

A Re-Focus on Treasury Management in the Wake of Disruption Across the Banking Industry

Q **What are the components of treasury management?**

A Treasury management is more than just payment processing. It is the strategic management of liquidity sources such as capital calls and credit lines – including cash projections, cash positioning, risk management, financing, foreign exchange, and investor interactions, as well as cash operations – all through a controlled environment.

Q **What does “good” treasury management look like?**

A Robust treasury management should provide transparency, improve efficiency, mitigate risk, and enhance performance by:

- Giving a high level of transparency to key functions, including liquidity, collateral, and risk factors
- Providing the ability to manage and efficiently execute counterparty interactions, credit facilities, and margin requirements
- Connecting directly to counterparties for fast, accurate execution
- Exposing inconsistencies around process and risk across critical counterparties

Q **How do I keep track of my money?**

A The ability to have real-time visibility into your money and follow its transit through the day is essential. Equally important is where your money is left overnight. Banking portals and system software can be used to consistently monitor the location of your cash. The ability to view your total cash position on a single screen offers a competitive advantage and peace of mind.

Q **What should I consider when evaluating counterparty health?**

A While stock price is an important metric, it should not be the sole basis for gauging and monitoring the status of your banks and counterparties. When reviewing overall counterparty health, metrics such as CDS spreads, current news, balance sheet composition, deposit makeup, and loan exposure should also be considered. There are many publicly available sources to review bank and counterparty health.

Q Should I have a single bank for my liquidity, or should I have a backup bank to support my operations?

A Diversification is safest but sometimes impossible, especially for smaller firms where the cost may be prohibitive. In these cases, firms should review the counterparty health of the bank selected, as well as maintain an ongoing periodic review process.

Q If I have a primary and secondary bank for each legal entity, how do I manage this process?

A There are technology solutions that allow you to aggregate daily balances for all your counterparties and display them on one consolidated screen. They will also allow you to execute payments and invest excess cash into several short-term investment products, all while keeping track of your critical payment details (SSI) for use across all your banking relationships.

Q What is proper exposure management before an issue arises?

A Devise a firmwide plan for the banks that you plan on using, create an approved list of banks, and conduct a periodic review process. Consider how much liquidity you plan on leaving at that bank in excess of the FDIC insurance. Decide if you plan to move excess balances to a money market fund, and if yes, determine a periodic review process to create an approved list of MMFs.

Q What are effective cash management strategies in a high interest rate environment?

A Earning a high rate on balances is important, but liquidity is equally important. It is paramount to ensure that liquidity and principal are preserved. When selecting a money market fund, consideration should be given to the investment manager, assets under management of the specific fund, liquidity, and weighted average maturity of the fund.

Q Can I get access to my liquidity quickly and efficiently?

A Just knowing the location of your cash isn't good enough. You should be able to access your cash when needed, without any delay. Not all liquidity sources are equal. Some are faster than others. Consider whether your payment instructions go directly into the bank payment system, or if transactions are processed in batches. You also need to be aware of the path that your money may take to get to the location you require. Intermediaries in the global banking infrastructure can add time to the return and accessibility of your liquidity. FOLLOW THE MONEY.

Q When evaluating risk, what should I consider?

A Risk is not limited to client banks, but also to counterparties and their indirect service providers. When evaluating overall risk, you should consider direct risks associated with deposit banks, FX counterparties (forwards, spots), swap counterparties, prime brokers, money market funds, and more. Indirect risks associated with LP capital call banks, omnibus money market fund portals, and correspondent banks for global payments should also be evaluated.

Q What is the difference between credit risk and interest rate risk?

A Credit risk is the possibility of loss resulting from a borrower's failure to repay a loan or meet a contractual agreement. Interest rate risk is the potential for investment losses triggered by an upward movement in the prevailing rates for new debt instruments. When interest rates increase, the price of a bond will decrease in the secondary market. If you attempt to sell the bond before maturity, its price may be lower than you initially paid for it. The change in a bond's price given a change in interest rates is known as **duration**.

Q What about my credit lines? How do I track availability?

A Having a 360-degree view of your credit sources and their economics, along with knowing what your debt obligations are and making sure you are managing that as efficiently as possible, is what a strong treasury management platform will help you do. Having an independent view of your credit facilities, interest, fees, and availability is also important because lender data may be inaccurate and sporadic. You should have the current rate information you need to determine whether it's best to tap into an LOC or to access liquidity from your LP base.

Q When I call capital, where is the money coming from?

A It's typically coming from your LP's account at another bank. This is an **indirect risk** that you may need to consider. You have an asset you want to acquire, and you have two options: you can draw down on your credit line or you can call capital from your LPs. If you decide to call capital, the LPs need to arrange the movement of their share from their bank. If their bank has an issue, you may have a gap in your funding for the purchase of the asset. If the call is made to a foreign investor, they may need to execute a foreign exchange transaction (FX) from their local currency to the currency of the capital call. Again, this is another **indirect risk** since that FX payment will need to go through several correspondent banks before it ultimately reaches your bank. FOLLOW THE MONEY!

Q What should I know about insured cash sweep options and money market funds?

A There are a number of short-term investment options. Insured cash sweep products allow you to maximize FDIC coverage across multiple banks via one investment transaction. With FDIC coverage limited to \$250,000 per legal entity per bank, insured sweep products have the ability to provide deposits up to the maximum insured amount into several FDIC-insured banks. In some cases, you may be able to access \$50,000,000 of FDIC-insured deposits. Money market funds come in many different forms and, in the US, are subject to SEC rules and regulations. They provide daily liquidity in concert with a market rate of return and can transact up until 5 PM every day. They also have investment restrictions and guidelines around maximum maturity, weighted average liquidity and daily and weekly minimum liquidity required.

Q How can technology help me?

A Treasury management systems such as Hazeltree were developed to assist money managers in all aspects of fund activity, including monitoring positions and highlighting risk. A good treasury management system offers a 360-degree view of all your critical operations so you can make decisions based on current data and execute efficiently. Having the ability to easily access data without navigating through different spreadsheets and portals saves valuable time, which is better spent driving business in the right direction. Empowering the corporate treasurer and expediting their actions is especially crucial under volatile and unpredictable market conditions.

Q Who can I contact at Hazeltree to learn more?

A Our industry experts – and Sales, Business Development, and Account Management teams – are here to help. Please contact Sandy Weil, Chief Revenue Officer, at sweil@hazeltree.com or (917) 714-2561 for more information. You can also reach us by phone at our New York Headquarters at (212) 651-4549, via our general mailbox at info@hazeltree.com or through our website at www.hazeltree.com.