



# Contingent FX Hedge – Cross-Border Infrastructure Acquisition

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| <b>SCENARIO TYPE</b>     | Infrastructure – Cross-Border Acquisition (Pre-Completion Phase)  |
| <b>ASSET CLASS</b>       | Core infrastructure asset acquired via competitive auction (transport, utilities, renewables, regulated networks)                         |
| <b>RISK FOCUS</b>        | FX exposure during bid and execution phase, break-risk asymmetry, uncontrolled unwind costs, governance failure on non-completion         |
| <b>PRIMARY OFFER</b>     | Derivatives Portfolio Review™   |
| <b>RELEVANT SERVICES</b> | Contingent FX structuring · Deal-stage hedge design · Break-risk containment · Natural hedge integration · Hedge Rebuild™ post-completion |

## THE SITUATION

A large Australian infrastructure fund (AUD 8.5bn AUM) identified a strategic opportunity to acquire a UK port asset – a long-life facility generating stable GBP cash flows – as part of a deliberate geographic diversification strategy. Equity was AUD-denominated; the purchase price was GBP. The auction timetable extended over several months with multiple conditional milestones.

From the seller's perspective, FX certainty was a prerequisite for a credible bid. From the fund's perspective, committing to a vanilla forward too early created unacceptable downside if the deal failed. The transaction sat in an uncomfortable middle ground – economically exposed, politically visible, and operationally constrained by the absence of a fit-for-purpose hedge.

This was the fund's first large non-AUD transaction. The enterprise value was approximately GBP 850m with an expected equity requirement of GBP 300m – translating to roughly AUD 560–610m at prevailing rates. The investment case cleared the 12.5% net IRR hurdle, but the economics were highly sensitive to modest FX moves during the bid-to-completion window.

## HOW THE RISK MANIFESTS

The risk surfaced not as FX volatility per se, but as decision paralysis. Treasury could not hedge without locking in break costs. The investment team could not finalise pricing without FX certainty. The IC was asked to approve a transaction where the downside case included a multi-million dollar FX loss on a deal that might never close.

The problem was structural. Once a binding offer was submitted, the fund faced a known GBP purchase obligation with uncertain completion probability and a fixed settlement date months away. Standard

instruments forced a binary choice: hedge early and accept potentially large unwind losses if the deal failed, or leave FX unhedged and lose on deal certainty grounds.

This created a non-linear risk profile: FX risk was highest when deal probability was lowest, and FX commitment became economically justified only after specific milestones were reached. Standard hedging instruments do not respect this probability path.

## WHAT TYPICALLY BREAKS

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### Illusion of optionality at bid stage

FX exposure treated as manageable later because the deal is not yet certain. Once a binding offer is submitted, the fund is economically committed even if legally unclosed. The disconnect between legal optionality and economic exposure is rarely explicit in IC papers.

### Deal certainty misread as price discipline

Funds believe they are losing auctions on valuation when the advantage of European bidders is frequently structural – they can commit to currency economics without caveats. FX uncertainty is interpreted by sellers as execution risk.

### Breakage risk understated or ignored

Where vanilla forwards are used early, potential unwind P&L is frequently dismissed as unlikely. Only when scenarios are run explicitly does it become clear that the hedge introduces a large non-investment P&L outcome on a deal that may never complete.

### Late-stage pressure on treasury

Collateral mechanics on activated hedges can generate margin calls precisely when treasury attention is focused on completion mechanics and closing conditions – avoidable operational stress at the worst possible moment.

## THE STRUCTURAL INSIGHT

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The solution was not to hedge the acquisition – it was to hedge the decision tree. A contingent FX structure was designed that only became binding once defined transaction milestones were met, aligning economic commitment with deal certainty.

Deal probability was treated as phase-based rather than continuous: each milestone (exclusivity, confirmatory diligence, regulatory clearance, conditions precedent) materially changed the rationality of committing FX exposure. Prior to trigger, FX downside was capped at a known, pre-approved cost. Post-trigger, the hedge transitioned seamlessly into a conventional execution hedge.

The hedge was sized to net economic exposure rather than headline transaction value. Debt funding, natural GBP inflows from existing assets, and timing of capital deployment materially reduced the true conversion requirement. Triggers were drafted with objective, externally verifiable definitions, and CSA terms were reviewed to ensure contingent instruments did not introduce unexpected liquidity stress during mark-to-market movements.

The hedge structure was documented as part of the financing certainty package – sellers were shown that FX risk had been neutralised structurally, not merely managed. This converted FX from a cost-minimisation problem into a competitive positioning issue.

## INTENDED OUTCOMES

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- ▶ Bid credibility equivalent to a local-currency bidder – FX certainty achieved without overpaying on price or embedding tail loss into the pursuit decision.
- ▶ Break-risk capped at a known, pre-approved cost – worst-case FX loss in a failed deal reduced from material to de minimis, eliminating governance and reputational risk from hedge losses on a non-completed transaction.
- ▶ Deal economics preserved within hurdle constraints – currency movements cannot mechanically destroy IRR after bid submission; investment case judged on asset fundamentals.

- ▶ Liquidity behaviour predictable through the closing window – surprise margin calls during critical execution phases eliminated; treasury cash management aligned to deal milestones.
- ▶ Repeatable acquisition FX framework established – a milestone-based playbook applicable to future cross-border auctions, reducing reliance on ad-hoc judgement under time pressure.

## WHERE THIS APPLIES

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Works best where the transaction has a clear milestone path that can be drafted as objective triggers; FX moves of two to five percent are material to return hurdles or financing capacity during bid-to-close; vanilla options are uneconomic at the required notional size; natural hedge capacity exists to reduce derivative size; and the seller explicitly values deal certainty.

Less relevant where the purchase price is already funded in local currency; the process is bilateral with flexible timing; milestones cannot be drafted objectively; the buyer is comfortable warehousing FX risk without breaching hurdle rates; or CSA constraints make contingent structures impractical within the transaction timeline.

### TYPICAL ENGAGEMENT PATH

Derivatives Portfolio Review™ – Transaction FX and Execution Review. Secondary: Deal probability mapping, trigger drafting support, natural hedge integration, CSA and margin governance, seller-facing financing certainty memo.