The rise of the treasurer: A technology imperative for asset managers?

Investment Europe – May 15th, 2019

Why is it, when it comes to technology, the consensus is that asset managers have lagged their hedge fund counterparts? For a while now, hedge fund managers have been actively seeking new ways to improve operational efficiency and expand their asset base, as pressure on margins shows no signs of abating.

In contrast, asset management has always been, and remains, a people-oriented industry. There are also big differences among asset managers in terms of structure, and assets managed. Legacy IT systems, for example, have been built internally to cope with their continued scale. As a result, some still cling on to familiar ways of doing things, which typically include manual or legacy technology-based processes. Nowhere else is this difference more exposed than in treasury.

After years of appearing as a subordinate function in comparison to the front office, group treasurers are fast becoming the new stars of the hedge fund world. Investors are now demanding far greater detail surrounding balance sheet usage, capital scrutiny and confidence around best execution financing, leading to the increasing prominence of the treasurer. Not for the first time, hedge funds have wasted little time responding by enhancing their middle and back office functions – putting a far greater emphasis on quantitative maths and computer science. On the other hand, as the treasury continues to drive digital transformation within hedge funds, there is also a growing recognition among asset managers that a technology savvy treasury function is now essential to driving alpha in portfolios, as opposed to simply an optional focus. This view is based on constantly evolving regulation.

As a case in point, the Canadian market has introduced new legislation that allows asset managers and mutual funds to incorporate hedge fund style trading strategies. These rules, which came into force on 3 January, open up the $1.3trn Canadian mutual fund industry to alternative trading strategies for distribution to the public, for the first time. Canadian asset managers are, understandably, looking to understand the changes necessary to manage these new strategies. This is a significant seachange, as many managers will soon be looking to employ leverage, stock borrowing and collateral management for the first time.

If this wasn't enough to think about, there is also a European regulatory framework called the Undertakings for Collective Investment in Transferable Securities Directive 2014/91/EU (Ucits V) which is aimed at creating a harmonised regime for the management and sales of mutual funds. More commonly known as Ucits, the regime is currently weighing heavy on the industry. With $500bn worth of assets and growing, asset managers are increasingly drawn to Ucits funds.

To ensure best practices in line with these rules, there is a group of advisers within the asset allocator community regularly advising asset managers on the importance of the treasurer's role. That said, these advisers only spend a few minutes of their time explaining technology to treasury teams.

Regardless of its size, an asset manager needs to understand and access the most advanced technology to enable treasury and operational teams to be efficient. A large-scale firm, for example, has a huge amount of information to digest, so data management and workflow is crucial.

However, dealing with an ever increasing amount of information is by no means the only challenge. There is also a prime broker predicament to consider. Like hedge funds, a large asset manager running alternative trading strategies relies on prime brokers to extend their leverage, and to borrow securities that they intend to sell short. The difference is that, unlike a typical hedge fund, a large asset manager has greater financing alpha opportunity across multiple business lines. It is, therefore, crucial that asset managers not only get an in-depth understanding of their capital usage and footprint on counterparties' balance sheets but are also able to optimise their book of business across their counterparty relationships. Having an accurate source of data is key to achieving this and hence the growing importance of the treasurer.

While still seemingly behind hedge funds when it comes to overall tech innovation, treasurers of asset managers are undoubtably committed to protecting, reporting on, analysing and optimising a growing volume of assets. There is no doubt that issues such as comparing borrowed securities performance against peers, in addition to optimising margin and collateral requirements more efficiently, are starting to be addressed. Certain asset managers are ahead of the game – by migrating highly sophisticated equity and FX transaction cost analysis (TCA) models over to treasury departments.

That said, more progress still needs to be made. More firms need to focus explicitly on reducing financing and stock borrowing costs, actively managing and optimising cash, margin and collateral across counterparties, as well as monitoring their exposure and risk across those firms. The right treasury solutions contribute positively to relationships rather than detracting from them, freeing up resources to concentrate on higher value-added activities and client relationships.

As investor demand for more detailed due diligence shows no signs of slowing, asset managers should look at ways to identify and implement best treasury practices. Those that adopt the right treasury solutions may just find that when it comes to tech innovation, they won't be playing catch up with the hedge fund community for much longer.