



Differentiate your technology platform

The idea of Treasury platforms for hedge funds and other asset managers has taken hold lately because there are financial and organizational benefits from having one central point of control. However, not all Treasury platforms are alike, and rules-based engines can drive greater efficiencies than dashboards that require regular human intervention to offer any systemic value.

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The demand for buy-side Treasury platforms has grown concurrently with a broader recognition that financing can add operational alpha. This income is generated from a range of activities spanning smart cash investments to tracking the best securities lending rates between prime brokers. Individually, all of

these activities are performed manually but technology is the only means to control the process holistically and at scale. Further, the disparate components of Treasury management can feed back into one another, for example, tracking repo rates against cash collateral reinvestment opportunities can be combined with free portfolio manager cash for enhanced returns.

Tracking Treasury activity can be at a broad level for the manager, or drilled down into details such as financing and margin cost, reconciliation and reporting. When looking at security level financing attribution, Treasury platforms can play an important role in P&L and performance management calculations.

The use of Treasury technology on the

buy-side is not new, but the wide-ranging use of this type of platform has only become popular in the last few years. Hedge fund decision making, or simply being on the receiving end of prime broker decisions, has been the historical norm. Now however, hedge funds are seeking additional ways to generate revenues in their organizations and the multi-prime model has made clear that funds themselves must lead their own Treasury activities. As a result, technology in the Treasury department has become essential.

What is a Treasury platform?

The market supports a range of technologies that are considered Treasury platforms, all of which are marketed for this purpose, but deliver different functionalities. These include:

1. Dashboards for tracking same day or previous day prime brokerage activity. The value of these platforms is integration with multiple prime brokerage platforms and consolidation of all information in one place. For firms starting with Excel spreadsheets and disparate reporting, implementing a dashboard-based platform offers substantial advantages in time and decision management.
2. Financing platforms that focus on the cost of repo, securities lending and cash margin balances. This is an effective control mechanism for one aspect of the hedge fund-prime brokerage relationship, and allows funds to track financing cost and revenue opportunities across multiple prime brokers at once. These systems can also keep track of fully paid securities lending, and how much is owed to the hedge fund.
3. Collateral management platforms have evolved from managing settlement of collateral, to tracking collateral across OTC derivatives, listed derivatives, securities lending and repo, to including Treasury modules that track cash and financing costs. These systems tend to be expensive and are best suited for large organizations and big teams.
4. Rules-based engines combine elements of dashboards, financing platforms and collateral management platforms to

deliver an all-around useful solution for Treasury organizations. Rules-based engines are an example of product convergence in the marketplace, as they incorporate elements of data collection, analytics and rules-based decision making for the benefit of the client.

Besides these four types of Treasury platforms, both vendors and clients are interested in outsourcing solutions, also called managed hosting solutions. These allow buy-side firms to access the full functionality of Treasury systems without supporting a local installation. Vendors assume responsibility for software management, data integration with prime brokers and hedge fund administrators, as well as hardware issues, including ensuring no system downtime. The client requires only a secure internet connection. Outsourcing has become an important trend in the Treasury technology space and is expected to continue.

What do rules-based engines offer the market?

Just as automation has gained popularity in the banking industry, rules-based Treasury engines provide hedge funds and other asset managers an opportunity to access similar benefits at a scale appropriate to their institutional size. Rules-based platforms start with dashboard functionality and collect data from counterparties, then deliver a customizable set of decision-making capabilities that help automate portions of the Treasury process. While large collateral management platforms can do this as well, dedicated Treasury systems offer the same utility at a fraction of the cost. This attention to scale is an important product differentiator, as Treasury platforms recognize that the number of users at a hedge fund is likely to be small, but that their products can offer meaningful and trackable financial returns to the client base.

The most popular functionality of a rules-based Treasury platform is facilitating margin and financing calculation requirements. After data has been gathered, a hedge fund can perform its own calculations to validate that prime

brokers and fund administrators have accurately processed their figures. Often, the numbers are identical, but there are instances of discrepancies in the hedge fund's favor. The only way to find these differences is with a technology solution that can manage the calculation process where accruals can be fed back into the portfolio accounting system for a fully loaded P&L at the security level. This significantly improves reporting and transparency, and provides a more accurate understanding of the financing costs for each trade or strategy. This is an important distinguishing factor between rules-based platforms and dashboards: a dashboard can tell what the reported numbers are, but only a rules-based engine can take the next step and run an analysis for validation.

Treasury platforms also provide an easy structure to run complex calculations and meet evolving interpretations of risk management. Portfolio software can calculate Value-at-Risk, yet these systems are not looking at a wider range of risk-related variables that could meaningfully impact a hedge fund portfolio. This could include variability in financing costs, including fast moves in securities lending rates; spikes in new, non-LIBOR benchmarks that impact derivatives funding costs; and potentially extreme market events that could result in a liquidity gate on a cash investment fund. These are just some of the risk factors that hedge funds must consider, and where rules-based Treasury platforms can provide immediate flags and feedback on areas that require further investigation.

While all types of Treasury platforms can offer workflow improvements over manual activity, only rules-based systems can deliver reporting, analytics and action alerts that enable managers to make better decisions based on trend analyses. Because rules-based calculator engines have an open architecture, the specific analytics are customized for each firm. This is a key functionality of automation for banks; rules-based Treasury systems deliver the same level of functionalities at a hedge fund scale.

FEATURE



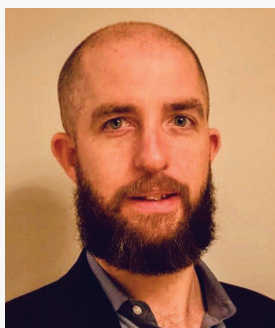
Matching needs to the right platform

The introduction of automation in hedge fund Treasury departments opens a new range of opportunities to explore. For example, a rules-based engine can be used to run securities lending calculations, including for physical and synthetic products, and make portfolio investment decisions across product types that generate similar economic outcomes. Leveraging up in repo could be done bilaterally or on a CCP, through a bank dealer or in the Peer to Peer market; each route to market has its own opportunities, costs, and risks. Uncoupling and decoding various costs is especially important as prime brokers respond to their own business and regulatory requirements, and become more creative in their fee structures.

Once a fund has invested in Treasury software with a rules-based engine, an interesting question is what else can or should be automated? A lack of standardization between prime brokers, bespoke product types, and new investments means that each hedge fund must figure out processes and procedures to analyze

their portfolio activity. There is a direct correlation between the sophistication of hedge funds and how well they are perceived by their prime brokers as a good partner. Hedge funds that can successfully accept new contract terms and structures see better prime broker access and lower

costs. Prime brokers recognize that a hedge fund's ability to make fast and accurate decisions internally, using a rules-based analytics engine, makes them a preferred trading partner. This is the best corollary to bank automation available today for hedge funds.



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