

ROCHFORD

At Rochford, we are committed to protecting and enhancing your business.

Our simple yet powerful Agile Treasury process has been refined and reinforced through decades of experience and working with hundreds of businesses. Agile Treasury positions a business within a value creation cycle, producing objective calls to action in day-to-day operations through to executive-level strategic decision making. This starts with identifying the operational gaps and value drivers within Treasury. We then deliver fast, flexible and effective solutions, which means stakeholder value is maximised. We can then either step back or provide ongoing strategic advice and support.

In our Thought Leadership series, we want to highlight the value of this process and why the lens of SP3-IM3 has time and again proven so crucial to success.





CAPTURE THE RISK

IN THIS BRIEF, WE ARE FOCUSING ON IDENTIFICATION OF TREASURY RISKS – THE PROCESS OF ACKNOWLEDGING AND DEFINING ALL SOURCES OF RISK EFFECTING COMMERCIAL PERFORMANCE

Identification of risk should capture all risks faced by Treasury, which means market, economic and operational risks are managed in a holistic, integrated framework.

IDENTIFY: Is it holistic?

DESIGN

The critical element in designing a risk identification process is in assessing risk at an aggregate business level, rather than only isolating individual sources. This means not only identifying potential natural hedges in financial market risks within the business, but also understanding and strategically accounting for where risk sits within supply and sales contracts linked to foreign exchange and potentially commodity prices. It is not a matter of 'what risks are we facing?', but rather, 'what is the overall risk profile of the business?'. Derivative hedging should be the last line of defence in hedging market risk, only after exhausting contract bargaining power and optimising intercompany foreign exchange payments.

DEVELOP

Developing a means to identify risks is not a continuous process. Rather, an initial deep dive workshop should map risk sources, and critically, their interaction both vertically within the organisation structure and horizontally as individual risks interact with each other. Once achieved, their measurement, management and monitoring can occur thereafter, with stakeholders remaining cognisant of how the risk profile is developing over time. Scheduled periodic risk and policy workshop reviews are a fantastic way to consolidate ideas on changing risk profiles and pivot the management process as required. Adjusting to



Common Shortfalls

High percentage of Sales or Purchases in foreign exchange not being managed

Supplier or customer contracts misaligned to risk management objectives

Uncertainty of the sources or extent of natural hedging offsets and diversification

Uncertainty of risk sources in relation to a global balance sheet and multiple subsidiaries

Unclear implications of floating rate debt

'Pre-transactional' risks not identified



Solutions

Treasury risk reviews

Identification of risk across foreign exchange, interest rates, commodities, and operations

Identifying sources of any existing natural hedges

Opportunities to align supplier or customer contracts to the business' risk profile

Centralised oversight

an emerging risk in a abrupt manner, without achieving stakeholder alignment on the management approach risks creating a culture of putting out spot fires as opposed to strategically implementing holistic preventative operations.

IMPLEMENT

Implementation of risk identification firmly resides within the Treasury policy. All risks the business seeks to actively manage should be acknowledged and defined, with focus given specifically to the potential adverse effect of the risk to business. Implementation should also be visible in any system and process design, notably in how the data related to the risk is captured and fed through calculations that produce clear calls to action linked to the policy that give clear recommendations on whether and what remedial actions are required.

OPERATE

If Design, Development and Implementation are successfully achieved, then operational time spent specifically on ongoing identification of risk should be nearly minimal. All the identification work was done during design, and a single implementation piece ensures that risks remain identified on an ongoing basis. This leaves individuals most free to Manage and Monitor risk in confidence that they are doing so at a holistic and appropriate business level.

CASE STUDY

[FORESTRY MANAGEMENT FUND]

The fund prepared an acquisition bid for a new asset, but was lacking a clear approach to isolate interest rate and foreign exchange risks along with potential adverse impacts within operating entities, the fund and to individual fund contributors.

PROBLEM

Why the challenge was proving difficult to solve

- ❁ The most effective currency for debt denomination was unclear given diverse forecasted cash flows
- ❁ A lack of multi-asset portfolio risk evaluation processes prevented assessment of adverse risk implications across various scenarios
- ❁ An accurate confident bid submission was hindered by lack of clarity on a preferred ongoing risk profile

SOLUTION

Rochford actions to address and correct the problems

- ❁ We designed an agreed flow chart of funds, from operations through to fund investors, isolating points of foreign exchange risk under various funding scenarios
- ❁ We then applied foreign currency operating cash flow forecasts and ran a Cash Flow at Risk analysis using a Rochford-developed model
- ❁ Rochford could then confidently present identified risks and their measured impact, with a clear recommendation of funding structure and the holistic risk profile it would entail

RESULT

End outcome, leaving the business in a better position

- ❁ The fund submitted a revised bid in increased confidence while setting a clear expectation to global investors
- ❁ Our approach to framing the problem provided upskilling to fund managers that was deployable on future investment opportunities



If you are facing these challenges, or would like to find out more, contact Rochford and begin your treasury improvement journey today.



WHAT OUR CLIENTS SAY ABOUT US

“Rochford has played a key role over the years in assisting us to protect our gross margins in times of AUD volatility. Their dynamic and consultative hedging approach has allowed significant uplift during periods of favourable FX trends.”

| GREG DARWELL, FOUNDER & CEO MULWARRA EXPORT PTY LTD

“Their research and advice consistently provide us with the tools to both mitigate risk and take advantage of opportunities as they arise. They have also provided invaluable advice with regard to the structure of the appropriate hedging solutions allowing us to achieve margin protection whilst still participating in favourable market moves.”

| CARL SCUDERI, CFO DYNAMIC SUPPLIES PTY LTD

“We are delighted with the positive changes they have made to our business and are enjoying a relationship that has developed further than our expectations. The team are a true pleasure to work and be associated with.”

| PETER CALOPEDIS, GROUP FINANCE MANAGER, TNA AUSTRALIA PTY LTD

