



## **FBA1010 Risk Management Continuous Assessment 2024-2025 Individual Assignment & Report**

It is February 8th, 2025. As a wealth management advisor specializing in financial risk management, you are assisting a small non-financial company that maintains an investment portfolio as a source of non-operational income to enhance shareholder wealth.

### **Continuous Assessment Requirement**

you are expected to prepare a report for the company's shareholders and managers, providing analysis, guidance, and recommendations on key risk management challenges affecting their global investment portfolio.

The report should be between 2,500 and 3,000 words, excluding the table of contents, data appendix, and other supplementary materials. Include a Data Appendix to demonstrate your calculations.

Utilize risk management tools, techniques, and metrics from the module materials to support your analysis and recommendations.

1. Recommend a currency risk-management strategy for two foreign exchange transactions pending in 2025. Explain your recommendations and support them with data analysis. Use the data in Tables 1 & 2. (12 marks)
2. The company has held US Treasury bonds since 2010, as a key element of the conservative part of the company's global investment strategy, and has a sizable holding worth approximately \$25m in these assets., see Tables 3 & 4. Calculate the current value of this holding and discuss the risks associated with it. (24 marks)

3. The company's managers have heard of the German Federal Government's 2020 Green Federal Security initiative, and ask your opinion on whether the fixed income holding should be divided into two, and half of the fixed income portion of the wealth portfolio now invested in these new German bunds? Analyse this investment proposition, make a recommendation to the company, and explain your reasoning, supported by data analysis. Table 4. below sets out the details of the German Federal Government Green Securities which could be invested in. (22 marks)
4. One of the managers believes passionately that US equities represent the last bastion of safety and value in global financial markets in the current uncertain world and insists that a new investment of \$ 25m in two stocks, at the very minimum, be made in 2025. You are not convinced by this idea but as they insist, will propose three different possible 2-stock US equity portfolios for the company to begin its US equity investment activity. These portfolios should address a spectrum of low risk to high risk. You may select any stocks from the S&P500 index and should support your recommendation with data analysis and explain your reasoning. (22 marks)

In your opinion what are the key financial risks facing investors in developed bond and equity markets in 2025 and in the foreseeable future? Discuss, and explain your reasoning. (20 marks)

### **Notes for Individual Sections.**

#### **Q 1. Details of the Foreign Exchange Transactions pending**

**Table 1.**

1(a.) A payment of £13million must be made in 90 days-time to His Majesty's Revenue and Customs (HMRC) UK, in respect of the final settlement of a protracted legal dispute regarding legacy tax issues dating from property disposals made on behalf of the company in the early 2000s.

The FX desk at the company's commercial bank forecasts that the spot £ STG/€ exchange rate will be £0.8100 per € Euro in 90 days.

Current spot rate:	£0.8353 per € Euro
90-day forward rate:	£0.8390 per € Euro
120-day forward rate:	£0.8386 per € Euro
UK Deposit Rate (annual %)	4.50%
UK Borrowing Rate (annual %)	4.75%
Euro Deposit Rate (annual %)	2.75%
Euro Borrowing Rate (annual %)	2.91%
Put option available: Premium	1.60% Strike price £0.8512 per €
Call option available: Premium	1.60% Strike price £0.8512 per €

**Table 2.**

1(b.) The company has recently liquidated its property portfolio in California and Florida as adverse climate events have led to a re-evaluation of the value of maintaining this property portfolio in the long run. Settlement of US \$17.5m is due in 90 days.

The FX desk at the company's commercial bank forecasts that the spot \$ USD/€ exchange rate will be USD \$ 1.01 per € Euro in 90 days.

Current spot rate:	USD \$1.037 per € Euro
60-day forward rate:	USD \$1.040 per € Euro
90-day forward rate:	USD \$1.042 per € Euro
US Deposit Rate (annual %)	4.25%
US Borrowing Rate (annual %)	4.50%
Euro Deposit Rate (annual %)	2.75%
Euro Borrowing Rate (annual %)	2.91%
Put option available: Premium	1.50% Strike price USD \$ 1.024 per €
Call option available: Premium	1.50% Strike price USD \$ 1.024 per €

**Q. 2** The company's US debt portfolio consists of the following (hypothetical) T. Bonds.

**Table 3.**

<b>Bonds &amp; Money Market (short-dated) US Treasury Securities</b>	<b>Nominal Amount (\$m)</b>
3-mth Bill US Department of the Treasury	5,000,000
6-mth Bill US Department of the Treasury	3,000,000
2% US Department of the Treasury 2021	4,000,000
3% US Department of the Treasury 2022	4,000,000
4% US Department of the Treasury 2029	4,000,000
5% US Department of the Treasury 2036	5,000,000

*\*Assume all bonds follow calendar year. Eg 2% US Department of the Treasury 2025 matures (is redeemed) on 31.12.2025, so is a 1-year maturity bond at present, and that all bonds pay their coupon to investors semi-annually.*

The following interest rates apply in the US market.

**Table 4.**

**US Zero's – US Interest Rates:**

<i>Maturity:</i>	<u>3-mths</u>	<u>6-mths</u>	<u>12mths</u>
<i>Yield:</i>	4.22%	4.29%	4.31%

**Notes for Individual Sections contd.**

**Q.3** (Hypothetical) German Federal Government's Green Federal Securities available

**Table 5.**

**Notional German Federal Government's Green Federal Securities**

0% Bundesrepublik Deutschland 2025
0% Bundesrepublik Deutschland 2030
1% Bundesrepublik Deutschland 2035
1% Bundesrepublik Deutschland 2038
1% Bundesrepublik Deutschland 2040