

Case Study 1: Currency Option Hedge

Client Type	Private Equity Firm
Asset Class	Currency
Portfolio Scenario	U.S. based investor has made a loan in which principal and interim payments will be made in euros. Investor is concerned about the volatility and downside in the euro and has decided to hedge out the currency risk.
Client Request	After presenting portfolio scenario to a large derivatives dealer, investor has received a proposal in which a put and call hedge are bundled into a short position. The structure is opaque and difficult to analyze for the client, who asks MRA for advice.
MRA Deliverables	<ul style="list-style-type: none">▪ Understand the constraints that the investor has in its hedging process.▪ Advise the investor on the OTC derivatives market and the subtleties in how contracts are executed.▪ Help the investor understand the pricing dynamics for options on the euro and the role that the strike price, expiration and volatility level play in determining the option premium.▪ Provide the investor with an opinion on the relative pricing of options on the euro and their effectiveness as a hedge from a cost perspective.▪ Utilize MRA's extensive client relationships to discuss pricing of euro puts and gain insights on the implied volatility surface.▪ Provide advice on how to negotiate with the dealer to ensure best pricing.▪ Source pricing for the investor from 3 large currency option dealers to create competition▪ Guide investor through the negotiation of both pricing and documentation to ensure optimal execution.▪ Be available for after trade advice and follow-up should a portion of the trade need to be unwound.
Result	Client realized significant cost savings on executed hedge versus the initial pricing.