AWAD CAPITAL
Trusted Advisors

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Ziad Awad

Presentation to the ACTME
Derivatives Markets and Risk Management

More than 22 years of experience with a $100 billion M&A track record and $500 billion in capital markets

Ziad Awad
Awad Capital CEO

- Founder of Awad Advisory in March 2013, which was renamed Awad Capital in February 2015, with a category 4 DFSA license, operating in DIFC.
- Personally involved in all client engagements with a particular emphasis on connecting the best investment opportunities with the most suitable sources of capital.
- Managing Director with Merrill Lynch/Bank of America Merrill Lynch in Dubai from 2007 to 2012 where he occupied a number of senior positions including Head of Capital markets and Financing and Head of Investment Banking for Industrials, Energy and Power.
- Executed numerous advisory assignments, including:

  as a well as a number of financing deals.
- From 1994 to 2007 Goldman Sachs Paris then London and Dubai from 1994 to 2007
- Master's graduate from ESSEC in France and an avid sailor.

12 years on the trading floors of Goldman Sachs …

…Alongside some of the best traders of our generation…

…Taught me a few lessons about risk management …

① **Cut your losses fast**

② **Run your winners**

③ **“No Trade” is “A Trade”**

How can Not Trading be a Trade ?

① How can a Professional trader afford Not to Trade?

② What does Not Trading mean for a corporate treasurer or risk manager?

③ Are you Trading or Not?

Example 1: Hedging Interest Rate Risk

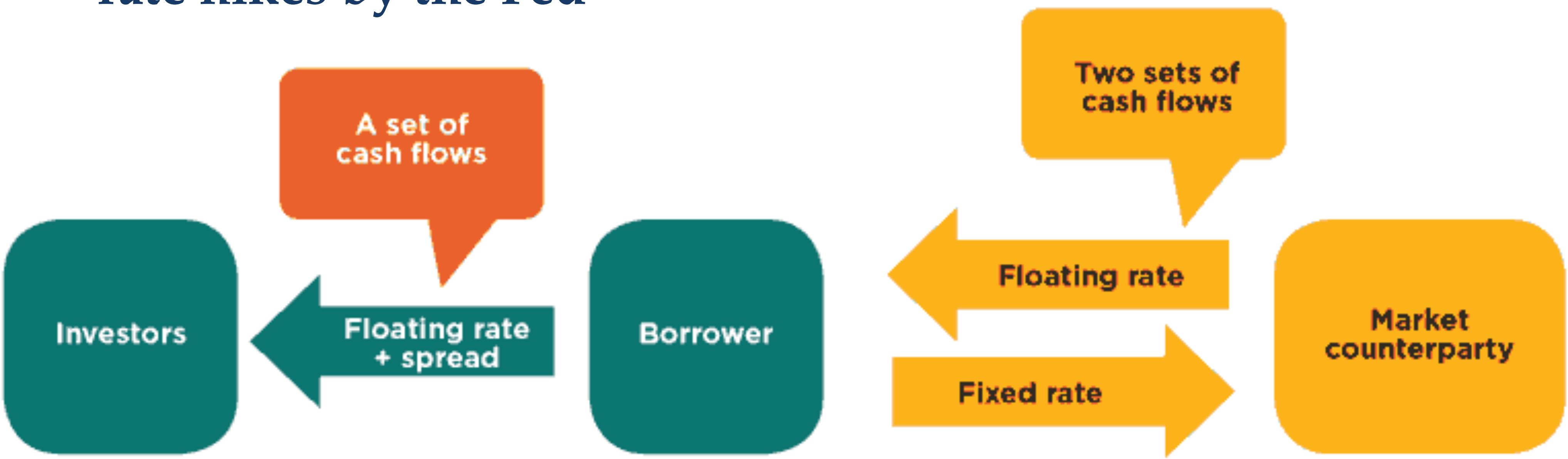
- Your company borrows from the bank for 5 years at a floating rate.
- You enjoy the low interest rates and pay the coupon as it gets set by the bank every 6 months

- By “doing nothing” you have actually decided Not To Trade
- This passive position is actually a much more risky decision than deciding to hedge

Example 1: Hedging Interest Rate Risk

- An interest rate swap would have allowed you to fix your interest rate payments hence creating certainty of future cash flows for your company

- By deciding Not To Trade, you have implicitly taken the view that the swap market is wrong in its pricing of future rate hikes by the Fed



Example 2: Hedging Commodity Price Risk

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- Your company is buying raw materials which will be delivered over the next 3 years at the prevailing market price.
- Derivatives allow you to lock in the price of the raw materials at different dates in the future
- By hedging the price of these purchases, you protect your firm against a sharp rise in the price. You also allow for more accurate budgeting and planning

- By not hedging, you are making the implicit bet that the prices will go down. This only makes sense if you have a natural hedge, such as the ability to increase the price of your contract if raw material prices increase

Conclusion: Good corporate governance for risk managers and corporate treasurers

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- The role of the treasurer and risk manager should be to reduce risks and uncertainties, and increase the predictability of the firm's cash flows, both costs and revenues

- Treasurers and risk managers should NOT be speculating in the financial markets with the purpose of making a financial gain

- However, Not Trading could be the biggest speculation of them all, as it leaves the firm open to a number of risks that could otherwise have been hedged by using simple financial instruments. These include interest rate risk, foreign exchange risk, commodity price risk, and many others

Conclusion: Good corporate governance for risk managers and corporate treasurers

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- Careful attention needs to be given to the existence or absence of natural hedges within the business model: are contracts linked to the prices of raw materials? Can foreign exchange related price increases be passed to customers?

- Once the net risks (after any natural hedges) have been identified and calculated, the most prudent route to take is to actually take action by hedging any residual risks

- Further care must be taken when executing in order to ensure transaction costs do not outweigh the benefits of hedging. These include: bid/offer spreads, commissions, regulatory and administrative costs

Why Awad Capital?

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Trusted Advisors

1. Senior Focus
2. Independence and no conflicts
3. Quality of Service and Value for Money
4. Reputation
5. International Network
6. Local Relationships

Important information and contact details

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For further information about Awad Capital and how we can help you achieve your strategic financial objectives, please contact one of our principals or visit our website on www.awadcapital.com

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