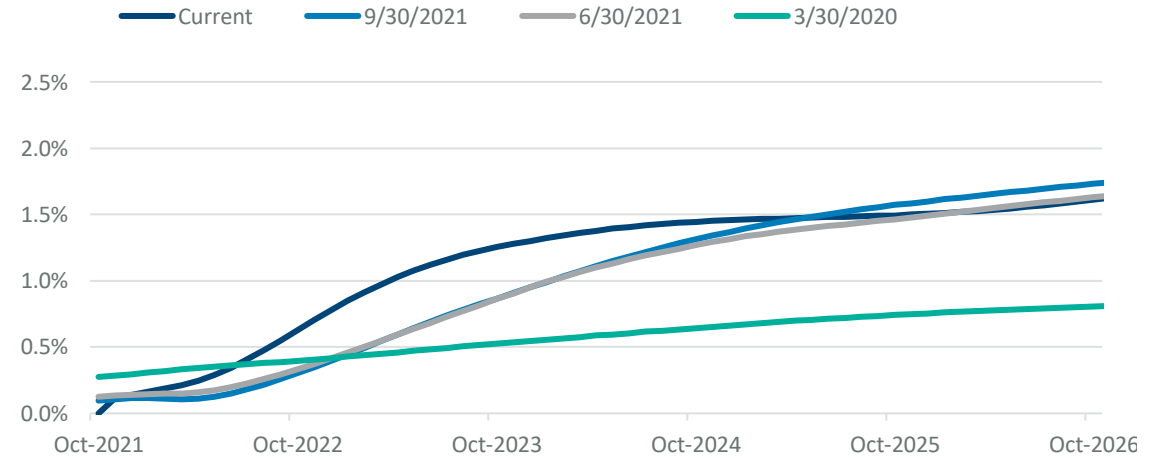
History of Swap Rates



1m USD LIBOR vs. SOFR



Historical 1m USD LIBOR forward curve

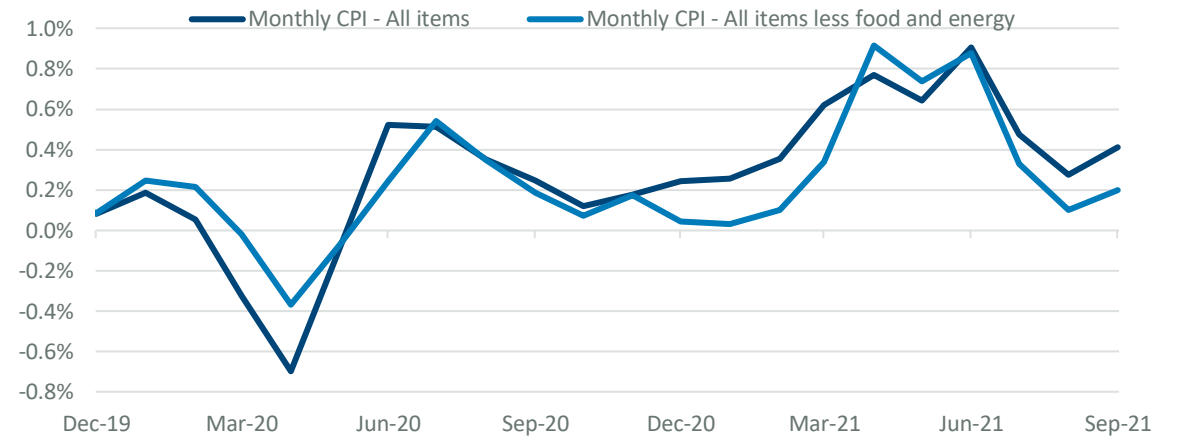


Recent inflation highlights

Is inflation transitory?

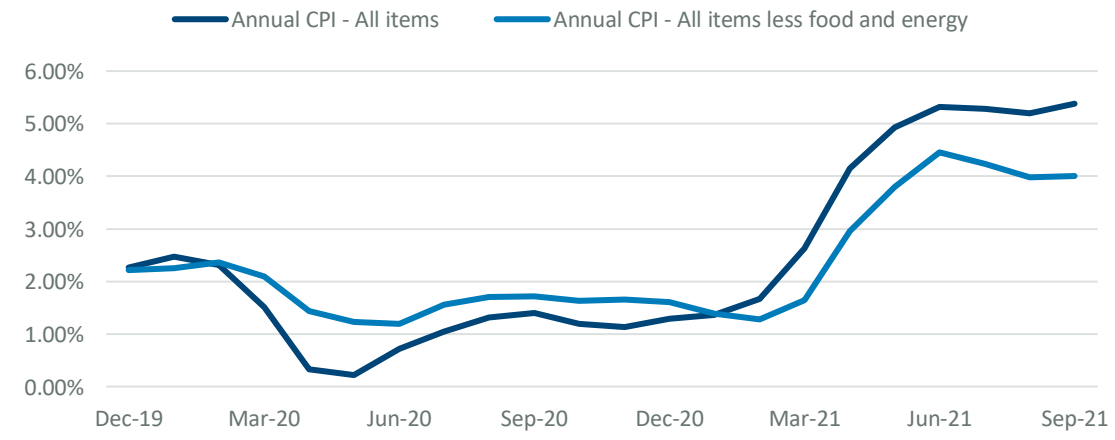
- Year-over-year inflation continues to be elevated while month-over-month inflation decreased significantly in July and August
- In August, total CPI increased 0.3%, with a core CPI increase of 0.1%
- For the first time since February month-over-month core inflation came in below 0.2%
- The Fed still views inflation largely as transitory
- Supply bottlenecks, materials shortages, and hiring difficulties continue to be a challenge

Inflation for urban consumer – Monthly increase



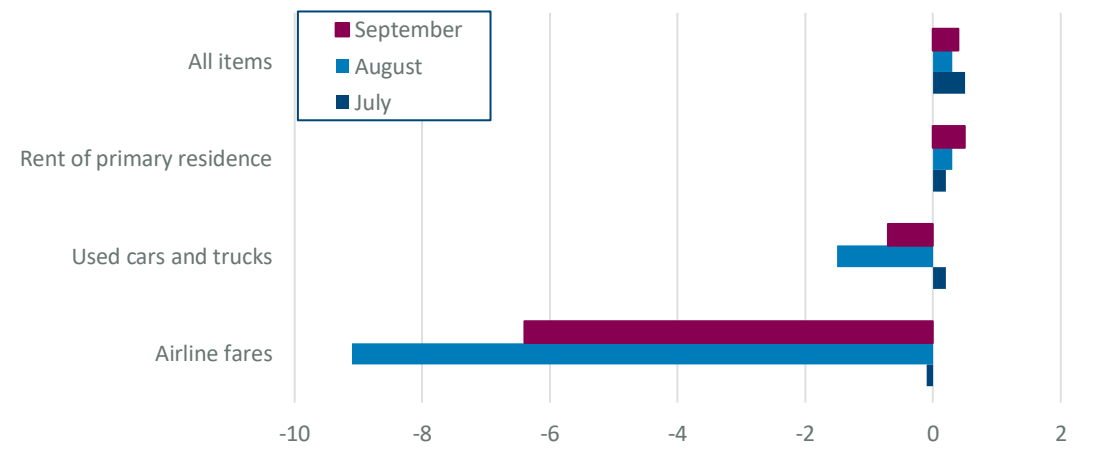
Source: FRED

Inflation for urban consumer – Annual increase



Source: FRED

MOM inflation last 3 months



Source: FRED

Market data as of 11/3/2021

Interest rate hedging in the current market

Short term rates have increased slightly amid large swings in long-term rates this year

Corporates have a variety of risk management concerns based on their exposure profiles:

Long term rates increase

- Consider pre-issuance hedging or long-term floating rate hedging
- Many companies have viewed the lower long-term rate environment as a favorable time to lock in exposure

Short term rates increase

- Consider swapping floating rate debt to fixed or executing an extend and blend of current out-of-the-money swaps
- The extend and blend can be an effective way to reduce interest expense in the short term

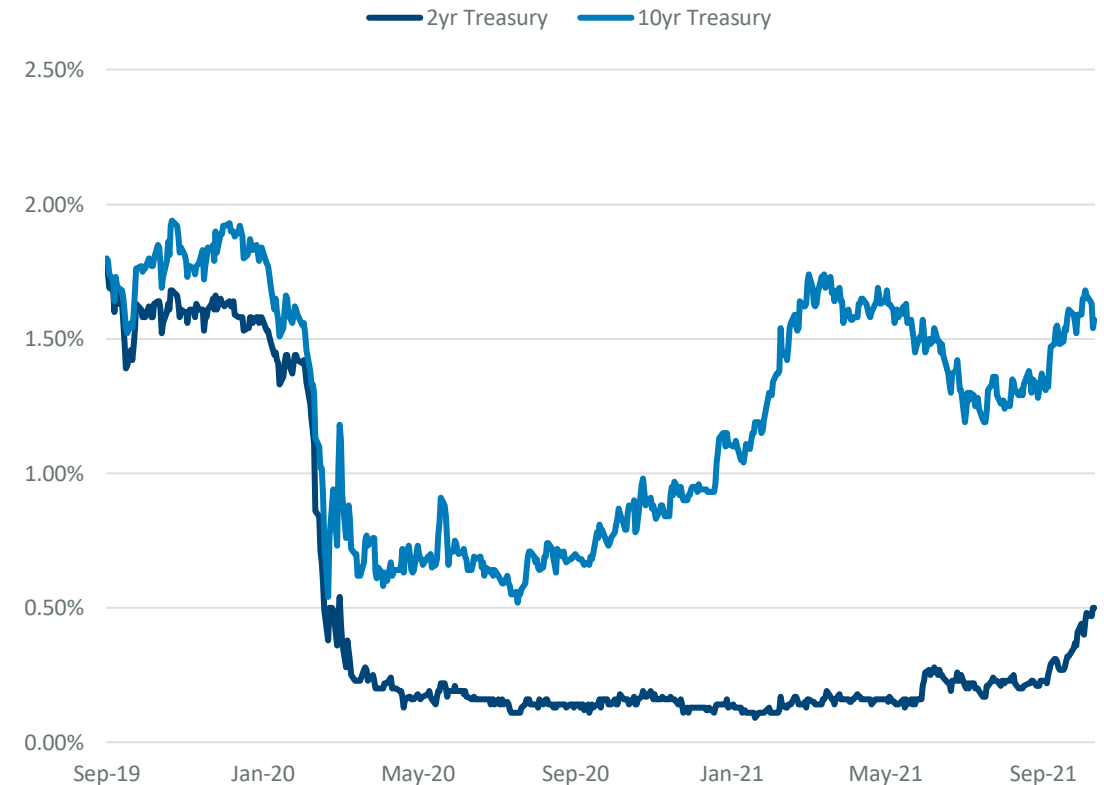
Long term rates steady or decrease

- Consider swapping to floating rate debt
- This strategy takes advantage of the benefit in the yield curve steepening

Short term rates steady or decrease


- For companies paying off debt, consider hedging the swap termination value
- Market currently expects rate hikes to be in mid-2023

10-year vs. 2-year Treasury



Source: FRED

LIBOR transition: what's next

- 
- 2021**
- December 31: Banks expected to stop originating new USD LIBOR loans and derivatives, per the guidance of regulators
 - December 31: 1-week and 2-month USD LIBOR will cease to be published
-
- 2023**
- June 30: 1, 3, 6, 12-month USD LIBOR will cease to be published

Key areas for companies to understand and track

Legacy debt and derivatives

- Will I have legacy debt and derivatives that go beyond the June 2023 cessation date?
- Do I need to amend my LIBOR loans soon, or at all?
- What are the pros and cons of broad adherence to the ISDA IBOR Fallback Protocol vs. negotiation?
- Do I need to de-designate and re-designate existing hedges?

New debt and derivatives

- Are companies starting to borrow on SOFR?
- Are companies starting to use SOFR derivatives?
- What index will my bank offer, and should I match my derivative to that?
- How do the various rate alternatives differ structurally, economically, and practically?

For more information on the LIBOR Transition, please join Amanda Breslin of Chatham Financial for **LIBOR Transition: What's so Sensitive About SOFR** Nov. 9, 1:45PM- 3:00PM in Room 147.

Processes & technology

Panelist Q&A – IR risk

- How do you evaluate your interest rate risk on your debt capital structure?
- When you determine it's time to take action, how do you go about determining the appropriate strategy and market approach?
- Can you share any interest rate hedging activities that you've taken over the past year or two?
- With LIBOR slated to go away at the end of this year, have you made any adjustments to your debt or hedging activities as a result?
- How do you think about the ancillary business and wallet spend that comes with interest rate hedging with respect to your relationship banks?



Process and technology

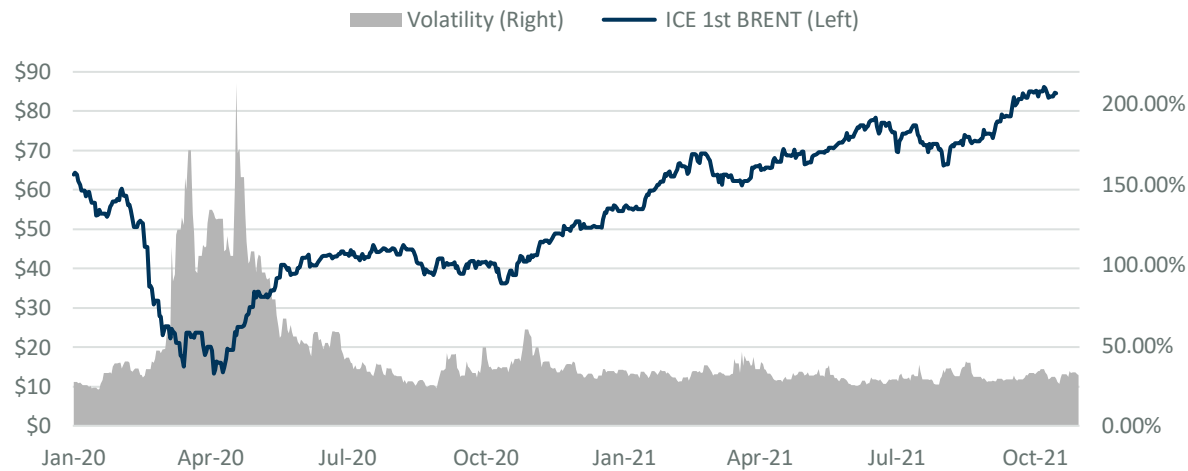
Commodity risk



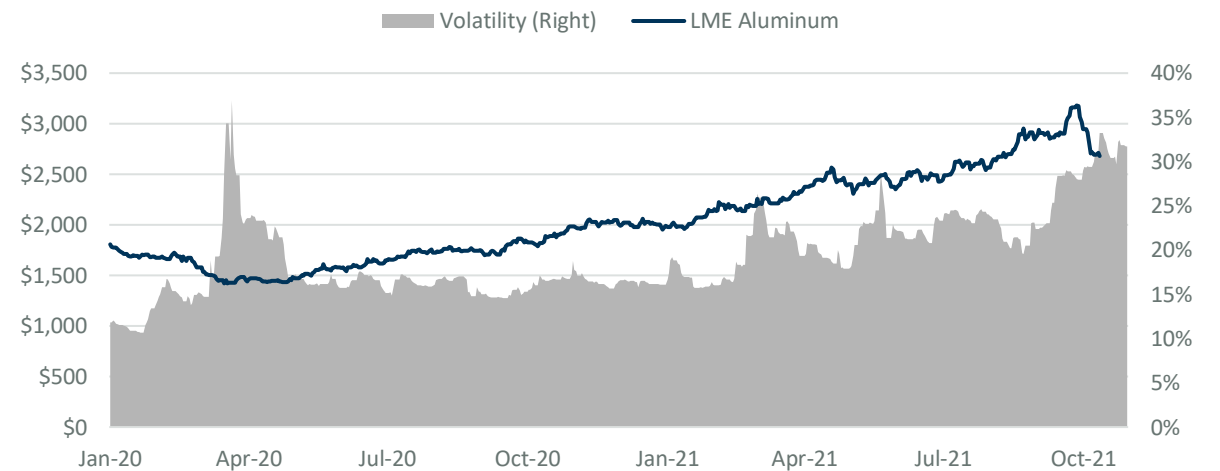
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Hedging considerations for FX and commodities in a volatile market

ICE 1st Brent price & volatility - \$/bbl



LME Aluminum price & volatility - \$/MT



Objectives for hedging CMD risk

- 1 Cap material cost to ensure competitive pricing relative to peers
- 2 Establish a revenue floor in order to meet forward guidance
- 3 Reduce noise on P&L due to CMD volatility

Considerations for volatile markets



Systems enabling rapid, comprehensive, and aggregated exposure capture



Tools that integrate exposure and market data with risk-centric overlays



Established, socialized, and understood data-driven decision frameworks



Accessible and flexible effectiveness reporting packages for the program

Practical considerations



**Hedge
accounting**



**Decision
making in
silos**



**Theory to
practice**



**Dangers of
oversimplifying**

Process & technology

Panelist Q&A – commodity risk

- Who else is involved in the process to understand your commodity exposures?
- How do you determine the best way to hedge the exposure between swaps and options?
- How do you decide on the best way to execute the transactions?
- Do you apply hedge accounting to the trades, and how difficult has that been?
- What challenges have you faced with hedging commodity risk over the years?



Conclusion

Panelist Q&A

- For those starting a hedging program from scratch, what advice would you give?
- For those looking to advance their policies, processes, or technology for an existing program, what advice would you provide?

Questions?

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