

EFFICIENCY

"Efficiency," "cost control," "time-saving," "headcount," "straight-through processing," "resource allocation," "pressure." The relentless pursuit of value by corporations intent on meeting shareholder expectations on share price performance and quarterly earnings targets leaves no stones unturned in terms of its impact at all levels of corporate decision-making. It is the lot of the treasurer that he or she will normally report directly to the Chief Financial Officer of the corporation, so that the search for, in particular, cost-savings and efficiencies across all parts of the treasury (while giving up nothing by way of performance within the treasury function) attracts a higher and more visible level of attention.

Drive towards more efficient cash management

The rapid development and deployment of sophisticated corporate treasury management workstations, whether off-the-shelf or bespoke and allied with proprietary risk management tools, has resulted in new pressures on the various service providers to the treasury and cash management industry: to meet the challenge of adapting and evolving their own service and product mix to fit this new business environment. Arguably, one of the more controversial areas in which efficiencies in general treasury management can be further improved is the day-to-day management of surplus liquidity and working capital. The benefits of using money market fund structures for daily cash investing have been well-documented and, unsurprisingly, their widespread usage by many enlightened corporate treasuries has increased significantly during the recent past. We believe that the next stage of evolution in this gradual shift towards the wholesale outsourcing of all aspects of the treasury function is the further improvement, and so the more relevant usage of, the mechanics of investing surplus cash in money market funds. Operational cost- and time-savings are of critical importance in this regard and, to the extent that among the reasons for using funds are their simplicity and ease of use, operational considerations often end up outweighing the hunt for yield. As we considered these factors, we began to think that if it were possible to provide a system that enabled the treasury professional to place cash in funds on a straight-through basis via their treasury workstation, this would be a truly value-added benefit. We can confirm that this is an innovation whose time has almost come.

Internet-based trading platforms are part of the solution

Cash management systems have certainly improved over the past 20 years, moving from ledgers to Internet-based trading platforms in the wake of technological advancements. Yet despite these evolutions, finance executives are continuing to search for more innovative solutions to meet their growing cash management requirements.

The cash management sector has arguably been slower in adapting to the vast possibilities that the Internet can offer, yet is beginning to utilise the opportunities presented. The past few years have witnessed the developments of automated trading platforms such as FXall (for foreign exchange transactions) and TradeWeb (for fixed income securities). Platforms like these are enjoying large growth rates and address some daily cash management needs, such as ensuring that FX and fixed income trading operations run efficiently, and thereby allowing treasury professionals to focus more on key strategic responsibilities.

Money market fund portals have recently joined the ranks of electronic cash management solutions. Driven in part by the wholesale shift away from risk in portfolios and the resulting popularity of cash, money market fund portals are becoming a one-stop shop for treasury management professionals. The most advanced Internet platforms currently present a complete set of cash management tools such as access to foreign exchange and fixed income trading, as well as access to value added research information. Available in the US for several years, certain platforms are now beginning to be delivered in offshore multi-currency formats. Clients are drawn to the new generation of tools because of the efficiencies and value-added information it can provide.

What exactly is today's treasury professional looking for?

"Streamlining cash management" may be one of the answers treasurers and their colleagues give when asked to name their top priorities – but what exactly does this mean? Let's focus for a moment on the management of surplus liquidity, and let's assume that using AAA-rated money market funds is part of this strategy. Our sense is that most treasury professionals using money market funds are looking for fund providers that offer a comprehensive product mix and investment management expertise – and complementary breadth and depth of resources. They above all want to be able to select an optimal strategy to meet specific cash management needs. Leading money market fund providers already offer global product lines, which include taxable and tax-advantaged money market funds, onshore and offshore portfolios as well as short duration fixed income funds. This product lineup needs to be backed by continuous proactive management of credit, interest and liquidity risk as well as competitive fund performance. Increasingly, however, treasury professionals may also want to be able to trade funds online in order to gain enhanced efficiency benefits.

Ideally, a money market fund provider's competitive product suite should be delivered through a secure technology solution that enables and supports the streamlining of in-house cash management processes. Most existing portals offer password protection and data encryption technology as standard security features; a solid firewall infrastructure as well as backup and recovery capabilities should also be included. Creating trust and confidence is key. Offering secure trading environments to clients is an absolute prerequisite for doing business via the Internet.

In addition to proven security, large multinational corporations and banks require online trading platforms to be built upon truly global infrastructures. Some fund provider platforms currently only choose to provide global website access, which may limit their ability to provide global cash management services. In order to ensure consistent 24-hour

service, platforms should strive to provide not only global online access, but a local support infrastructure and expertise as well. This helps provide a consistent client experience and the high service levels US-based clients are already used to by overcoming challenges like varying timezones and service blackout periods.

Operational benefits to be gained

Streamlining money market trading processes can result in a number of benefits throughout an organisation. Above all, efficiencies can be achieved by streamlining the trading process itself. Best-of-breed platforms currently offer real-time trade processing and confirmations up to fund cut-off times, thus eliminating the need for telephone or fax trading. The largest platforms offer global trading infrastructures with access in all major financial centres and support trading operations with local staff, thus facilitating the management of a global cashbook on a single platform.

Further operational benefits are derived through real-time information delivery via an "always on" Internet site. Up-to-date rate and account information and easy access to overall fund positions are crucial, as they help increase cash visibility and allow for intra-day management of cash excesses or shortfalls. Some advanced money market portals supplement this information with a comprehensive set of additional reports such as current and historical account balances, transaction activity, real-time transaction status and trade confirmations. All provide invaluable information and, when available on a single platform, help to significantly reduce operational overhead.

Opportunities for consolidation

Some cash portals are starting to provide multi-fund family consolidation, which offers clients one-stop-shopping for performance information, trading, settlement and statements. Consolidation can further reduce transaction and settlement costs as well as provide added operational efficiency benefits.

The next generation – straight-through processing?

In response to increasing requests for data, some market leaders have developed standard interfaces that allow easy uploading and downloading of information to and from their money market fund portals. This is a step closer to the ultimate solution for many treasury professionals: straight-through processing. Fund providers are also exploring integration with treasury workstation systems to create a hands-off trade execution, confirmation and settlement solution. Such developments would further enable integration with DDA and other trading environments, thus increasing operational benefits yet again.

Market outlook

Building upon the successes of their US-based initiatives, some market leaders in money market fund portals are now in the process of rolling out solutions to both European and Asian markets. In our view, online cash management solutions will help create greater transparency and liquidity within international money markets. Clients will be able to benefit from fingertip access to trading and account data as well as a wealth of additional information, thus taking a large step towards complete streamlining of their cash and treasury management functions.

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