CREDIT SUISSE

INVESTMENT SOLUTIONS & PRODUCTS

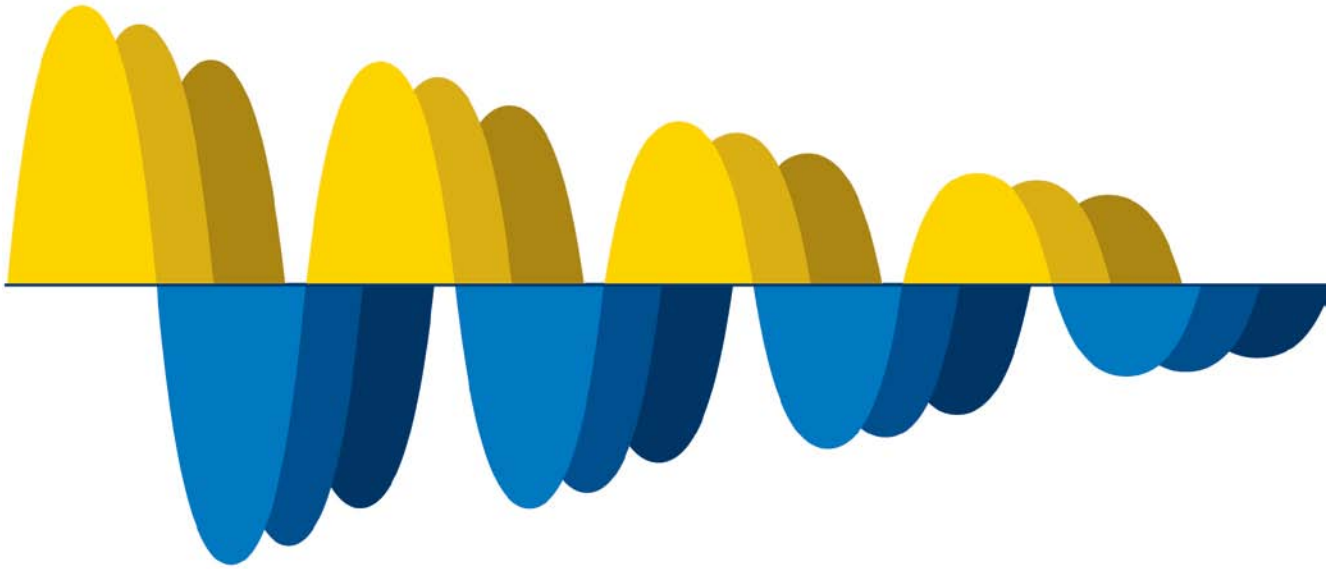
Swiss Economics

Assessment of Exchange Rate Developments

March 2018

Exchange Rates & Currency Hedging

Hedging – Letting SMEs Focus on Their Core Business



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Editorial

Dear reader

Switzerland's exporters were finally able to breathe a sigh of relief last year: Growth in their key destination markets showed a marked acceleration, while the euro rose in value following pro-European Emmanuel Macron's victory in the French presidential elections. While the dollar did lose ground due to the strengthening of other currencies, including those of several emerging-market countries, the Swiss franc declined by just over 5% on a real and trade-weighted basis.

A year ago, we conducted our first survey of the exchange-rate expectations of Swiss companies. The results showed that survey participants and Credit Suisse alike anticipated a strengthening of the euro. However, the scale of this strengthening was not predicted. With the benefit of hindsight, a hedging of euro foreign-currency exposure last year would not have been absolutely necessary for many export-led Swiss companies. Yet the survey results presented in this publication – and especially the interviews with the CEOs of various companies – show that earning more money is very rarely the motivation behind FX hedging. In almost all cases, hedging is about the need to reduce uncertainty and increase planning security. Although the world's economy does seem to be on a sound trajectory at the moment, the risk of currency fluctuations is never far away.

Currency hedging – and the specific options for implementing it – remains as relevant as ever. To a greater extent than almost any other country, even smaller companies in Switzerland are exposed to substantial currency risks and need to address them. We hope our analysis provides some useful insights for your own business.

The Credit Suisse trading teams and specialists based in each region of Switzerland will be happy to respond to any questions you may have about FX products.

We hope you enjoy reading this report.

Andreas Gerber
Head of SME Business Switzerland

Leif Woodtly
FX Sales Corporate & Institutional Clients

Visit us online at www.credit-suisse.com/fx.

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Corporate Client Survey

Two-Thirds of SMEs Hedging against Currency Risks

The companies surveyed expect less currency turmoil in 2018 compared with last year. However, two-thirds of the respondents – including smaller companies, too – are hedged against any surprises.

Survey respondents expect negative interest rates and low inflation to persist in 2018

Around the turn of the year 2017/2018, Credit Suisse questioned over 300 corporate clients about their expectations for the development of the Swiss economy and exchange rates in 2018. Most of the SMEs surveyed expect the Swiss economy to grow at least as dynamically as last year, even if their assessment is not quite as optimistic (1.0%) as that of many economists and financial analysts (2.0%), or ourselves (1.7%). Most of them thought that short-term interest rates in Switzerland would remain in negative territory in 2018 (–0.2%) and that consumer prices (inflation) would continue to rise only slowly (to 0.6%).

70% of respondents have strong international ties

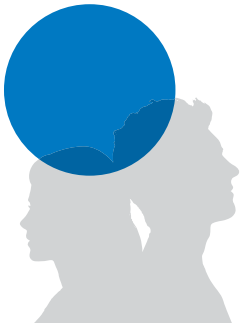
A majority of the SMEs surveyed are closely intertwined with foreign markets and currency developments therefore have a heavy bearing on the business performance of these companies. 70% of respondents act primarily as exporters or importers, while only 30% operate exclusively in Switzerland (see left-hand chart). Most of the latter are in the service sector. However, experience shows that even domestically oriented companies in Switzerland do not remain entirely immune from international competition or currency fluctuations. In fact, the goods they purchase often come from Swiss importers or the products they sell go to Swiss exporters.

Purchases are mainly in EUR, sales in CHF

The dependence on currency developments is also apparent from the frequency with which purchase and sales contracts are drawn up in foreign currencies (see right-hand chart). Nearly three-quarters (72%) of corporate clients surveyed conduct their purchases in a foreign currency. Half (49%) buy mainly in EUR, 20% in USD, and only 3% in other foreign currencies (in each case against CHF). If we exclude domestically oriented companies, the foreign currency exposure is even greater. At 53%, more than half of all sales of goods and services for the companies surveyed are primarily conducted in foreign currencies. The Swiss franc is nevertheless the clearly preferred currency in sales contracts.

Survey participants at a glance
Shares in %

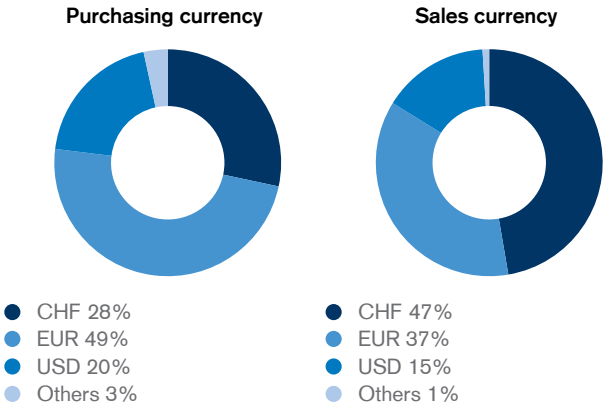
324
number of participants



Sector	
Services	47%
Industry	49%
Both	4%
Economic integration	
Exporter	31%
Importer	20%
Both	19%
Switzerland only	30%
Number of employees	
1–50	33%
51–200	30%
> 200	37%

Source: Credit Suisse Corporate Client Survey 2018

Half of purchases are settled in EUR
"In which currency do you tend to buy/sell goods and services?," shares in %



Source: Credit Suisse Corporate Client Survey 2018

Three-quarters of those surveyed expect little movement in EUR/CHF

2017 was a year of major political decisions in Europe – decisions that tested the cohesion of Europe as well as the euro. These uncertainties also led companies in last year's survey to have significantly different expectations for exchange-rate developments – especially as far as the EUR/CHF exchange rate was concerned – than they had this year. Expectations for exchange-rate developments are therefore more consistent in the current survey. In total, three-quarters of companies expect the EUR/CHF exchange rate to hover between 1.15 and 1.20 until the end of 2018. 7% actually expect the EUR/CHF to break through the 1.20 mark during the course of the year. The USD/CHF currency pair will move toward parity according to the SMEs (USD/CHF: 0.99, see left-hand chart) and just a fifth anticipate an appreciation of the USD versus the CHF to beyond parity. The pound sterling is also unlikely to rise or fall much in value against the CHF, according to the survey. The SMEs expect the GBP/CHF exchange rate to average 1.29 over the year as a whole. But compared with the other two currency pairs, the GBP/CHF forecasts vary considerably more (forecasts between 1.10 and 1.50); this is likely due to different expectations regarding the outcome of the Brexit negotiations.

Two-thirds of SMEs hedge currency risks

Although the companies do not expect major fluctuations in most currencies, they are – in part at least – also protecting themselves against currency risks in order to focus on their core business (see also detailed testimonials from p.11). A quarter of the SMEs surveyed state that they hedge their currency positions in full, while 44% of the firms at least partially hedge the risks of exchange-rate fluctuations. However, almost a third (30%) do not undertake any currency hedging and therefore take the risks onto their own books. The reasons for not undertaking hedging activities range from high costs (21%), through time pressure (10%), to problems with technical implementation (7%). However, most of the companies state that currency hedging has simply not been considered so far (63%). Industrial SMEs are also more likely to bear the currency risks themselves compared with companies in the service sector (see right-hand chart), even though industrial SMEs have stronger international links than service companies according to our survey. It is also likely that some companies probably forgo explicit protection due to "natural hedging" (see next page).

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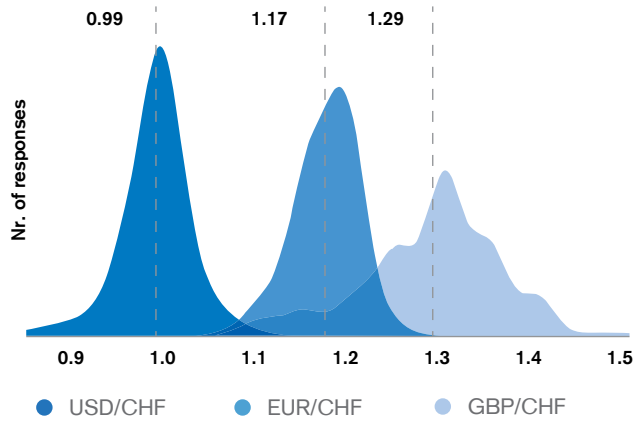
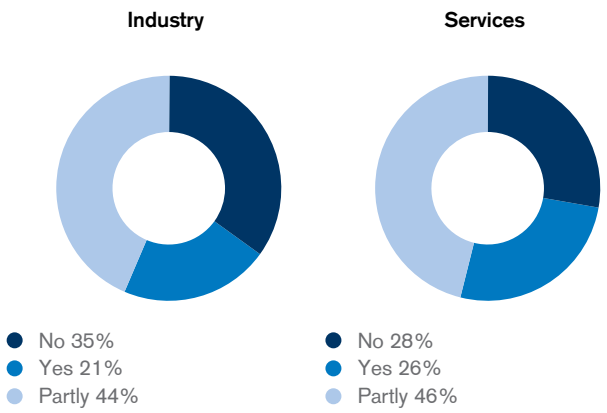
SMEs do not expect any major currency fluctuations
Exchange rate forecasts of surveyed SMEs for the end of 2018; dotted line = average of all responses



Source: Credit Suisse Corporate Client Survey 2018

More hedging in the service sector
"Do you hedge your FX exposure?," shares in % by sector



Source: Credit Suisse Corporate Client Survey 2018

Detailed Results of the Survey | Hedging of Currency Risks

"Natural" Currency Hedging

Currency fluctuations have a particularly big impact on the business situation of companies when costs and revenues are not denominated in the same (foreign) currency. For example, if an industrial company pays for its inputs in EUR and also charges its clients in EUR for the processed products, exchange-rate fluctuations are fully passed on (currency needs are covered by currency receipts). SMEs with this "natural hedge" are less likely to resort to hedging methods via the financial market than companies that invoice in different currencies. Overall, roughly half of the companies surveyed benefit from a natural currency hedge.

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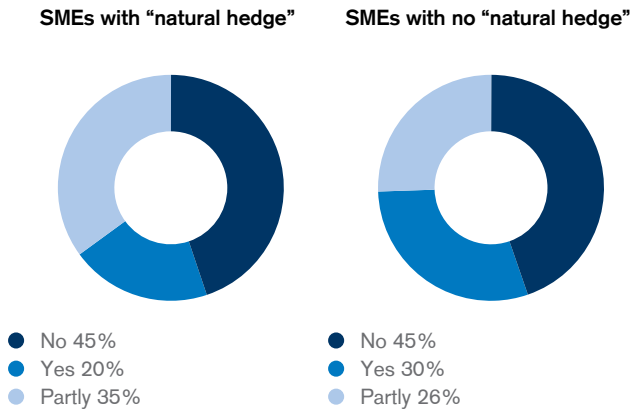
"Natural hedging" minimizes currency risks
"Do you hedge your FX exposure?," shares in %



Source: Credit Suisse Corporate Client Survey 2018

Currency Hedging by Purchasing Currency

Swiss companies that pay for their inputs in USD hedge their transactions completely in 44% of cases, while only one-third are prepared to bear the risk themselves. SMEs that settle their purchasing volumes in EUR, meanwhile, are only half as likely to use FX contracts in order to "outsource" the risks of exchange-rate fluctuations. This is not because SMEs that settle in EUR benefit to a greater extent from a natural currency hedge; in fact, the proportion of naturally hedged firms is 44% in the case of both purchasing currencies.

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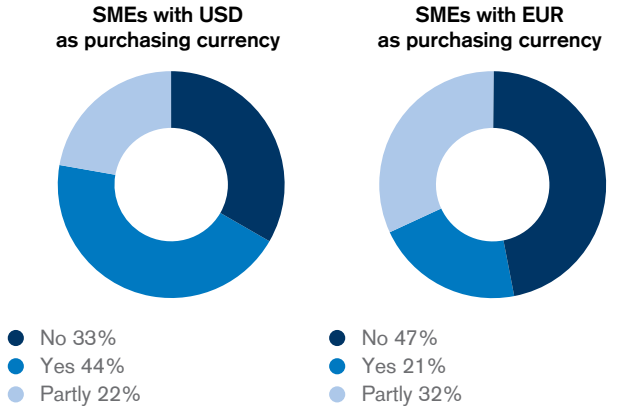
Purchases in USD are often hedged
"Do you hedge your FX exposure?," shares in % by purchasing currency



Source: Credit Suisse Corporate Client Survey 2018

Currency Hedging by Sales Volume

One in five SMEs stated that they do not undertake currency hedging on account of the cost involved. This would suggest that hedging is only worthwhile for companies with a high sales volume. Our survey disproves that, however: A little over a third (36%) of SMEs with sales of CHF 1-10 million never hedge their currency risks; in the case of larger companies with more than CHF 10 million in sales the figure is significantly higher at 43%.

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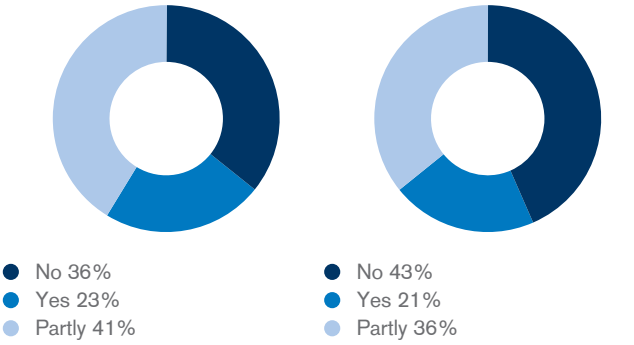
Small companies also hedge
"Do you hedge your FX exposure?," shares in % by sales volume



Source: Credit Suisse Corporate Client Survey 2018

Economic Environment

Positive Outlook for the Economy

Economic growth is likely to be robust in 2018 – including in Switzerland – primarily on the back of a continuing increase in exports. Two key growth drivers – immigration and the real estate cycle – are nevertheless losing momentum.

Global economic growth is broad-based

The robust growth in the US economy is continuing, while there are increasing signs of a pick-up in core inflation – a combination likely to prompt the US Fed to hike interest rates more than once. The economic situation in the euro zone is likewise robust. Although unemployment rates remain very high in some cases, the labor market situation is improving in most countries and consequently underpinning the sustainability of the economic upcycle. Inflation nevertheless remains below the target figure of the European Central Bank (ECB). For that reason, the ECB is unlikely to start hiking rates until 2019.

Weaker CHF boosts margins and profits

The Swiss economy is in equally good shape: Consumers are in a relatively upbeat mood, capacity utilization in the industrial sector has been on the rise for months, tourism numbers are increasing, and even retail sales have stabilized (see left-hand chart). Exports are likely to go on recovering in view of the favorable economic trend in destination countries and a weaker CHF. Improving export revenues are having a particularly positive impact on margins and earnings, which in turn points to an increase in investment activity.

SNB likely to wait for ECB

Private consumption remains solid, but it is unlikely that the rate of growth can be increased. That is because one of the key drivers of the consumption growth of recent years – immigration – is losing momentum (see right-hand chart). Meanwhile, the real estate cycle – the second key growth driver of the domestic economy – has already reached, if not passed, its peak. Overall, we expect economic growth of around 1.7% for 2018. In terms of interest rate hikes, the Swiss National Bank (SNB) is likely to wait for the ECB to take the first step. Only in the event of a significant weakening of the CHF, or an upside surprise on Swiss inflation, is it conceivable that the SNB would move first.

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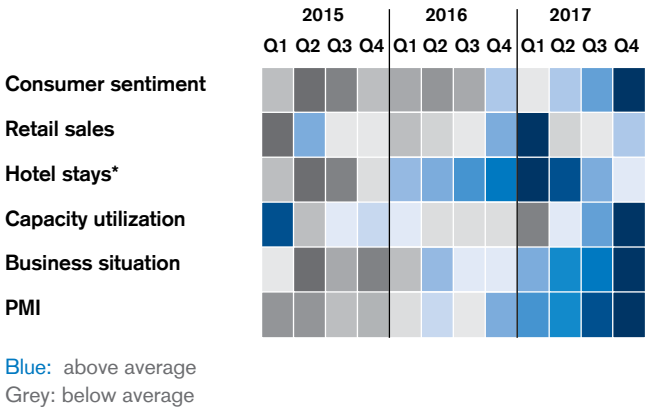
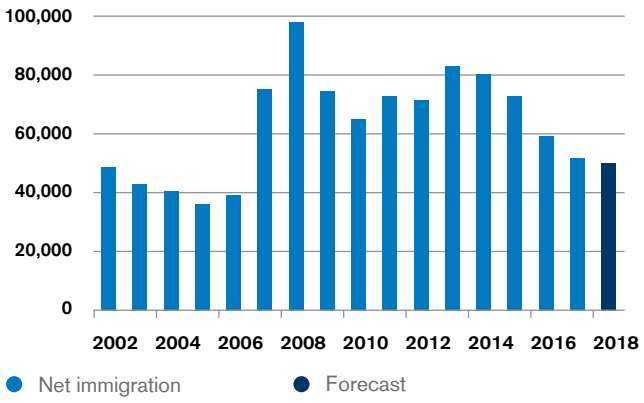
All indicators are pointing up



Source: Datastream, GfK, Credit Suisse; * Swiss guests

Stabilization of immigration to Switzerland

Net immigration of resident population (Swiss and foreigners, ex. register corrections); 2017: extrapolation; 2018: forecast



Source: State Secretariat for Migration, Credit Suisse

Credit Suisse Exchange Rate Forecasts

EUR Likely to Rise Further vs. CHF

We see EUR/CHF in the region of 1.20 in 12 months' time. Healthy economic momentum in the euro zone should lead to positive surprises on inflation, which remains low. In light of this, we expect the European Central Bank to normalize monetary policy more quickly than is commonly expected. The Swiss National Bank (SNB) is likely to follow after only a brief time lag. When doing so it will want to keep an eye on the valuation of the Swiss franc, which remains high even after last year's depreciation. On the other hand, the interest rate spread between the euro zone and Switzerland is minimal, making capital outflows from Switzerland unattractive. The Swiss franc is always liable to benefit from investor worries, but based on our favorable global growth outlook we think such phases are over for the time being.

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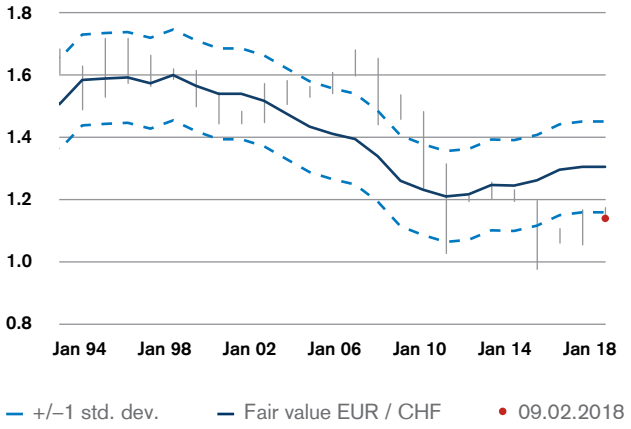
CHF still fairly expensive despite last year's depreciation
Fair value EUR/CHF



Source: Bloomberg, Credit Suisse/IDC; last data point: 9.2.2018

USD in Broad Trading Range with CHF

We expect the USD/CHF to be at 0.92 in 12 months' time. The USD continues to be weighed down by the fact that economic growth and interest rate expectations are picking up outside the US. In addition, concerns over the trade deficit and rising debt in the US are detrimental to the greenback. On the other hand, the further tightening expected in US monetary policy and likely cautious attitude of the Swiss National Bank in view of the Swiss franc's recovery at the start of the year should be stabilizing factors for the USD. All in all, we therefore expect the USD/CHF to remain in its broad trading range around 0.95.

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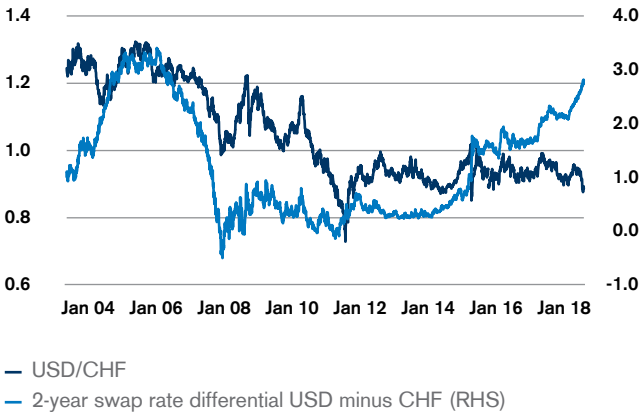
US interest rate advantage should limit further USD weakness
USD/CHF and 2-year swap rate differential USD minus CHF, in %



Source: Bloomberg, Credit Suisse/IDC; last data point: 9.2.2018

GBP Rise against CHF Likely to Be Limited

After last year's GBP appreciation, we see potential for further, albeit significantly more modest gains versus the CHF. The pound remains cheap against the Swiss franc. What's more, the Bank of England could tighten monetary policy faster than expected if the UK economy shows robust growth due to strong ties with the global economy – which is our expectation. The ongoing negotiations over the UK's exit from the European Union admittedly constitute a risk factor: A lot of optimism was priced in at the start of the year, and this could lead to setbacks if the discussions stall. We expect a GBP/CHF exchange rate of 1.34 in 12 months' time.

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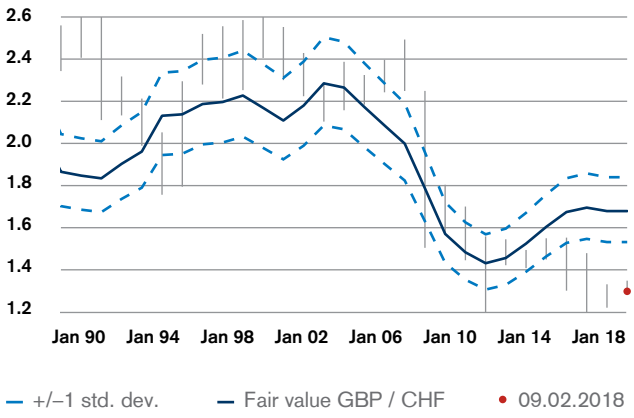
GBP is still cheap
Fair Value GBP/CHF



Source: Bloomberg, Credit Suisse/IDC; last data point: 9.2.2018

Interviews with Corporate Client Representatives

Hedging – Letting SMEs Focus on Their Core Business

The SMEs interviewed emphasize the importance of a foreign currency strategy. The achievement of planning security is the most frequently cited objective. But in some cases the SMEs also seek to profit from developments in the currency markets.

Detailed questioning of four SMEs

The broad-based corporate client survey shows that only one-quarter of all SMEs hedge their foreign currency risks completely, with 44% doing so to some extent. But how do SMEs protect themselves in concrete terms, and what strategies do they have for addressing foreign currency risks? To answer these and other questions, we asked detailed questions of four SMEs from different sectors and regions (see interviews on following pages).

Foreign currency risks must not endanger business performance

As different as the SMEs we interviewed are, they have one thing in common: They do not consider foreign currency speculation to be part of their core business. Quite the reverse: Through hedging they aim to protect the fruits of their labor in the core business. Foreign currency risks are reduced to a level that minimizes the risk to business performance as far as possible. When it comes to less significant currency holdings, on the other hand, there is some scope for optimizing returns.

Forward transactions are the favorite instrument

Forward transactions are the main tool used by SMEs for hedging purposes. By defining the exchange rate for a specific point in the future, future payment flows can be planned and quantified. The toolbox also includes the sale and purchase of currencies at the most favorable possible rates (spot transactions), swap transactions (swapping two currencies on a time-limited basis), and "natural hedging" – in other words attempting to align purchase and sale currencies. In addition, one or two SMEs are already experienced in the use of more complex instruments promising greater returns.

SME interviewees

We would like to thank Swiss Eyewear Group AG, Ernst Marti AG, Abacus Research AG, and Linard Distribution SA for their detailed testimonials, which you will find on the following pages.

Successful Currency Management: Cash Flow Hedging Solutions

Criteria for hedging strategy

A Risk profile
- Cash-flow analysis
- Net cash flows in foreign currencies
- Analysis of hedging timelines

B Hedging profile
- Internal company regulations for FX hedging
- Risk/return profile for FX hedging
- Budget rate to be complied with
- Should it qualify for hedge accounting under IAS 39?

Select hedging strategy

C Hedging building blocks
- Basic hedging
- Advanced hedging
- Outperformance strategies

D Market environment and your market expectations
Selection of suitable hedging strategy within the chosen categories that is most suitable in the market environment and/or best represents your market expectations.

Hedging building blocks

Basic hedging
Guaranteed hedge rate is close to the forward rate
More moderate participation potential

Advanced hedging
Guaranteed hedging rate with enhanced participation potential or leverage

Outperformance strategies
Better rate than the forward rate, but no guaranteed hedging rate

Source: Credit Suisse

Swiss Eyewear Group AG

Planning Security Is Vital

Most of the collections are sold before production. Thanks to full hedging there is zero currency risk.

Swiss Eyewear Group sells its sunglass collections in 85 countries, with the Zurich-headquartered SME generating a majority of its revenues abroad. Production takes place mainly in the dollar zone.

Why do you have a hedging strategy against exchange-rate fluctuations?
Jerry Dreifuss First of all, as a relatively young company we want to have planning security. We need to be able to rely on the calculated exchange rates. At the end of the day, we sell sunglasses – we're not currency speculators. Second, our business is highly seasonal. Put simply, sunglasses are sold to end customers in the summer and in the winter months they are usually offered to resellers and manufactured in advance. That means we set prices for our customers – distributors and retail outlets in 85 different countries – once a year in advance. This is to ensure stores can plan customer pricing on their side. For example, the price lists for our spring 2019 collections are fixed as early as spring 2018. Production costs and cycles are also fixed in advance, meaning we know fairly precisely when payments and receipts are due over the coming 12 to 18 months. Long-term currency hedging is therefore essential for stable margins and good planning.

How heavily do you hedge in the individual currencies?
Jerry Dreifuss Two-thirds of our revenues are in EUR, and around 90% of our production costs in USD. That means the EUR/USD exchange rate is crucial for us and we hedge it 100%. Although our personnel, design, and back-office costs are incurred in CHF, they will be more than covered by income in CHF – so in Switzerland we have a natural hedge.

Do you adjust the decision a few times every year, and how much is hedged?
Jerry Dreifuss Yes, roughly every 2-3 months – with expected cash flows being the main factor. We base this on our business plan for the next three years.

What methods do you use to hedge foreign currency exposure?
Jerry Dreifuss Our main tool for hedging future payment flows is the forward transaction. To ensure flexibility in the short term, we also conduct swap transactions.

How exactly do you adjust your hedging?
Jerry Dreifuss Obviously we do a lot of fine-tuning with our hedging. In other words, if we know we need a certain amount in USD in January 2019, for example, we'll wait for an "ideal" rate before hedging. But we'll have hedged the rate 100% at the latest when we need to fix the price stated in our price lists.

What currency hedging measures do you intend to make more use of?
Jerry Dreifuss We're aiming to generate more income in the currency in which the majority of our costs are incurred: the USD. To that end, we're trying to attract more customers in the dollar zone. In that regard, we're currently looking at expanding in Asia, the Middle East, and the US.

What advice would you give SMEs that have foreign currency exposure?
Jerry Dreifuss Potential currency gains are tempting, but planning security is more important – particularly in the early years.

"Our sunglasses offer the best value for money"

Jerry Dreifuss
CEO of Swiss Eyewear Group AG

Jerry Dreifuss and his four partners founded the Zurich-based Swiss Eyewear Group in 2013. The company designs, produces, and distributes high-quality sunglasses at attractive prices. The range includes the proprietary INVU brand as well as licensed products. The company is also successful in the private label area, has around 50 employees, and is active in 85 countries.

Ernst Marti AG

Catalog Price Needs to Be Hedged

Innovative in terms of products and services, conservative in financing: 100% hedging of exchange rates is the key to success.

Ernst Marti AG's travel services are mainly sold to Swiss customers, yet well over two-thirds of its costs are incurred in foreign currency.

Why do you have a hedging strategy against exchange-rate fluctuations?
Michel Limberis We calculate our catalog prices for each year in the middle of the previous year. That means prices are fixed – and catalogs printed and sent out – six months to a whole year in advance. Customers pay us mainly in CHF, but around two-thirds of our costs are incurred in foreign currencies. So, we hedge against exchange-rate fluctuations to ensure there are no nasty surprises in our planned gross margin. When calculating prices it's important for the seller to use a realistic calculation rate. That makes it essential to have close dialogue between sales, distribution, and the CFO. This dialogue works very well in a family business like ours, with its direct communication channels.

How heavily do you hedge in the individual currencies?
Michel Limberis We hedge those future costs we can easily estimate based on our many years of experience: in EUR – our main cost block – it's 100%; but in USD and pounds – where the tranches are significantly smaller – we have a degree of tolerance regarding time span and rate. But as a general rule, payments are 100% hedged once a price is fixed.

Do you adjust the decision a few times every year, and how much is hedged?
Michel Limberis Yes. I monitor exchange rates on more or less a daily basis, especially at the time when prices are being calculated for the new catalogs. This is mostly done early in the morning, or later in the evening. I compare quotes and analysis on exchange-rate developments from various institutions and also sometimes ask my Credit Suisse advisor questions. If a good rate is available I move quickly – we have an advantage here due to the short communication channels in our family firm.

What methods do you use to hedge foreign currency exposure?
Michel Limberis Forward contracts are the most suitable type of hedging for us. We've also tried financial optimization of hedging. However, the selected product did not achieve the desired success. Perhaps it was simply too complex for us?

What currency hedging measures do you intend to make more use of?
Michel Limberis One idea is to trade the hedge transactions in order to be able to benefit from favorable market developments. But that would involve more time, which I can't afford to do right now. And we mustn't be under any illusions; you never get the timing bang on. It's possible that we'll take another look at a high-yielding hedge product. But in general there are no plans for a change of course; we intend to stick to our philosophy of hedging rates for all fixed prices. Hedging needs to be done as soon as the catalogs are produced. The 100-year-plus success of our business shows we are right. Other players – including big names – have suffered substantial losses when FX movements caught them off guard.

"We are one of the oldest and most renowned companies in the travel industry"

Michel Limberis
Head of Finances & Organization
Ernst Marti AG, travel operator

Since the family business was founded in 1903, more than 50,000 customers have traveled across Europe in Marti's coaches. The firm's offer ranges from day trips, through tours, active holidays, river trips and cruises; beach vacations to public holiday trips and travel to Christmas markets, spa holidays, and music events. The headquarters in Kallnach, Canton of Bern, with its state-of-the-art coach terminal, also offers over 200 free parking spaces for customers. Marti's fleet also leads the way in environmental and technical terms, and has an average age of under three years – a top figure for the industry. Ernst Marti AG has approximately 350 employees.

Abacus Research AG

We Optimize Our Foreign Currency Holdings

With a low proportion of foreign currency requirements, the service company manages to profit from developments in the FX markets.

As a software developer concentrating on Swiss companies, Abacus Research generates by far the bulk of its revenues in CHF. The Swiss franc plays the key role on the cost side too, although payments are also made in EUR and USD.

Why do you have a hedging strategy against exchange-rate fluctuations?
Eliano Ramelli The foreign-currency component of our revenues is 1% to 2%. This consists primarily of EUR receipts from our subsidiary in Germany, which we are currently growing. On the expenditure side, around 8% is incurred in foreign currencies, whether it's materials, services, or licenses in EUR or USD. In terms of FX, we pursue two goals: first of all securing liquidity, and secondly optimizing our currency inventories. As a general rule we aim to optimize, not speculate.

How heavily do you hedge in the individual currencies?
Eliano Ramelli We manage accounts in all our major currencies, i.e. EUR, USD, and CHF. Our aim is to have enough liquidity in a particular currency at all times in order to cope with expenses over the coming four to eight weeks. Our many years of experience help us to assess the requirements. At the same time, we're constantly looking for scope for improvement and attempting to exploit favorable movements in rates. With larger projects, such as investing in the new subsidiary in Germany, we sometimes hedge pending payments via forward contracts.

Do you adjust the decision a few times every year, and how much is hedged?
Eliano Ramelli I follow exchange rates daily, when I have the time. And thanks to the Credit Suisse "My Solutions" electronic trading platform, I can submit and execute orders at any time if necessary.

What methods do you use to hedge foreign currency exposure?
Eliano Ramelli We buy and sell the currencies we use as soon as rates are favorable. We also try to achieve additional potential returns by placing orders with different limits. For liquidity management purposes, we also use DCDs (dual currency deposits). However, we rarely use forward transactions – as I said earlier, this is only if we know large payments are pending.

What currency hedging measures do you intend to make more use of?
Eliano Ramelli Our current management of foreign currency inventories is highly flexible and efficiently implemented. Going forward, we intend to continue exploiting all opportunities for optimization. Even the natural hedge – practically non-existent at the moment – will likely become more significant, because by establishing the subsidiary in Germany we will soon have more revenues in EUR.

"Abacus is market leader in software solutions for Swiss SMEs"

Eliano Ramelli
Founding Partner, Abacus Research AG

Abacus Research is a leader in the business software market. Since 1985 it has developed standard software tailored to the needs of Swiss SMEs. To date, more than 40,000 companies have opted for software from Abacus. Its latest product is the cloud-based business software AbaNinja, which is free to use for small companies. Abacus employs approximately 360 staff. Headquartered in Wittenbach-St. Gallen, it also has offices in Biel/Bienne, Thalwil-Zurich, as well as Munich and Hamburg.

Linard Distribution SA

Hedging, Yet Benefiting from Favorable Exchange Rates

SMEs that primarily import products from abroad should also hedge. This became clear following the scrapping of the minimum exchange rate.

Linard Distribution SA buys the bulk of its IT products from abroad, mainly the euro zone. Sales, on the other hand, are mostly generated in Switzerland.

Why do you have a hedging strategy against exchange-rate fluctuations?
Alexandre Beurrier Up until January 2015, we gave little thought to the development of exchange rates. Being an SME that mostly imports, we have tended to benefit in the past from the appreciation of the Swiss franc and the stable exchange-rate situation. But the scrapping of the EUR/CHF minimum exchange rate by the Swiss National Bank (SNB) on January 15, 2015, suddenly made us realize that you can't simply rely on current rates in the foreign exchange market and that we too needed to hedge against excessive exchange-rate fluctuations. The fact is that major exchange-rate movements mess up our calculations, impacting on inventories and orders. I then attended a Credit Suisse event on the subject of "exchange rates," which sparked my interest. Together with a hedging specialist from the bank, we were able to define a hedging strategy that fits our company.

How heavily do you hedge in the individual currencies?
Alexandre Beurrier We hedge over two-thirds against currency fluctuations in EUR. And we do this for 12 months in each case. We use hedging instruments that have a certain amount of flexibility and are known as risk-reversal products.

Do you adjust the decision a few times every year, and how much is hedged?
Alexandre Beurrier We adjust the hedging every year as soon as we see favorable rates and conditions. I also obtain advice from my currency specialist at the bank. Good advice is important to me.

What methods do you use to hedge foreign currency exposure?
Alexandre Beurrier As I mentioned before, we mainly use risk-reversal products. On the one hand, this structured hedging instrument with options offers full protection against foreign exchange losses as of a predefined worst-case rate (strike). On the other, the product allows participation in a favorable market trend up to a predefined cap. In addition, we buy foreign exchange when rates seem good to us.

What advice would you give SMEs that have foreign currency exposure?
Alexandre Beurrier Companies that do not yet engage in currency hedging should first try it out with small tranches in order to gain a bit of experience. Talking to a specialist from a bank can be extremely fruitful. I feel it's important to understand the products used, so that there are no negative surprises.

"We help our clients find the best product at the best price"

Alexandre Beurrier
Managing Director, Linard Distribution SA

Linard Distribution SA was established in 2013. It is a partner for imports and exports of market-leading IT products such as servers, notebooks, printers, etc. Network technologies and anti-virus protection are among its diverse range of products. The biggest IT resellers put their faith in the quality, flexibility, and reliability of Linard Distribution SA. The company is headquartered in Cugy, Canton of Vaud, and currently employs six people.

Successful Currency Management – Your Local FX Partners

Every company that operates internationally is confronted with foreign-exchange and interest-rate risks on a daily basis. That means exchange rates and interest rates can rise or fall virtually overnight. Depending on a company's situation, this can have a positive or negative effect on any given foreign currency transaction. And because the Swiss economy as a whole is becoming increasingly internationalized, an increasing number of small and medium-sized enterprises are affected. That makes proper planning and hedging crucial.

As the survey showed, the majority of clients are very satisfied with our service and the recommended hedging strategies.

Our services for companies

We can support and advise you on all currency, metals, and money-market questions

- Spot, forward, and swap transactions
- Limit orders and call levels
- Options, exotic options, and structured products
- Money-market products such as call money and fixed-term deposits, DCDs, and FINERs
- Onboarding and training on our FX e-tool

We provide market information

- "FX Update" with key market and currency information
- Invitations to teleconferences with a focus on FX markets
- The option of weekly or daily newsletters
- Current prices and interest rates, daily and monthly average exchange rates

We will be pleased to help you optimize returns with hedging or investment proposals tailored to your company's requirements

We are available from 7:00 a.m. to 6:00 p.m. (CET).
Please contact your client advisor in the first instance.

Risk warning

Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

For a discussion of the risks of investing in the securities mentioned in this report, please refer to the following Internet link:
https://research.credit-suisse.com/riskdisclosure

This report may include information on investments that involve special risks. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this report or for any necessary explanation of its contents. Further information is also available in the information brochure "Special Risks in Securities Trading" available from the Swiss Bankers Association.

Past performance is not an indicator of future performance. Performance can be affected by commissions, fees or other charges as well as exchange rate fluctuations.

Financial market risks

Historical returns and financial market scenarios are no guarantee of future performance. The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. You should consult with such advisor(s) as you consider necessary to assist you in making these determinations.

Investments may have no public market or only a restricted secondary market. Where a secondary market exists, it is not possible to predict the price at which investments will trade in the market or whether such market will be liquid or illiquid.

Emerging markets

Where this report relates to emerging markets, you should be aware that there are uncertainties and risks associated with investments and transactions in various types of investments of, or related or linked to, issuers and obligors incorporated, based or principally engaged in business in emerging markets countries. Investments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. Investments in emerging markets investments should be made only by sophisticated investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such investments, and have the financial resources necessary to bear the substantial risk of loss of investment in such investments. It is your responsibility to manage the risks which arise as a result of investing in emerging markets investments and the allocation of assets in your portfolio. You should seek advice from your own advisers with regard to the various risks and factors to be considered when investing in an emerging markets investment.

Alternative investments

Hedge funds are not subject to the numerous investor protection regulations that apply to regulated authorized collective investments and hedge fund managers are largely unregulated. Hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivatives, and complex speculative investment strategies that may increase the risk of investment loss.

Commodity transactions carry a high degree of risk and may not be suitable for many private investors. The extent of loss due to market movements can be substantial or even result in a total loss.

Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.

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The retention of value of a bond is dependent on the creditworthiness of the Issuer and/or Guarantor (as applicable), which may change over the term of the bond. In the event of default by the Issuer and/or Guarantor of the bond, the bond or any income derived from it is not guaranteed and you may get back none of, or less than, what was originally invested.

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