



21strategies

Future 2025

**Findings from collecting
hedge process data for German
LCAP and MCAP companies**

**A MARKET STUDY OF 21STRATEGIES IN
COOPERATION WITH COMMERZBANK AG**



Preface	2
Procedure	4
Findings	5
Participants	11

Preface



YVONNE HOFSTETTER
CEO / Managing director

»Hedging shouldn't just be a cost item. That optimal hedging contributes to operating profit, must become more transparent.«

Opinions are divided on hedging. For institutional investors, profitable hedging is a core business, but for financial activities in corporates, it's just a planning and administrative task. Institutional Investors consider themselves professionals and corporates laypeople. Investment funds have been using algorithms and AI-based mathematical models to optimize investment decisions for over 25 years – fueled by exceptional and expensive financial data.

On the other hand, employees in treasury departments behave like consumers: AI for hedging is just a tool, shouldn't cost anything and shouldn't require any maintenance. Because in treasury, there is no measurement or even incentives for whoever makes the best hedging decisions. Corporates have little use for better, or profitable, hedge decisions. This is thanks to the capital market, where deviations from the plan – even upward outliers – are not appreciated.

Preface	2
Procedure	4
Findings	5
Participants	11

THE TENSION BETWEEN EXPECTATIONS AND RESISTANCE

This area of tension is the domain of anyone offering to optimize hedging decisions for corporates. 21strategies, in cooperation with Commerzbank, created a market Requirements Documentation (MRD) in December 2020. **The survey is not representative because the market is not classically segmented.** And yet the insights are valuable – even if they repeat or confirm what you may already know.

GOALS

The MRD is part of 21strategies' Product Management and Software Development, with the goal of making it accessible to corporates, something institutional investors have long benefited from: an improvement in the quality of hedging decisions through a systematic, mathematical approach to a quite complicated optimization problem.

It can't be offered for free. But it's still valuable because it also meets the requirements of corporate treasury departments: increased automation, increased convenience through „Overlay Management at your Fingertips“ and the possibility of saving personnel and costs.

We would like to express our thanks to all respondents who contributed to our MRD. They all support more digitalization and the unstoppable introduction of smart machines into professional working life. Whether and how the spread of smart machines will affect hedging in the long-term as well as its role and regulation will remain a fascinating topic.

We will always remain curious.



Prof. Yvonne Hofstetter
Chief Executive Officer
Managing Director

Preface	2
Procedure	4
Findings	5
Participants	11

Procedure



525

minute
interview



876

statements



11

weeks

HOW TO GET A 360 DEGREE OVERVIEW

We have always approached product management not only in a very American way, but also strategically. American, because our product manager is considered a "little CEO". This plays a critical role in the team when a product is at the heart of a business model – like **hedge21**[®] for 21strategies. We don't just work through lists of desired software functions. Instead, we evaluate customer requirements and adapt our business model, not just its programmatic core, ideally as our clients suggest.

Our approach always includes asking a **strategically unanswered question** – and looking for the answer directly from our clients and partner companies. Before doing this, we create a **matrix** – who can speak for which sector? Where do we want to focus? After that we engage in one-hour **open discussions** with our clients, which we later evaluate in the frame of **language processing**. This is nothing more than a data analytics process, in this case not carried out by AI – although that would be possible today – but rather by hand by our product managers. Because if one thing counts, it's empathy with our clients. Machines can't do everything better than humans. Arithmetic is the exception, and that includes optimal hedging.

This short report summarizes, in five topics, what concerns corporate treasury departments the most when it comes to hedging. The quotes are original quotes as we heard them in our conversations with you. You remain anonymous, as we promised.

Preface	2
Procedure	4
Findings	5
Participants	11

Findings

01

Exposure management is of central importance.

02

Automated solutions improve hedging.

03

Predictive analytics is becoming more important.

04

Hedging commodity prices has a major impact on companies that use commodities as their main or as a minor component in their product.

05

Corporate treasurers are not incentivized to contribute to EBIT.

Preface	2
Procedure	4
Findings	5
Participants	11

Finding 01

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“The biggest problems with hedging are data from the underlying, ie the exposure.”

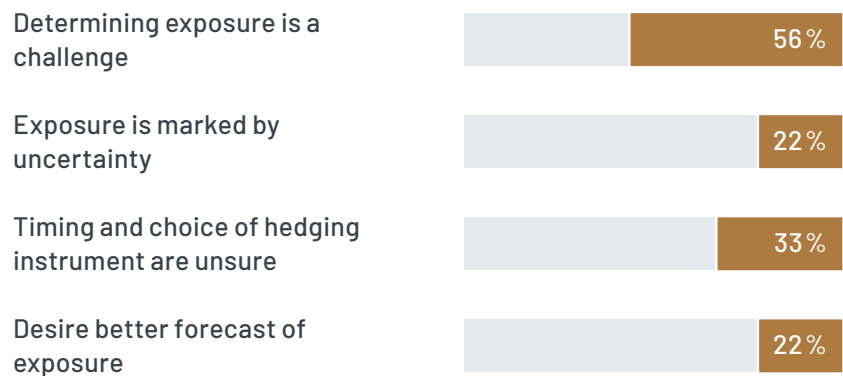
“Better exposure management – that is the key.”

“Determining exposure is a complex process. I would argue that no corporate client, large or small, knows what their exposure really is.”

“I find the exposure determination much more difficult than putting some clever models on top (that optimize hedging).”

Exposure management is of central importance.

The determination and analysis of exchange rate, interest rate and raw material price risks, as well as the evaluation of hedging transactions, influence the success of exposure management. Decentralized corporate structures, a mixed IT landscape and the associated interoperability lead to a high level of uncertainty when determining exposure. The uncertainty also makes it difficult to optimize the hedge. Predefined hedge rates are static and insufficiently agile. Choosing advantageous hedging instruments and the right timing is complex. Decision support for hedging transactions helps reduce risk and optimizes procedures.



CONCLUSION

- Determining exposure is of great importance for optimal hedging.
- The amount of currency exposure and thus the hedging business can vary greatly.
- The choice of hedging instruments and timing is crucial.
- Companies want support in forecasting of exposure.

Preface	2
Procedure	4
Findings	5
Participants	11

Finding 02

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“If AI improves the basis for the decision, putting the decision maker in a place of greater security and stability – even when seen externally – then I think that’s pretty good.”

“The quality lies in the fact that things run automatically.”

“Is it possible to do that (reporting) more automated? That would be an essential component and help treasury to slim down processes.”

Automated solutions improve hedging.

Hedging currency and commodity price risks is just an administrative process in many companies. Many would like to see an improvement in this hedging process. Automation software has great potential for rationalization. Treasurers can receive efficient support in the daily process of decision-making.

Automated reporting and documentation increase transparency and contribute to compliance. Daily updates also allow a high degree of flexibility and reliability throughout the entire backup process. Hedging then evolves from a planning task to an automated solution.

188 Grand total	45%	33%
	see the benefit of an automated solution for decision support.	say: hedging is an administrative process.
55%	55%	
see the potential for rationalization with algorithmic hedging.	find automation of hedging simplifies the hedge process.	

CONCLUSION

- Treasurers can be supported in their decision making with an automated solution.
- An automated solution simplifies the hedging process.
- Hedging is an administrative process.
- An automated solution to minimize currency price risk and commodity price risk offers rationalization potential.

Preface	2
Procedure	4
Findings	5
Participants	11

Finding 03

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“We are currently building the structures for predictive analytics, not just in treasury but throughout the company.”

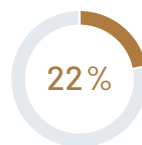
“That is certainly a promising theme – how can we connect what we learn from a consulting perspective and data collection methods like AI?”

“How can I generate added value? And this is not just in more automation, rather: What can I do (with algorithmic hedging) for the future?”

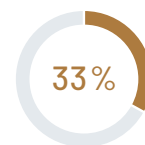
“This is the next step: that the currency man evolves from trader to strategist, and becomes a data analyst.”

Predictive analytics is becoming more important.

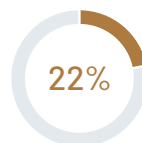
Treasury departments are viewed as processing units. A medium- to long-term strategy to hedge against foreign currency risks, however, should be part of the overall corporate strategy. MCAP Treasuries in particular, ignore currency fluctuations: Information on market events becomes a problem. However, it becomes increasingly important to take macro and microeconomic influences into account. Predictive analytics are expected to contain uncertainty. At the same time, you want to be aware of current market developments to be able to react flexibly. The determination of a future foreign currency exposure, combined with ongoing market developments and optimal timing, makes a crucial difference.



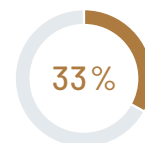
Hedging strategies are determined in the context of the overall strategy



Predictive analytics is used for hedging



Predictive analytics brings added value for the timing of hedging transactions



Treasuries rely on rules

CONCLUSION

- A foreign currency strategy should be in line with the overall corporate strategy.
- Hedging strategies today are still mostly executed in a rule-based process.
- Predictive analytics in treasury is becoming increasingly important.
- With predictive analytics, the timing of hedging can be optimized in the short-, medium- and long-term and add value.

Preface	2
Procedure	4
Findings	5
Participants	11

Finding 04

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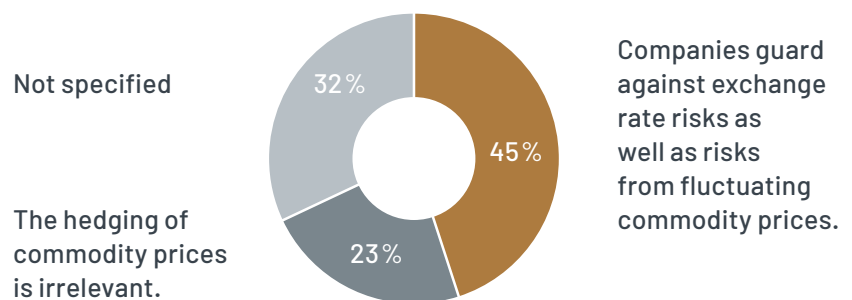
“Hedging at a raw materials company can also guide clearly in one direction or another.”

“If you’re a dealer for raw materials and continuously have to trade something, it (hedging) has a different intensity.”

“Right now the benefit from optimizing towards the commodity market is smaller, compared to the benefit on the currency market. But this can and will change – probably soon.”

Hedging raw material prices has a major impact on companies that use commodities as their main or as a minor component in their product.

Raw material processing companies, in particular, are subject to – and exposed to – price fluctuations for their materials. Main components, like steel for the production of structural steel, are vital for the end product. Even companies that have to buy materials as by-products, such as kerosene or marine diesel, are exposed to fluctuating raw material prices denominated in foreign currencies. An ever-growing global demand for non-renewable commodities will bring the hedging of commodity prices much more into focus in the near future. Raw material hedging that is conceptual and based technologically on the same procedure as foreign currency risk hedging is seen as more complex by the companies that do it.



CONCLUSION

- In addition to exchange rate risks, companies also hedge against the risks of fluctuating raw material prices.
- The hedging of commodity prices has a major impact on companies that use raw materials as a main or minor ingredient in their product.
- There is no conceptual difference between hedging currencies and hedging raw materials.

Preface 2
 Procedure 4
 Findings 5
 Participants 11

Finding 05



“In many treasury departments, there is a benchmark: Best execution. But the treasury is not run as a profit center. And it is very hard to set and to measure meaningful benchmarks.”

“If you are backing up losses – this is a problem and happens again and again. It comes down to how much. But that someone is punished for this – that doesn’t happen.”

“No, performance of the treasury is not rewarded in a dedicated manner. It’s ultimately about the best results for the whole company.”

“How efficient is a treasurer? Treasury only costs money. But if you could prove through a good hedging strategy that currency losses of 10 million were avoided and that the team contributed overall to the operating result with 5 million – that would be a dream.”

Corporate treasurers are not incentivized to contribute to EBIT.

In a volatile and fast-moving environment, financial and other market events have a high impact on daily business. Hedging against currency risks is crucial for international companies. How hedging transactions contribute to EBIT cannot be transparently communicated or measured. A hedge is supposed to reduce risks. A hedge that is profitable is not considered constructive for a company’s planning and reporting. In the worst case, it is called speculation. Incentivizing corporate treasuries only helps minimize risks and influences. Uncertainties, on the other hand, are the subject of hedging and cannot be prevented.

Profitability is not the goal of hedges.



Treasuries are not measured by the profitability of their hedging decisions.



Treasuries want to contribute to corporate success with optimal hedging.



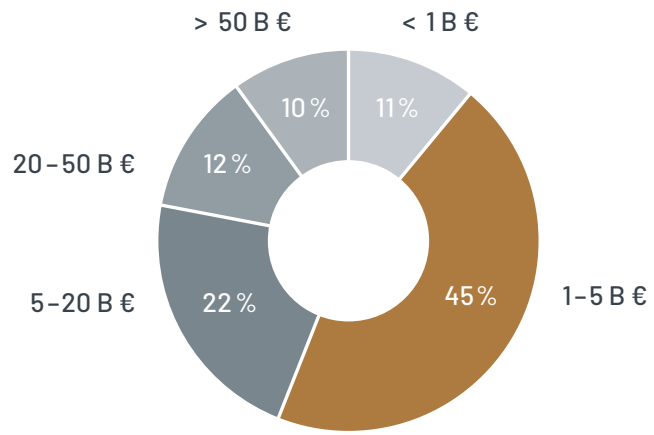
CONCLUSION

- The profitability of hedging transactions is not a goal for treasury to avoid exposure to accusations of speculation.
- Analysts and shareholders penalize profitable hedging when a company misses its plans.
- Corporate treasurers will not benefit from and are not measured by their input towards the financial success of hedging transactions.
- Innovative treasurers would like to have optimal hedging to contribute to the company’s success.

Preface 2
 Procedure 4
 Findings 5
 Participants 11

Participants

BY ANNUAL SALES

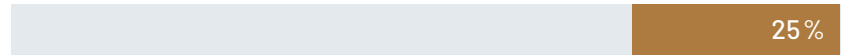


BY SECTOR

Financial services



Analysts



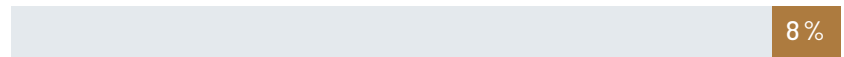
Pharmaceuticals and Chemicals



Consumer goods



Automotive





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ABOUT 21STRATEGIES

21Strategies guards corporate results against foreign currency losses and fluctuations in raw material prices.

Our **hedge21**[®] hedging and investment platform combines AI-based market forecasts with algorithmically calculated, mathematically optimal hedge decisions. It's not just about decision-making support, but also the real-time monitoring of the performance of hedging transactions throughout an entire hedging period.