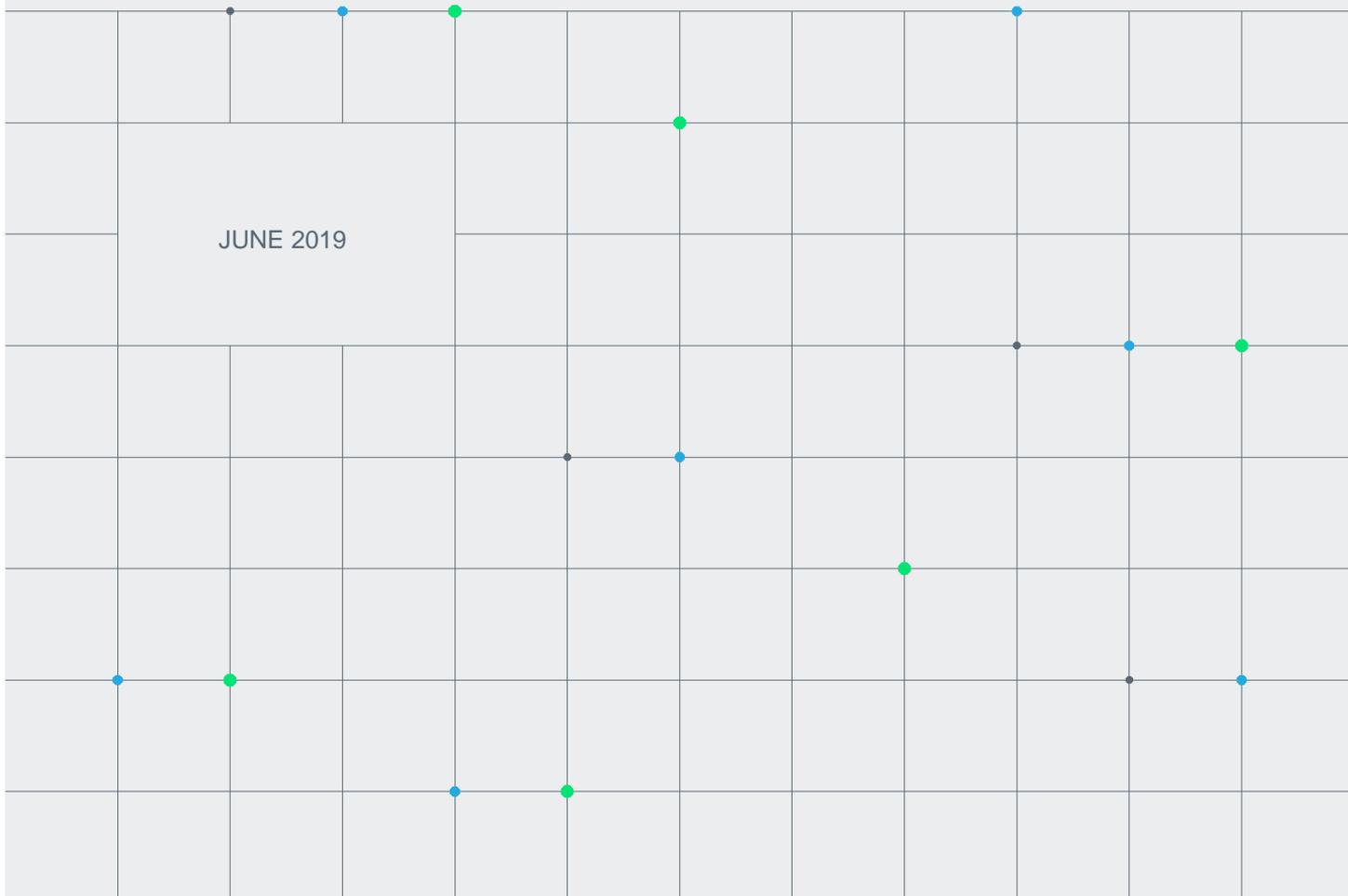


# The Treasury Technology Imperative

An Optimization Guide for Hedge Funds and  
Asset Managers as seen from the ENSO Community

It is not only the way that information is delivered that is changing but also how it is generated. The use of enhanced data extraction, collation, normalization analysis and reporting tools is becoming more prevalent in financial services to reduce manual processing, enable complex work flows, increase scalability and improve the quality of insights and decision-making.

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## Foreword

Specialist treasury technology has been the domain of the world's largest hedge funds and asset managers in the past, allowing them a competitive edge in reporting, analysis and optimizing work flow management and cost savings. Today, sophisticated treasury technology capabilities are accessible to the full spectrum of institutional investors, from two-person boutique organizations through to the world's largest asset managers.

As investor demands increase, and the operating and regulatory environment becomes more challenging, the right treasury solutions provide institutional investors with scalability and flexibility to manage change and growth.

Outsourced software-as-a-service (SaaS) technology helps hedge funds and asset managers to harness data more effectively, deliver mission-critical analytics and create a streamlined, automated and controlled work flow to reduce costs, manage risks, and increase efficiency.

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## 1. Introduction

Specialist treasury technology has been the domain of the world's largest hedge funds and asset managers in the past, allowing them a competitive edge in reporting, analysis and optimizing work flow management and cost savings. Today, sophisticated treasury technology capabilities are accessible to the full spectrum of institutional investors, from two-person boutique organizations through to the world's largest asset managers.

As investor demands increase, and the operating and regulatory environment becomes more challenging, the right treasury solutions provide institutional investors with scalability and flexibility to manage change and growth.

Outsourced software-as-a-service (SaaS) technology helps hedge funds and asset managers to harness data more effectively, deliver mission-critical analytics and create a streamlined, automated and controlled work flow to reduce costs, manage risks, and increase efficiency.

## 2. Challenges and Opportunities

**Technology Transformation.** The transformation over the past decade in the way that people use and interact with technology, is driving a step change in investors' expectations of their fund managers. No longer is periodic, static reporting enough, investors expect to be able to interact with their fund managers' far more interactively with far greater transparency and granularity of information.

**Return Targets.** As the period of low interest rates extends, and the trend for passive strategies continues, investors are looking to their investment managers to generate alpha and enhance their service offering, including exploring a wider range of asset classes. This in turn places greater demands on their investment manager for reporting, analysis and work flow capabilities.

**Data Management.** It is not only the way that information is delivered that is changing but also how it is generated. The use of enhanced data extraction, collation, normalization analysis and reporting tools is becoming more prevalent in financial services to reduce manual processing, enable complex work flows, increase scalability and improve the quality of insights and decision-making. Outsourced data services offer considerable potential to harness data and apply business logic in new ways. As these techniques become part of leading outsourced treasury solutions, fund managers are likely to gain rapid competitive advantage over those that lack the technology framework and business culture to do so.

**Industry Professionalization.** Developments in both investor expectations and the sophistication and scalability of analysis and work flow techniques are taking place in conjunction with an overall professionalization of the fund management industry. Hedge funds and asset managers are developing greater sophistication in their middle and back office functions, with a greater focus on skills in quantitative math and computer science. It therefore becomes essential to relieve the operational burden of manual, spreadsheet or legacy technology-based treasury processes, allowing skilled professionals to focus on the tasks for which they offer the greatest value, and providing the tools they need to support their analysis and decision-making.

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## 3. Data, Decision Making and Insights

Although all hedge funds and asset manager operate in an environment of challenge, change and growing regulatory and investor demand, treasury functions are at different stages of centralization and professionalization. As a result, fund managers need the access to a platform that can be scaled and flexed as their requirements change without the need to divert resources into major implementation and change management projects.

Outsourced, SaaS-based treasury solutions from a trusted provider enables treasurers to harness data, make informed decisions and act on insights across the full spectrum of their activities, including:

### Harness Data

Collect, collate, standardize and track data from different sources to create a rich, harmonized data set for reporting and analytics

Portfolio Finance	Cash and Collateral Management	Counterparty Risk Management	Balance Sheet & Wallet Optimization
<ul style="list-style-type: none"> <li>• Track all securities lending activities post-trade and settlement date</li> <li>• Create a central repository of all relevant securities finance information</li> <li>• Access re-rate tracking, community benchmarking and analytics</li> <li>• Track financing alpha post-execution</li> <li>• Facilitate the stock locate process across multiple regions and brokers.</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidate reporting on cash balances across currencies</li> <li>• Provide cash projections based on different settlement ladders</li> </ul>	<ul style="list-style-type: none"> <li>• Provide a central point of consolidation for all counterparty information.</li> <li>• Integrate internal counterparty analysis with credit rating agency data, stock and credit default swap (CDS) for counterparty oversight and investor reporting.</li> </ul>	<ul style="list-style-type: none"> <li>• Obtain and collate prime broker data to reduce balance sheet, improve return on asset (RoA) scores and identify optimal client opportunities.</li> </ul>

### Make Informed Decisions

Use data to model asset allocation scenarios, provide 'what if' analysis and optimize asset allocation

Portfolio Finance	Cash and collateral Management	Counterparty Risk Management	Balance Sheet & Wallet Optimization
<ul style="list-style-type: none"> <li>• Highlight opportunities to long lend, and optimize inventory</li> <li>• Daily inventory optimization - To reduce capital footprint, financing and securities lending costs</li> <li>• Stream prime broker inventory axes and identify opportunities</li> <li>• Allocate costs to portfolio manager/ strategy/ fund automatically</li> <li>• Perform wallet targeting and tracking</li> </ul>	<ul style="list-style-type: none"> <li>• Replicate prime broker financing rules to reconcile and identify cost reduction opportunities</li> <li>• Consolidate all margin statements to identify and analyze capital drivers</li> <li>• Highlight inefficiencies within a portfolio to reduce cost or risk and optimize collateral allocation</li> </ul>	<ul style="list-style-type: none"> <li>• Assess internal and external balance sheet impact by individual prime broker, including calculating ROA to drive decisions and assess prime broker allocation methodology</li> </ul>	<ul style="list-style-type: none"> <li>• Calculate and report on counterparty exposure and net asset value (NAV) at different entity levels, including limit utilization and breach notifications.</li> <li>• Manage broker consumption and compute, manage and track execution and financing wallets to complete broker assessment reports (e.g. RTS 28 Article 2) and meet MiFID II requirements.</li> </ul>

**Act on Insights**

Enhance transaction work flow through connectivity and messaging tools; manage cash and positions more effectively; track savings

- Execute transactions directly from the on-screen position through online dealing platform integration
- Integrate seamlessly with SWIFT for payments, balance & transaction reporting and automatic investment of surplus cash
- Automate passive FX hedging
- Calculate effective capital usage and margin replication
- Attribute financing costs
- Optimize cash flow

## 4. Solutions in Practice

While the value of specialist treasury solutions can be compelling in both qualitative and quantitative terms, there remain a number of barriers to adoption.

In some cases, there is a lack of understanding or confidence in selecting from the options available. In others, lack of budget or senior management buy-in can pose obstacles. Very often, particularly amongst hedge funds and asset managers that have not adopted treasury technology so far, the issue is not technological but cultural.

Asset management has always been, and remains a people-oriented industry. As a result, some still hold on to existing practices, which typically include manual, spreadsheet or legacy technology-based processes. However, the reality is that better processes, reporting, connectivity and compliance is crucial to efficiency, quality of decision-making and investor confidence. The right treasury solutions therefore contribute positively to relationships rather than detracting from them, freeing up resources to concentrate on higher value-added activities and client relationships.

In the past, some fund managers opted to build proprietary treasury solutions in-house but these were typically complex and expensive to develop and maintain which is no longer sustainable or desirable. On one hand, the upfront and ongoing costs of developing and maintaining systems to meet evolving technology, security, regulatory and functional requirements is prohibitive. On the other, the quality, depth, scalability and affordability of third-party solutions now vastly exceeds what a fund manager could create independently.

Acquiring third-party technology that needs to be installed on-premise also poses challenges, however. In particular, adoption requires a significant initial and ongoing investment in both financial and human resources that is difficult to justify for all but the very largest fund managers.

However, by accessing outsourced, SaaS-based treasury solutions, fund managers can enjoy best-in-class data, analytics and work flow capabilities without the burden of technology hosting, implementation and maintenance. Instead, they can focus on delivering excellence in their core business, boosting investor confidence and satisfaction, strengthening connectivity and creating economies of scale. An important benefit that is often overlooked is the ability to ensure business continuity. This is an important consideration for institutional investors, but it is more difficult to provide reassurance when using on-premise systems.

There are, however, crucial considerations when choosing outsourced treasury solutions.

**Vendor Credibility.** Does the vendor have a proven track record of working with similar fund managers, together with the financial stability and combination of technical and industry expertise to continue investing in solutions and services?

**Solution Scalability.** While solution providers deliver varying depth and breadth of functionality, fund managers need to be able to adopt the elements of the solution they need upfront and then scale their use as their needs expand and become more complex.

**Security.** Protecting financial assets and data is the most important element of every treasurer's role. With cyberattack and external fraud on the increase, treasurers play a vital role in the fund manager's wider security strategy. The right treasury solution is an essential element in this strategy. Few hedge funds and asset managers can dedicate the specialist resources required to provide and maintain best-in-class security for treasury solutions managed in-house, or to secure mission-critical interfaces, such as for payments. By outsourcing to a specialist vendor with dedicated resources and a proactive investment strategy in security, risk of cyberattack and fraud is reduced, while giving investors greater confidence.

**Value Add.** Any technology project needs to have demonstrable value to the fund manager and ultimately to its investors. A crucial way of measuring this is financing alpha, a combination of quantifiable savings and revenue uplift. Fund managers need to satisfy themselves that their chosen treasury solution has a track record of delivering financing alpha to its clients through efficiency savings, improved risk management and enhanced returns through better-informed decision-making.

## 5. Conclusion

Treasurers of hedge funds and asset managers are committed to protecting, reporting on, analyzing and optimizing assets. The right treasury solutions contribute substantially to achieving these ambitions. Investors' due diligence demands are driving fund managers to implement operational best practices, including optimizing technology, infrastructure, and streamline operations. Becoming part of the ENSO community helps fund managers to identify and implement industry best practices by accessing a platform that has been designed, developed and refined collaboratively with clients.

The power of these solutions extends beyond operational efficiency, they also drive smarter decisions. Backed with intuitive, meaningful reporting and operational cost savings, fund managers can improve investor relationships and confidence. Crucially, they also enhance performance.

As ENSO's analysis, and the experience of its customers demonstrates, outsourced, SaaS-based treasury solutions can contribute directly to hedge funds' and asset managers' ability to generate financing alpha and ultimately improve competitiveness and enhance the investor experience. Few fund managers, of any size, can afford to ignore this opportunity.

To find out more about how your treasury can harness data, make informed decisions and act on insights, please contact [sales@ensofinancial.com](mailto:sales@ensofinancial.com)



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