

Pacific Lifestyle: Rolling protection for currency risk



PacificLifestyle™

About Pacific Lifestyle

Pacific Lifestyle is a UK based B2B designer and importer of furniture, decorative lighting and home accessories. The company has been around for nearly 200 years, providing homeware solutions to retailers in the UK and overseas from its catalogue, at furniture exhibitions and from its headquarters and showroom in Huddersfield.

The challenge

Pacific Lifestyle has significant currency exposure – around \$600,000 a month – most of which it hedges via foreign exchange (FX) option products. Finance director

Andrew Hutchison said the pound's sharp fall in the wake of the Brexit vote "knocked out most of my options."

The resulting margin calls virtually wiped out hedge-related gains that had previously put the company's profit and Loss (P&L) account ahead of budget for 2016. In addition, previous providers of hedging services stopped offering option products to retail clients in the aftermath of the vote.

The FX team at Investec had previously reached out to Pacific Lifestyle, but was told at the time that the company was happy with its incumbent FX service provider.

Hutchison later reached out to the FX team at Investec with an eye to opening an account that matched his team's expertise with Investec's approach to currency hedging.

"I'm certainly happy with what's provided. I've got regular communication. I have ideas being sent to me regularly."

Andrew Hutchison, Finance Director, Pacific Lifestyle
January 2019



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Investec's solution

With Investec's help, Hutchison has now implemented a tiered system for currency hedges. This establishes a high level of protection for about three-quarters of the company's immediate-quarter currency exposures, when FX protection is most needed. The level of hedging then falls to about half of the following quarter's exposure, and then to one-quarter protection for the outer months.

This structure allows him to add new hedges on a rolling basis: "In each near-term quarter I've got a mix of tools to create a more blended rate," he explains. This approach offers the ability to participate in favourable moves (to a point) on the upside while still providing 100% downside protection.

His strategy relies on Investec's team to show him products useful for maintaining the required level of currency risk protection.

There is now a steadily rising flow of FX activity, matched by a strong emphasis on maintaining good communications. At the heart of those communications is an emphasis at Investec on being informative, rather than on generating sales.

Outcome

Hutchison says Pacific Lifestyle's currency hedging requirements are well managed through his relationship with Investec. Even if geopolitical events create currency volatility, he feels confident that the service he receives from the FX team can be relied on to keep him apace of developments.

Investec additionally serves a number of bathroom and kitchen outfitters, and considers this an attractive sector in which to operate for years to come. "We've found a great rhythm together" says Investec's Ian Wilson. "Our communication is good and well balanced. We're looking to play in this sector more and Pacific Lifestyle is a great example of well-run family business looking to prosper."

"I'm certainly happy with what's provided. I've got regular communication. I have ideas being sent to me regularly," Hutchison says. "It's down to the personal relationship because I've got the trust I built with individuals."



Corporate & Investment Banking



Investec is currently Pacific Lifestyle's only FX partner. "Our relationship with Investec is built on trust", says Hutchison "We know their team have our best interests at heart."

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“It's down to the personal relationship because I've got the trust I built with individuals. I'm happy to recommend them going forward.”

Andrew Hutchison, Finance Director, Pacific Lifestyle
January 2019

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