



## AFP Nashville

Advanced interest rate hedging

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## Speakers



**Amol Dhargalkar**  
Chatham Financial  
*Managing Director*



**Michael McDaniel**  
HCA  
*Treasury Manager*

# Agenda

- Speaker introductions
- Market update
- Firm details
- Panel discussion
  - Hedging strategy and processes
  - Advanced strategy #1: Large interest rate transactions
  - Advanced strategy #2: Cross-currency swaps
  - Accounting and legal
  - Takeaways
- Closing



## Amol Dhargalkar



**Chatham**  
FINANCIAL

Amol Dhargalkar is a Managing Director and member of Chatham's Operating Committee. He leads the Global Corporate Sector serving public and private corporations focusing on interest rate, foreign currency and commodity risk management. He joined Chatham in 2001 and launched its Corporate Sector offerings in 2007. Amol has advised a broad spectrum of public and privately held companies as well as corporate private equity sponsors on the structuring, implementation, and accounting of their risk management programs totaling more than US \$500 billion in hedged notional.

Amol graduated from Pennsylvania State University with a BS in Chemical Engineering and a BS in Economics. He also received his MBA from The Wharton School at the University of Pennsylvania where he was a Palmer Scholar.

## Michael McDaniel



Michael McDaniel is a Certified Treasury Professional (CTP) with over 20 years of experience in three different industries (Life Insurance, Energy and Healthcare). He is currently Manager of Treasury for HCA Healthcare Inc. and has been with the company 12 years.

Michael is directly involved in short term liquidity planning, debt management, intercompany lending to ambulatory surgery centers, interest rate and foreign exchange hedging as well as financial modeling and budgeting. Other responsibilities include managing banking relationships, audit support, and treasury reporting. He is committed to insuring that Treasury is positioned to serve executive leadership by providing timely decision support, risk management and continual process improvement.

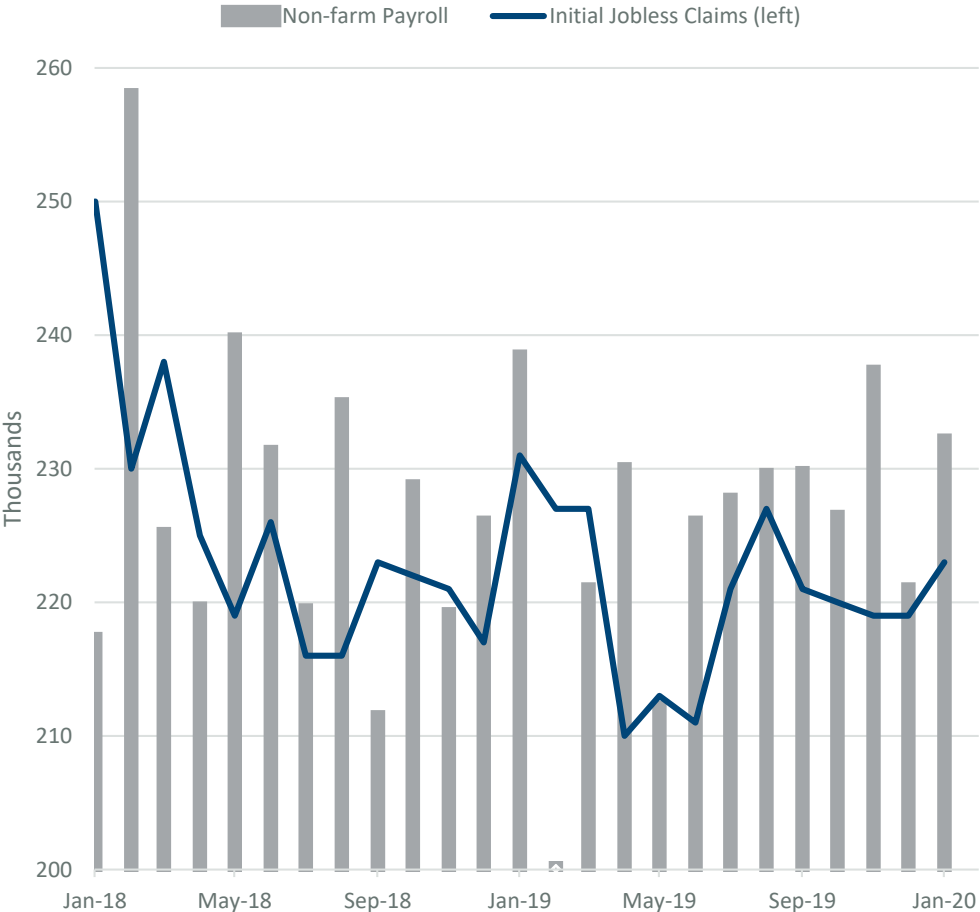
Michael received his undergraduate degree in Finance and Marketing from Missouri Valley College in 1996, followed by his MBA and Masters of Finance degrees from Webster University in Kansas City Missouri in 2001. Most recently he earned AFP's Financial Planning and Analysis (FP&A) designation and has served on the board of the local Nashville AFP chapter as President, Vice President and Treasurer.

## Market update

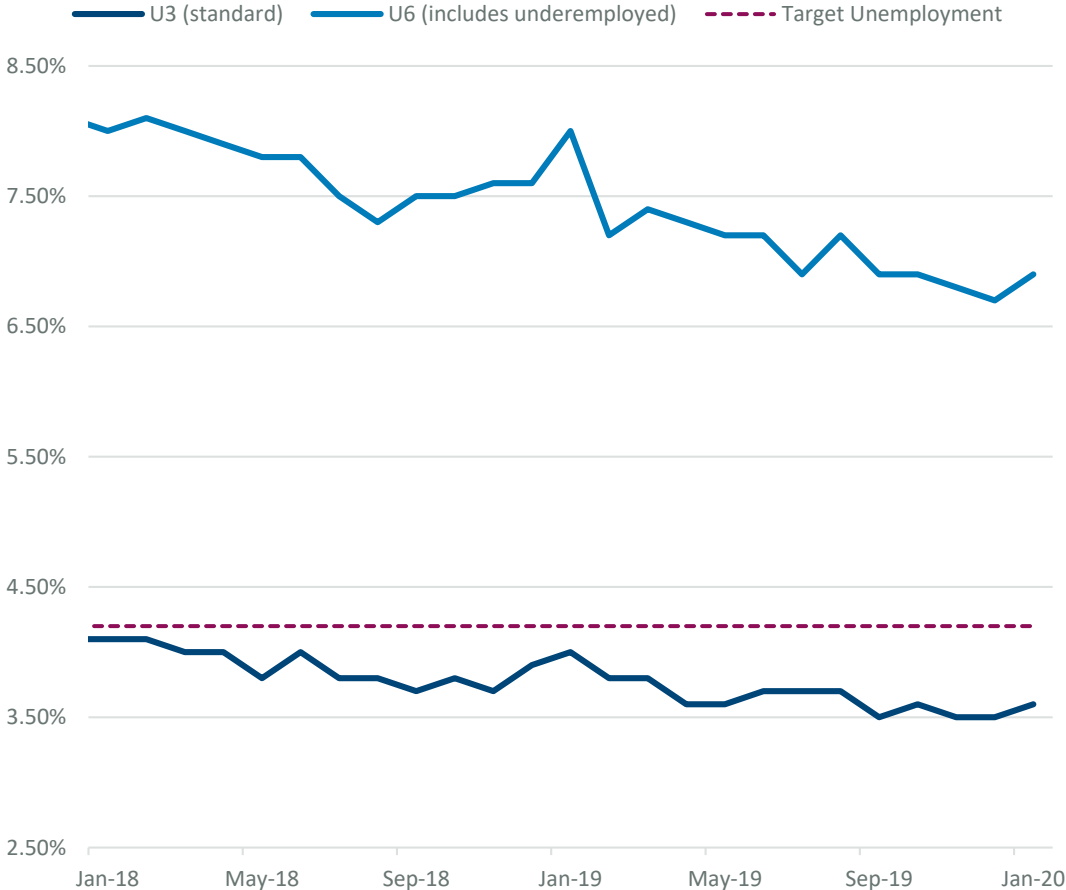


# US economy and markets

Job market



Unemployment



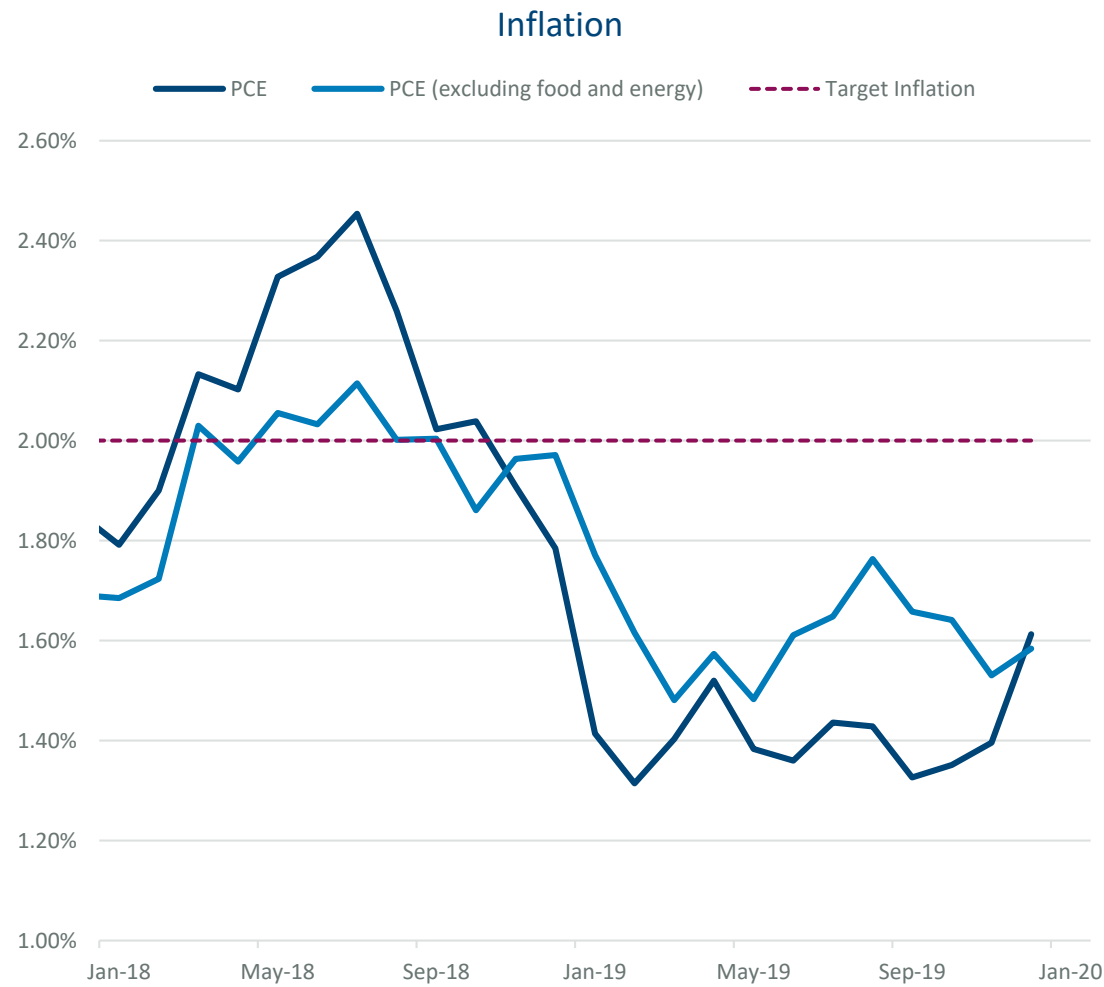
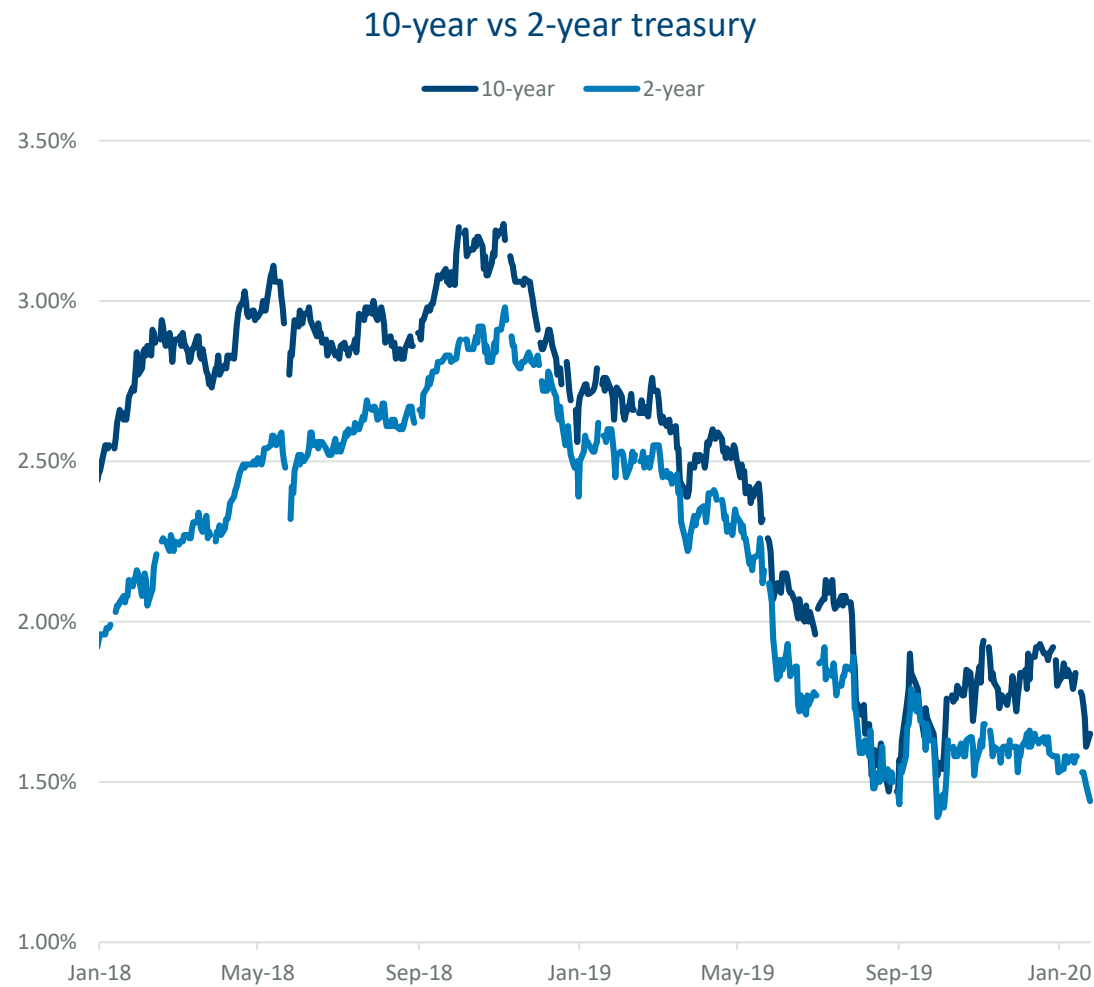
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# US economy and markets

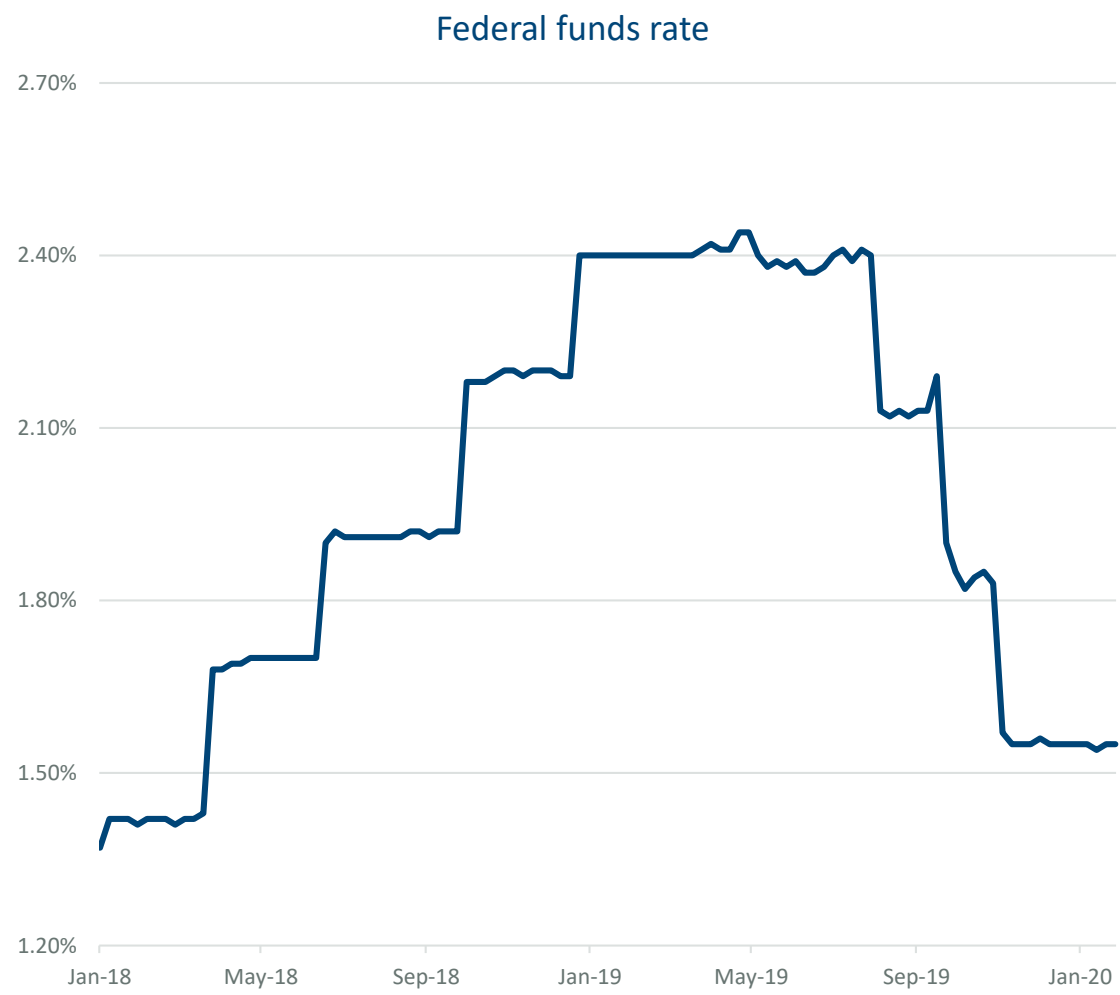


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# US economy and markets

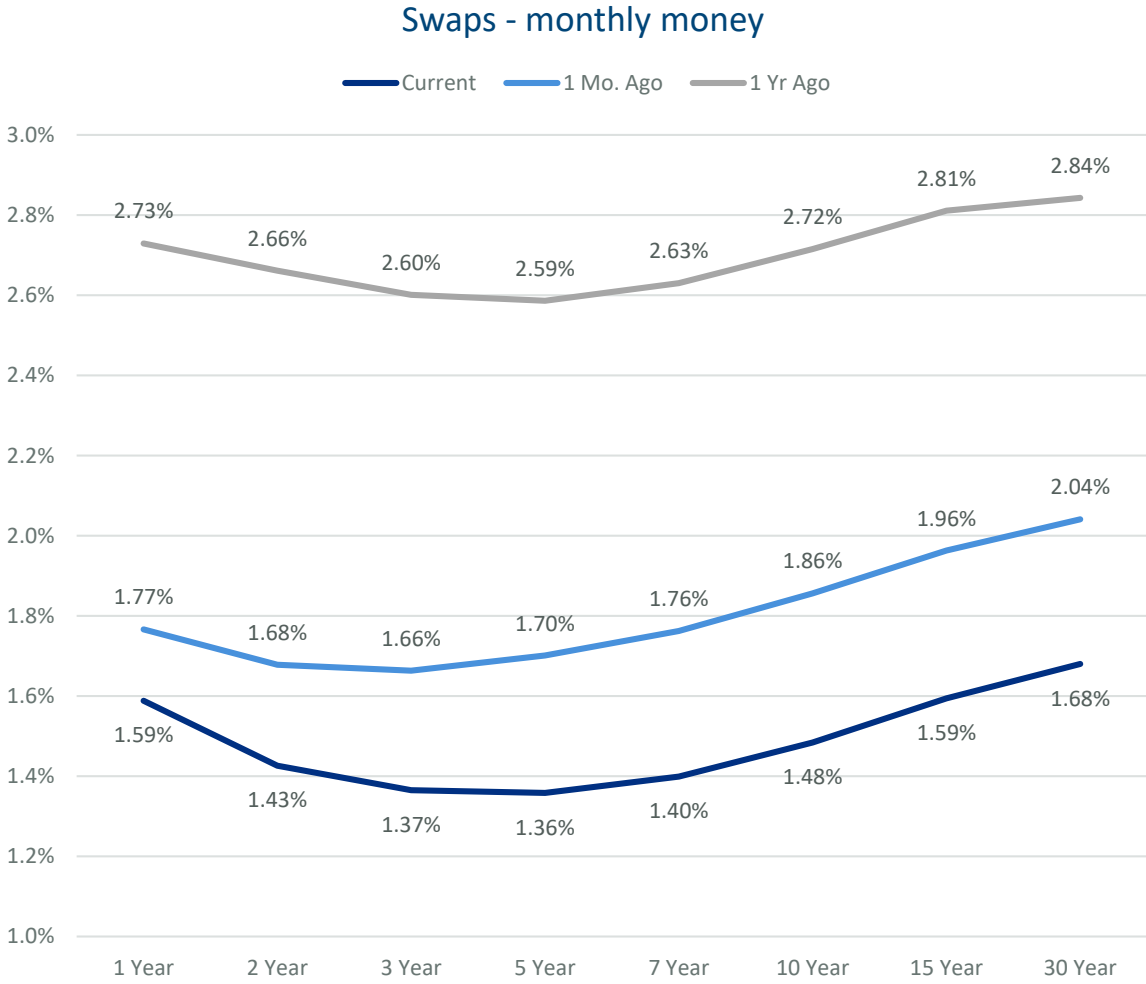
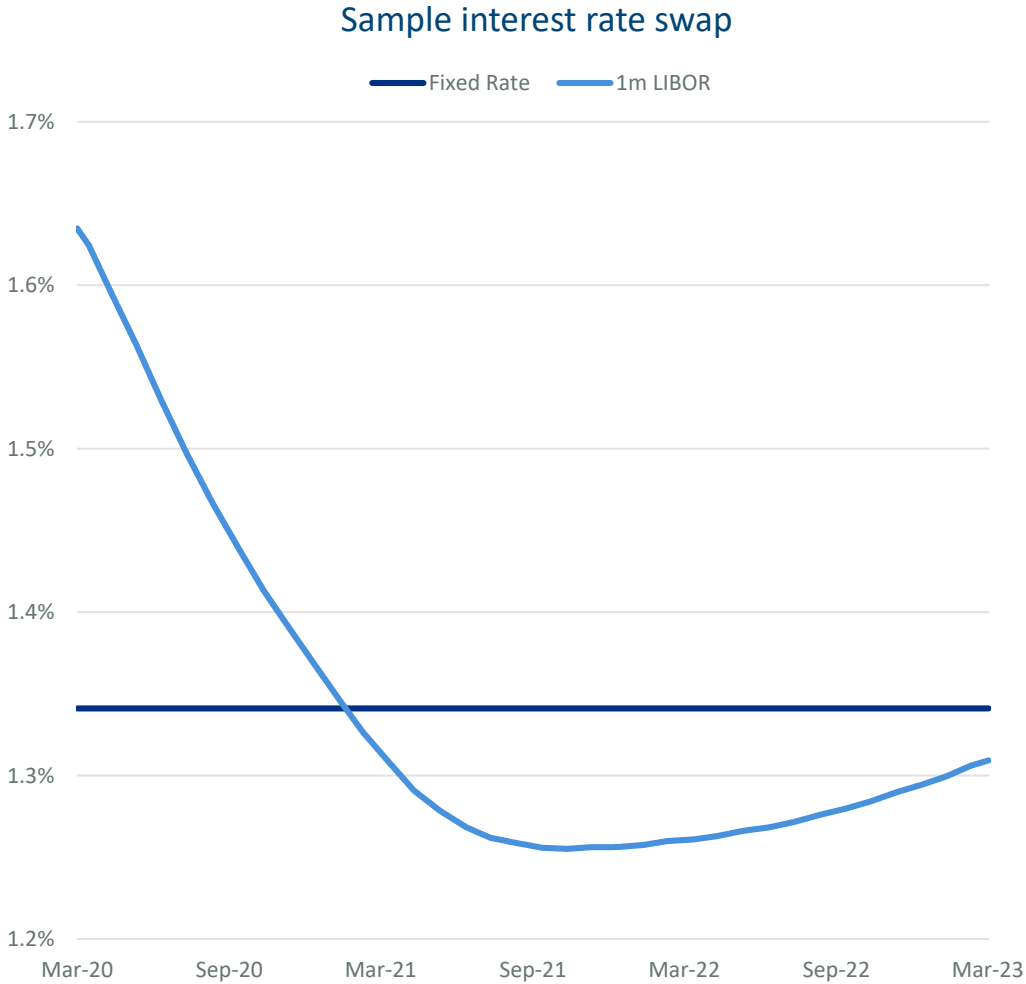


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# Swap rates

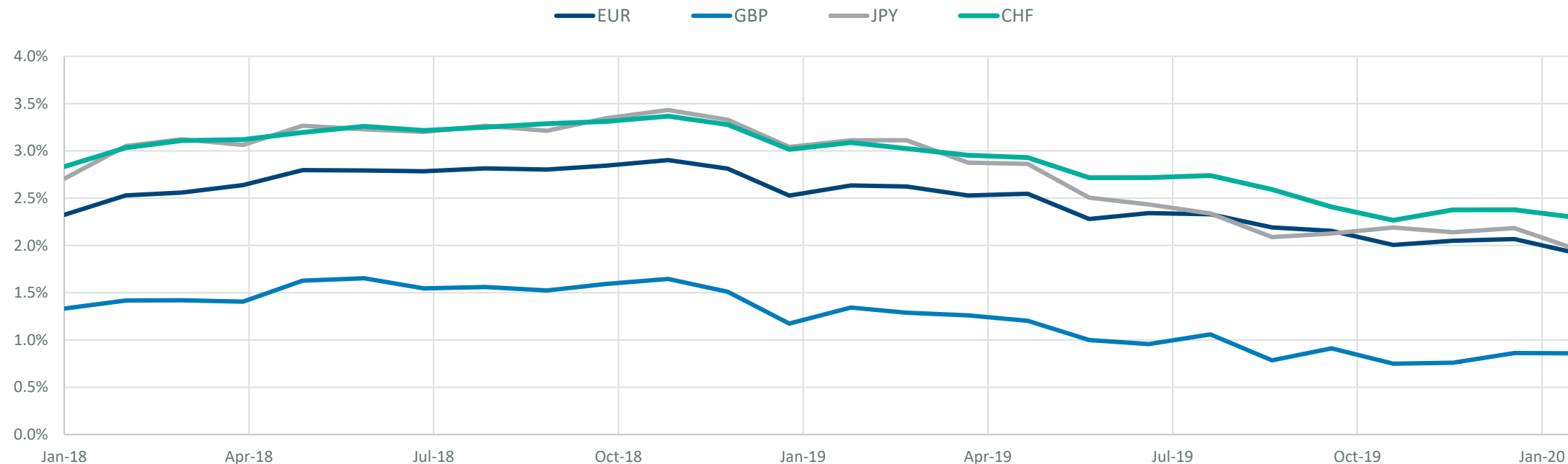


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# Historic cross currency swap pick-up

Per annum savings from swapping USD 2% fixed to select currencies



## Key considerations

- Falling USD interest rates has marginally decreased the benefit of cross currency swaps, though savings still exist in major currencies
- New hedge accounting guidance provides ability to realize earnings of re-striking and cashing out of net investment hedge designated cross currency swaps
- Pricing remains opaque on cross currency swap transactions, requiring coordination across multiple markets

# Global markets overview

## EUR

EUR-USD exchange rate



5-year EUR swap rates



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# Global markets overview

## GBP

GBP-USD exchange rate



5-year GBP swap rates



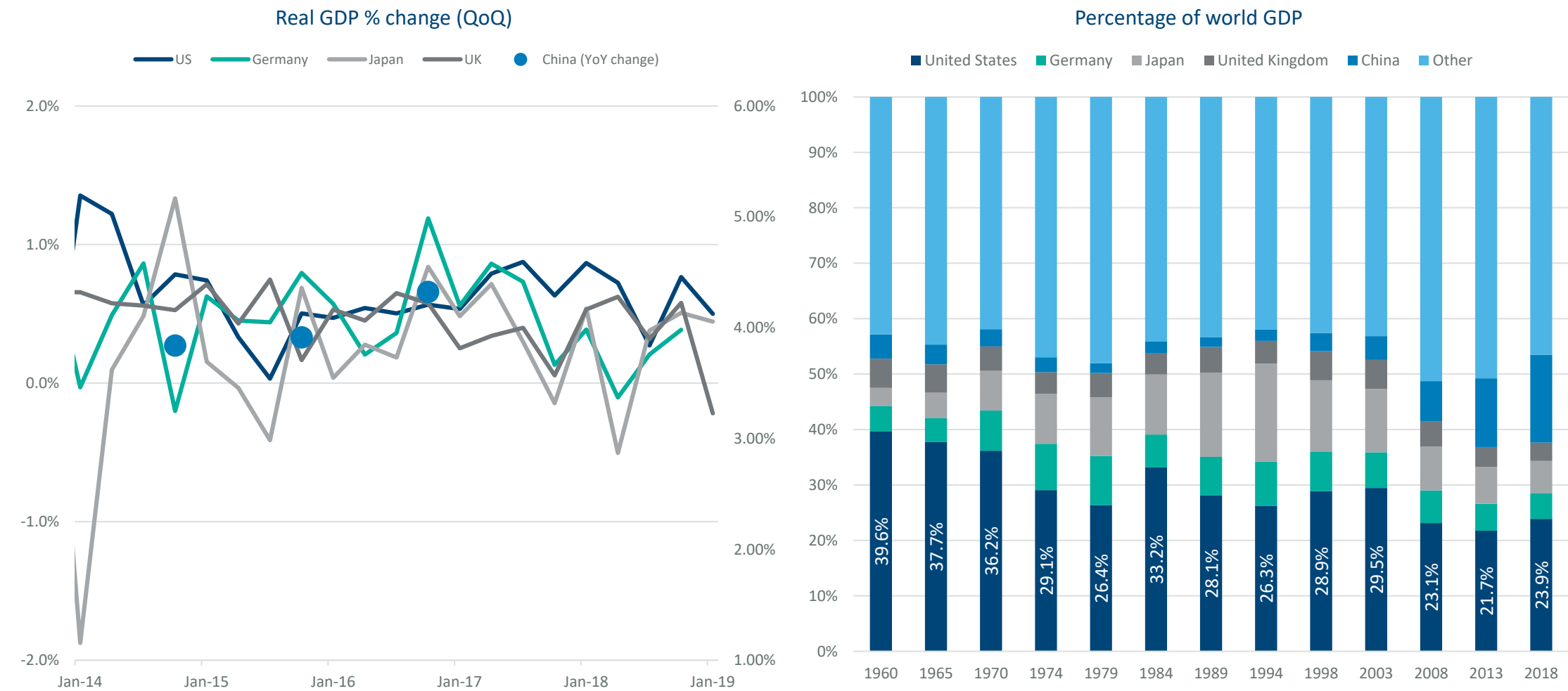
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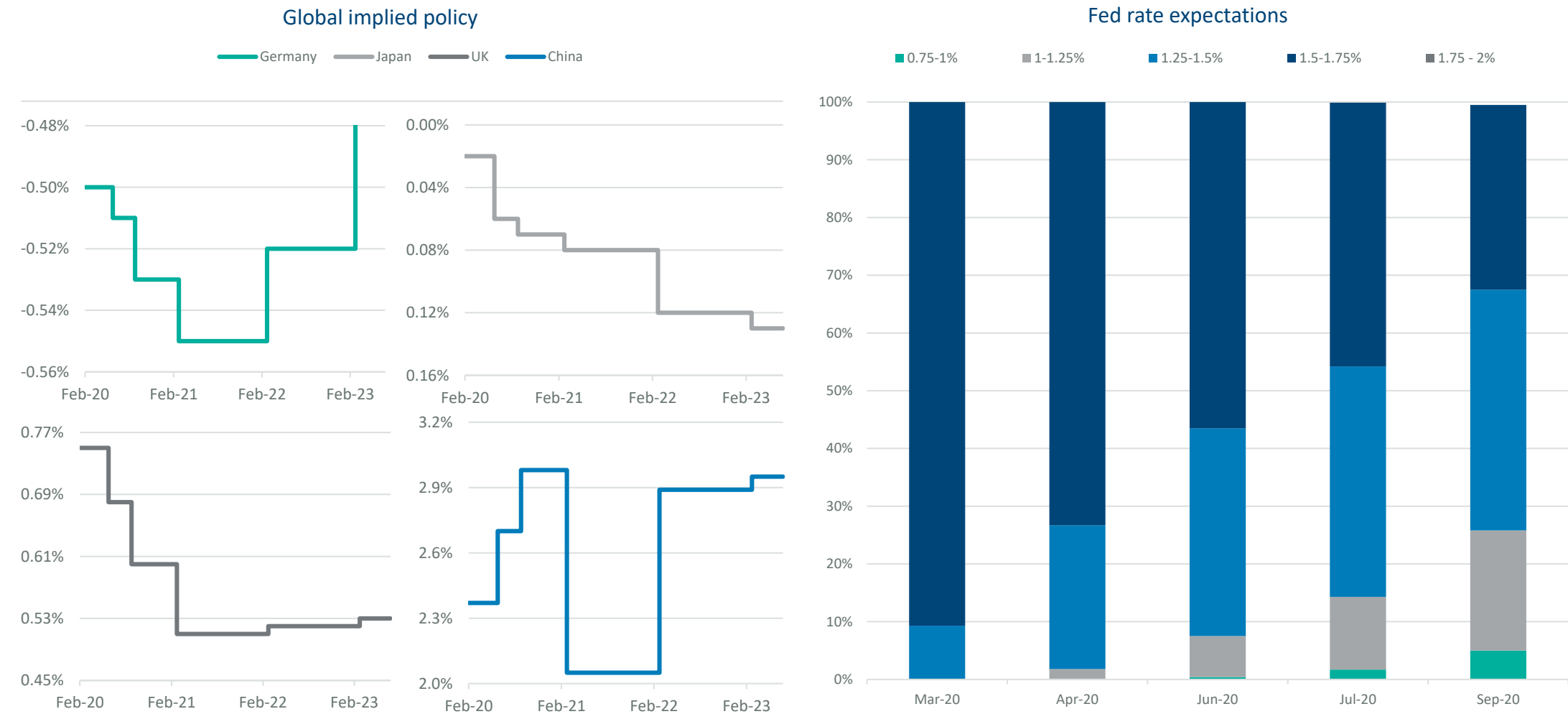
# Global markets overview

## Growth and market share



# Global markets overview

## Interest rate expectations



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# LIBOR Phase Out

## Why is LIBOR being phased out?

- The transactions that LIBOR is meant to represent have become much less common since the financial crisis, making the rate less market driven
- Recent scandals and billions of dollars in fines demonstrate that LIBOR is susceptible to manipulation
- In July, the UK agency responsible for regulating submission of LIBOR rates stated that the index would be phased out by 2021

LIBOR



SOFR

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## What is going to replace LIBOR?

- In the US, the likely replacement is a new benchmark rate based on overnight Treasury general collateral repurchase agreements (SOFR) – Secured Overnight Financing Rate
- This new rate is intended to solve many of the issues surrounding LIBOR: to be based on hundreds of billions of dollars in daily transactions and be difficult to manipulate
- The Federal Reserve Bank of New York first published the rate in 2018, the new benchmark will be phased in over several years to develop a liquid market

## About Chatham



# 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.



More than **\$6 trillion**  
hedged notional since 1991



**3,000+** clients  
around the world



**190,000** end-of-day  
valuations run nightly



**3,000+** ISDAs reviewed  
annually



**Six** global offices



Over **700+** employees

# Access unequalled expertise that spans industries

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



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**Real Estate**



**Financial Institutions**



**Private Equity and  
Infrastructure**

## **Services:**

Interest rate, foreign currency, and commodity hedging

Hedging execution and processing

Hedge accounting

Derivative and debt valuation

Derivatives regulatory compliance

ISDA review and negotiation

Defeasance and yield maintenance

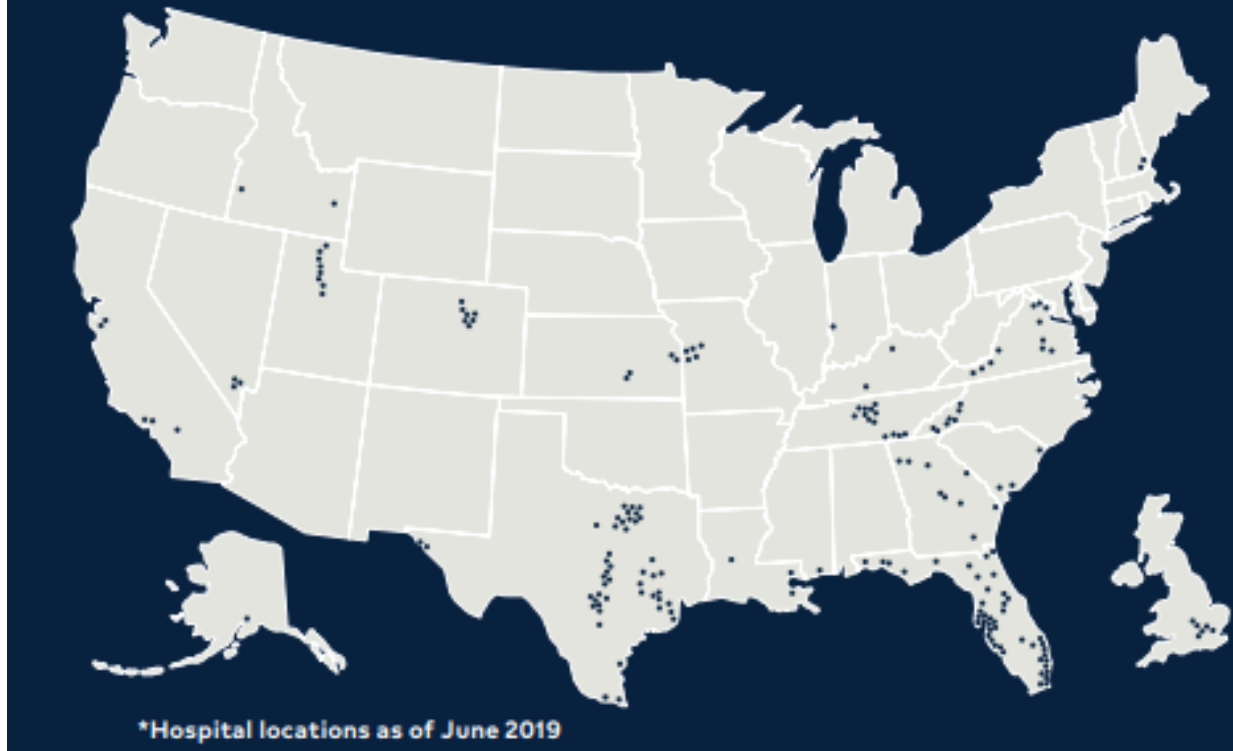
Debt and derivatives analytics

Financial risk management  
technology

## About HCA



**184** hospitals and **2,000** sites of care located in **21** states and the United Kingdom



## Patient Care

Each year approximately five percent of all U.S. hospital services happen at an HCA Healthcare facility, including:

**31.2 Million**  
patient encounters

**8.9 million**  
emergency room visits

**224,000**  
babies delivered



## Size

**270,000+**  
colleagues

**94,000**  
registered nurses

**38,000**  
active physicians



## Giving Back

**\$3.6 Billion**  
invested last year in capital spending to expand or bring new services to the communities we serve

**\$3.3 Billion**  
estimated 2018 cost for the delivery of charity care, uninsured discounts, and other compensated care

**\$41.8 Million**  
in cash donations to charitable organizations in 2018

## Advanced interest rate hedging strategies



Who is involved in identifying either a need or opportunity related to interest rate risk management?



How do you analyze different alternatives?

Can you describe the internal approval process for putting a transaction in place?

## Advanced strategy #1

### Large interest rate transactions

What types of concerns do you have when entering into a large transaction?

## Advanced strategy #1

### Large interest rate transactions

How do you decide which banks to invite into the process?

## Advanced strategy #1

### Large interest rate transactions

How do you think about pricing relative to banking relationships?

## Advanced strategy #1

Large interest rate transactions

What types of execution strategies have you evaluated?

## Advanced strategy #2

### Cross-currency swaps

What is a cross-currency swap?

## Advanced strategy #2

### Cross-currency swaps

Can you share what factors led you to consider using a cross-currency swap?



## Advanced strategy #2

### Cross-currency swaps

What concerns did you have as you evaluated the strategy?

## Advanced strategy #2

### Cross-currency swaps

How did you work with your banking partners on the strategy?

How do you handle negotiating ISDAs with counterparties?

Do you apply hedge accounting to your derivative transactions?

Who in your company is involved in applying  
hedge accounting?

## Takeaways

What is one takeaway you would like to share with audience members that are contemplating entering into interest rate derivatives?

## Contact Information



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