



Foreign Exchange Strategy Discussion

**Best practices to manage
cross border currency risk**

October 21, 2015



Today's agenda

- **Introduction**
- **Economic Overview**
- **Foreign Exchange Considerations**
- **Case study examples**
- **Questions & Answers**

Polling Question #1

- **In what currencies do you currently operate or have foreign exchange exposure?**
 - A: US Dollars
 - B: Brazilian Reais
 - C: Mexican Pesos
 - D: Argentinian Pesos
 - E: British Pounds
 - F: Euros
 - G: Others

Economic Overview of Latin America



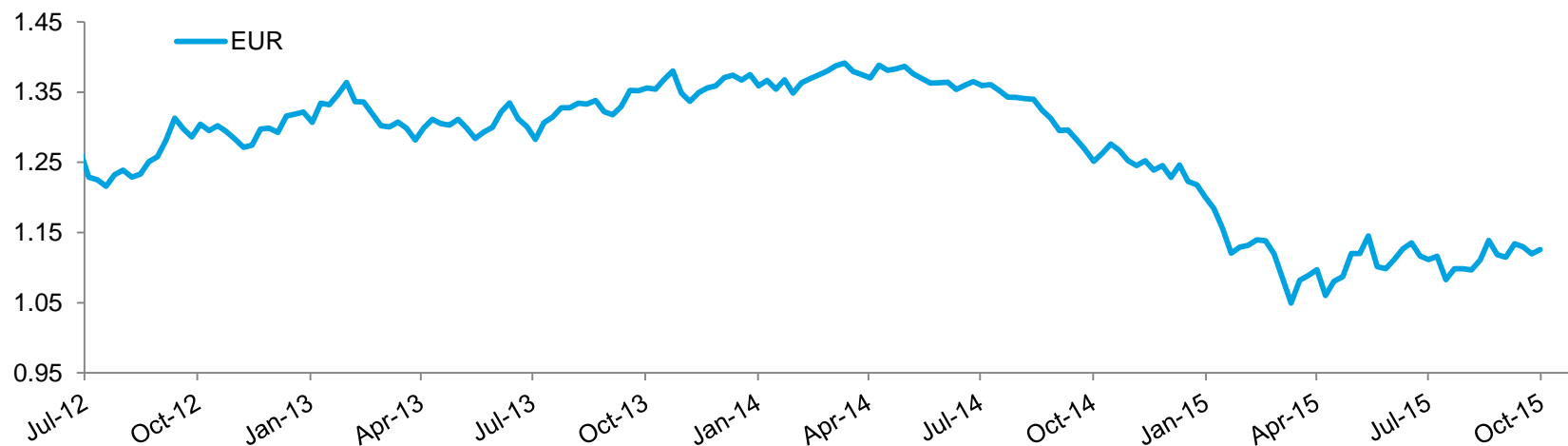
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Senior Foreign Exchange Trader,
CFA



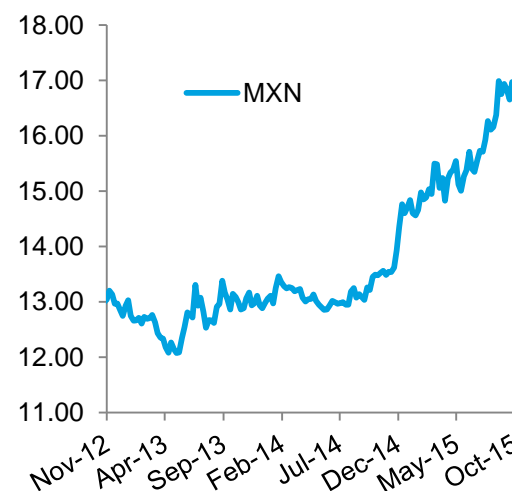
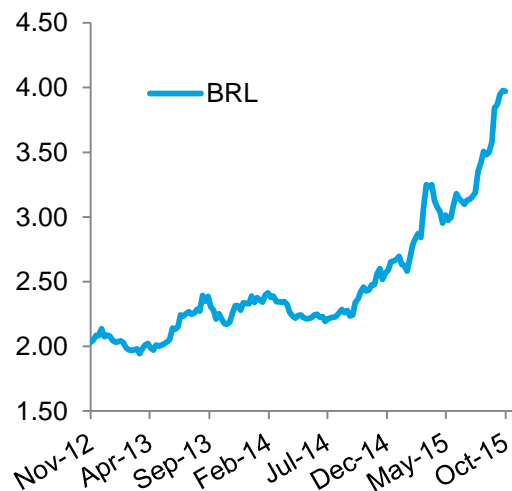
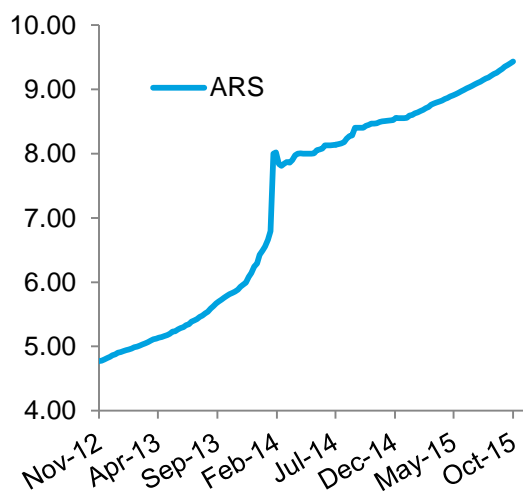
Economic Overview

	US	EUR
GDP YoY	2.70%	1.50%
GDP	\$17.9 Trillion	\$10.5 Trillion
Unemployment	5.10%	11.00%
Inflation	1.30%	0.10%
Benchmark Rate	0% - 0.25%	0.05%
FX Rate		1.1325



LatAm Snapshot

	ARS	BRL	MXN
GDP YoY	2.30%	-2.60%	2.20%
GDP	\$540.2 billion	\$2.30 Trillion	\$1.28 Trillion
Unemployment	6.60%	7.60%	4.30%
Inflation	14.70%	9.49%	2.59%
Benchmark Rate	19.00%	14.25%	3.00%
FX Rate	9.49	3.89	16.59



On The Horizon

- **Expectations for FOMC tightening**

- New voting members in 2016 are expected to be more “hawkish”
- Gradual pace
- Normalized rates years away

- **China growth**

- Markets are predicting a slow down
- Effects on commodity prices
- Devaluation contagion

- **Pressure on emerging markets**

- Focus on currency rates
- Downward pressure on global growth
- More volatility

Polling Question #2

- **How frequently do you currently manage FX / trade currency?**
 - A: Weekly
 - B: Monthly
 - C: Quarterly
 - D: Annually
 - E: Not at all

Foreign Exchange Implications



Nate Wyne
Foreign Exchange Advisor



Managing Foreign Exchange Risk

- **Focus on Capital Preservation**

- Following a successful capital raise, what should a company do ?

- **Effective Management of FX Risks is Crucial to a Solid Business Model:**

- Businesses large and small dedicate extensive resources towards FX management because they understand the risks involved.
- Building and implementing a sound FX policy is usually the first step in properly securing your cross-border risks.



Why are these Currencies so Volatile ?

It's a moving market and the politics are wildly different from the G10.



When are the Numbers Big Enough to Matter ?

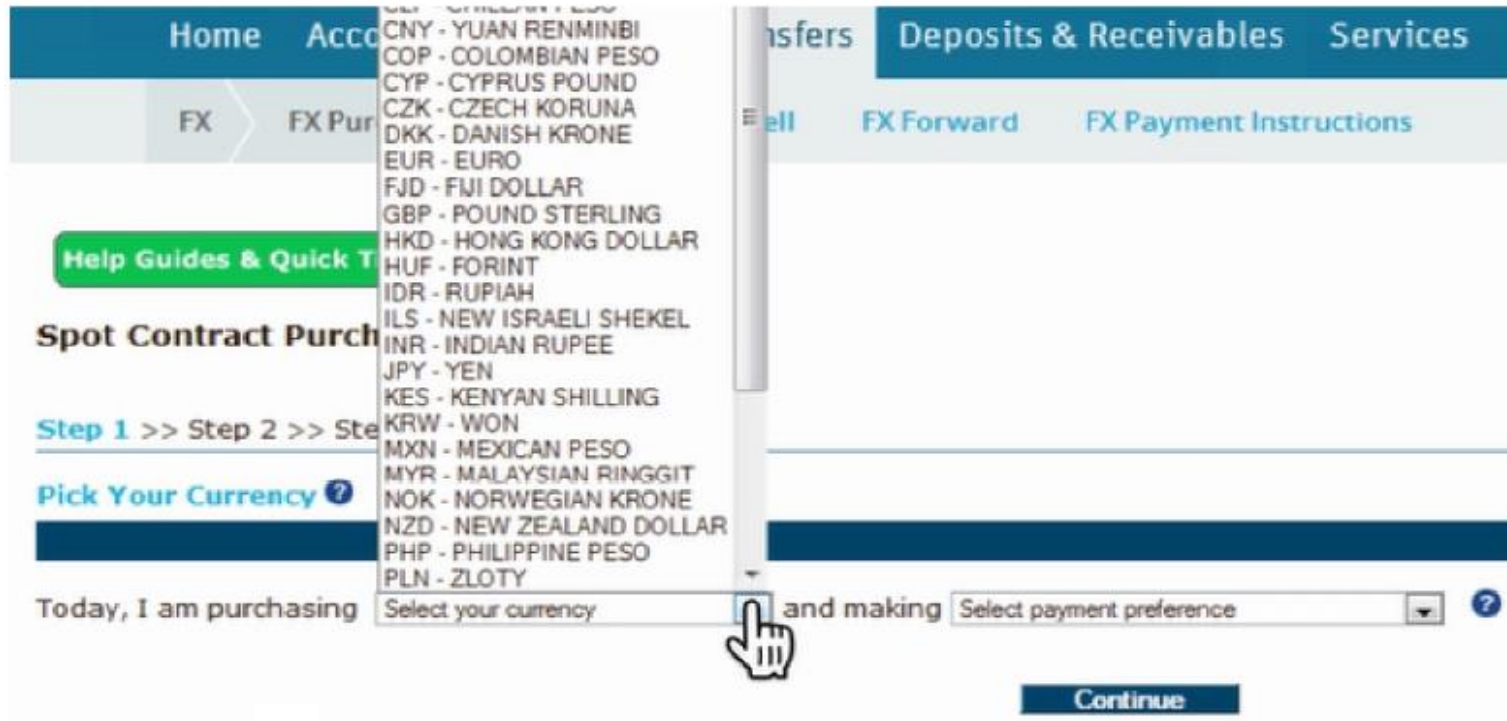
- **Tying in Realistic numbers into your Policy is a Solid Best Practice**
 - Determining an amount that is material to your cash-position is an easy way to set limits on what level of risk you are willing to accept as you operate/grow.
- **The implications of a large USD raise should be assessed before the greenbacks begin to flow.**
- **Forecasting**
 - Most established banks provide a forecast for all major currencies.
 - These can be used for reference points and help guide business strategies.
- **Companies big and small, private and public can benefit from FX hedging.**



Products Available

Country	Spot Availability	Forwards	Options	Multi-currency Account
Europe	Yes	Yes	Yes	Yes
UK	Yes	Yes	Yes	Yes
China	Yes	Yes (CNH)	Yes (CNH)	Yes (CNH)
Argentina	Yes	NDF	No	No
Brazil	Yes	NDF	Yes	No
Chile	No	NDF	No	No
Colombia	No	NDF	No	No
Mexico	Yes	Yes	Yes	Yes
Peru	Yes	NDF	No	No

Purchasing Currency via SVB.com



Link to full walk-through on SVB.com: http://www.svb.com/learning_center/default.aspx?id=8589936338

Polling Question #3

- **Do you have a board-approved foreign exchange policy?**
 - A: Yes
 - B: It has been discussed at the board, but not approved.
 - C: Not yet

Policy Discussion: Steps to Follow

ANALYSIS

- 1) Data Collection
 - Define key questions
 - Develop collection system
- 2) Exposure Analysis
 - Quantify the exposure
 - Compare quantified risk to cost of hedging

DEVELOP FX POLICY

- 1) Identify key features
 - Objectives
 - Guidelines
 - Hedging Tools
 - Internal responsibility
- 2) Communicate Policy
- 3) Regularly evaluate Policy

CHOOSE METHOD

- 1) Adhere to Policy
- 2) Think Internal Hedge 1st
- 3) Be flexible
- 4) Use a combination of tools

MONITOR EVENTS

- 1) Be alert to events that may affect FX markets
- 2) Identify new risk management tools

Case Studies

#1 – When to capitalize?

- Brazilian operating company with Cayman and Delaware holding structure
- Raised a US\$10MM Series B round
- Most expenses are on-shore in Brazil, except for servers and Google Adwords

Solution:

- BRL NDFs for 3, 6, 9 and 12-month exposures

#2 – Managing USD receivables

- Mexican operating company with Delaware holding
- Monthly revenues – USD \$100K from Stripe, USD \$100K via invoicing
- Most expenses are on-shore in Mexico

Solution:

- Mix of forwards and/or options based on policy
- Can collect invoices into MXN MCA, if provides better negotiating terms

Questions?



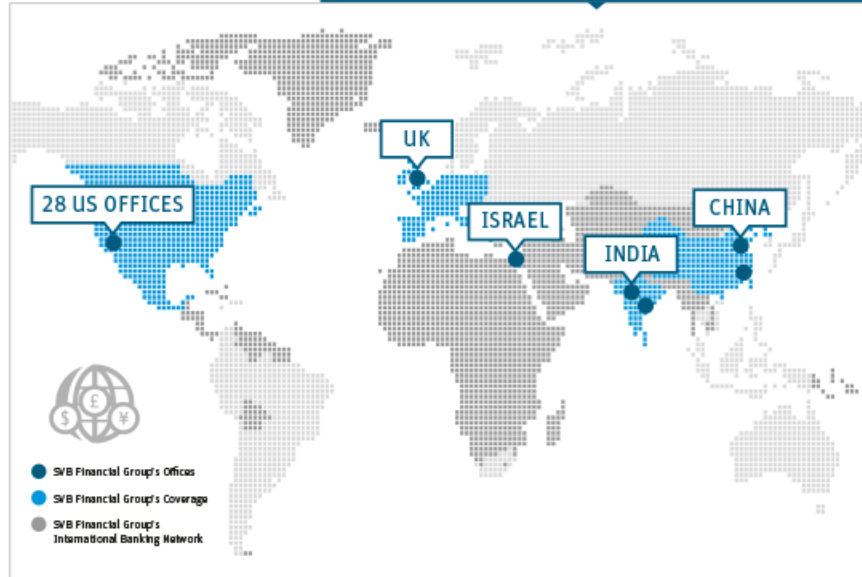
It's our mission to increase innovative companies' probability of success worldwide

TARGET INDUSTRIES



LOCATIONS

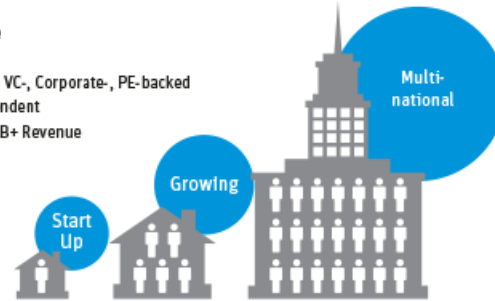
1ST US BANK APPROVED TO OPEN A JOINT VENTURE BANK IN CHINA



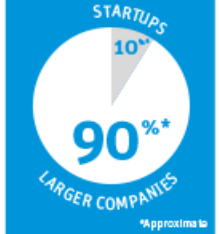
CLIENTS

LEADING LENDER TO TECH AND LIFE SCI FIRMS OF ALL SIZES

- ▶ Private
- ▶ Public
- ▶ Angel, VC-, Corporate-, PE-backed
- ▶ Independent
- ▶ 0 to \$1B+ Revenue



Tech Loan Portfolio at 6/30/2014



50% of all venture capital-backed tech and life science companies in the US

64% of US venture capital-backed companies with an IPO in Q2 2014

FINANCIAL INFO Q2 2014

AMONG AMERICA'S FASTEST-GROWING COMPANIES: FORTUNE

\$ **33B**
TOTAL ASSETS

\$ **11B**
TOTAL LOANS

\$ **57B**
TOTAL AVERAGE CLIENT FUNDS

SERVICES

1ST US BUSINESS BANK TO OFFER CHIP-ENABLED CREDIT CARDS

- ▶ Credit
- ▶ Treasury Management
- ▶ International Banking
- ▶ Valuations
- ▶ Funds Management
- ▶ Private Banking
- ▶ Connections and Research

\$ **30B**
TOTAL CLIENT INVESTMENT FUNDS*

9B
F/X TRADES FOR Q2 2014

209B
PAYMENTS PROCESSED Q2 2014

* Total Client Investment Funds (Off balance sheet). As reported on a consolidated basis for the period end June 30, 2014.

B-16-1337-2 Revision 05-20-14

BAY AREA BUSINESS JOURNALS
TOP
CORPORATE PHILANTHROPIST
RUNNING 11 YEARS

30 Years / 30 Causes
6000 hours of community service 2013

ONE OF FORTUNE MAGAZINE'S
100 Best Companies to Work for in 2012

Appendix

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Kristen Durham is Director for Latin America at SVB, leading the bank's market development efforts in the region. Kristen's practice focuses on providing insights and banking solutions to VC and PE funds, as well as technology companies of all sizes in LatAm, and she also serves as a resource to SVB's US clients as they consider expansion into the region. Kristen has a passion for helping companies access opportunities globally and has worked with Fortune 1000 companies and for the US government in international roles in the past, with a focus primarily on China. She has an MS in Energy & Resources from the University of California-Berkeley and a BS in Agricultural Economics from the University of Missouri.

Minh Bio



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Minh Trang is a senior foreign exchange trader. In his previous position at SVB, he worked as a portfolio manager for SVB Asset Management, and has over twelve years of investment experience in fixed income securities. Prior to joining SVB Asset Management, Trang worked on the commercial paper sales and trading desk at Toyota, managing the western region. His experience also includes portfolio management at the Arizona State Treasury, focusing on the state's short-term fixed income investment pools. He started his career as a research analyst for PICO Holdings, a strategic investment company. Trang earned his Masters in Business Administration at the University of California, Irvine and a bachelor in economics at the University of California, San Diego. He holds the Chartered Financial Analyst (CFA) designation and FINRA securities licenses 7 and 66.

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Nate Wyne is the Southern California foreign exchange advisor for Silicon Valley Bank. Nate hold a bachelor's degree from the University of Utah in international studies for business. Nate partners with his clients to create and implement sound risk-management practices around foreign exchange and cash management. After completing his undergraduate degree, Nate pursued a career in retail banking before moving to commercial and eventually corporate banking. With 13 years of banking experience across the full gamut of advisory roles – Nate enjoys helping growing businesses focus on what they do best.

Non-deliverable Forwards

- It is common in many countries throughout Asia and Latin America for local monetary authorities to impose transfer restrictions, and for the local hedging markets to be closed to foreign participants. Non-Deliverable Forward (NDF) contracts help you do business in restrictive foreign markets like these.

• How it Works

- Conceptually, an NDF contract is similar to an outright forward foreign exchange transaction. In both cases, a principal amount, forward exchange rate and forward date are locked in at the front end of the deal. The difference is that NDF contracts eliminate the physical transfer of the principal amount of the emerging restricted currency at maturity. The contract is agreed upon on the basis that the net settlement will be made in a non-restricted convertible currency.
- The NDF contract specifies a predetermined rate fixing method to set the spot rate for the local currency at maturity. Any rate difference between the agreed forward rate and the actual exchange rate at fixing will be settled in U.S. dollars or other convertible currencies. The hedging party will have to pay, or receive payment from, the bank offering an NDF contract. The U.S. dollar amount is determined by whether the fixing rate becomes favorable or unfavorable against the agreed NDF rate.

Calculation of NDF Net Settlement Amount			
USD-ARS Fixing Rate vs NDF Rate	At Par 10.50	Higher (ARS Depreciates)	Lower (ARS Appreciates)
USD-ARS rate at fixing	10.50	11.00	10.00
Equivalent USD amount at fixing	\$1,000,000	\$939,393.94	\$1,068,965.52
Fixing USD less/more than NDF	At par	\$45,454.55 less	\$50,000 more
Net settlement amount	No net payment	Company receives \$45,454.55 from SVB	Company pays \$50,000 to SVB

In all three outcomes, the company has achieved the objective of hedging the ARS exposure at the rate of ARS 10.5. If ARS depreciates, the receipts from the NDF settlement will offset the exchange loss that the customer will suffer by selling ARS at 11 in the spot market. If ARS appreciates, the payment at the NDF settlement will be compensated by the exchange gain the customer will incur by selling ARS at 10 in the spot market

Disclaimer

Foreign exchange transactions can be highly risky, and losses may occur in short periods of time if there is an adverse movement of exchange rates. Exchange rates can be highly volatile and are impacted by numerous economic, political and social factors, as well as supply and demand and governmental intervention, control and adjustments. Investments in financial instruments carry significant risk, including the possible loss of the principal amount invested. Before entering any foreign exchange transaction, you should obtain advice from your own tax, financial, legal and other advisors, and only make investment decisions on the basis of your own objectives, experience and resources. Opinions expressed are our opinions as of the date of this content only. The material is based upon information which we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such.

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