TECHNOLOGY TODAY IN HEDGE FUND TREASURY AND EXPOSURE MANAGEMENT

Matthew Bernard and Paul Busby, of NEX Optimisation, provide their views on the current state of the industry, trends and new entrants into the marketplace set to affect the industry within the next three-to-five years

Matthew Bernard

Paul Busby

What is centralized treasury management and why are funds so focused on it? What are the benefits of a fund placing importance on it?

I think its important to start by acknowledging that the hedge fund investment business has significantly changed in recent years, and is going through a very large transformation at the moment.

With fees being tightened or reworked, COOs need to focus on efficiency and maintaining the right operating margin in their business. These factors force a fund to rethink their treasury operations with a greater focus on efficiency, technology and outsourcing. More generally, funds must consider how they can do more to continue scaling their business, but with less, and that is a key theme that we are seeing play out in the market today.

For a hedge fund, this necessitates an improvement in the centralization of the treasury function which we see as both an expanding and a critical function that include things like exposure, cash and collateral workflow, counterparty management, portfolio finance and balance sheet and wallet management.

Some of these improvements may pertain to needing more robust technology, and people with different skill sets and backgrounds. Some funds maintain these tasks separately in siloed streams, which can in some cases lead to increased operational risk to the organization and lack of ownership and transparency.

In our view, technology and people go hand in hand, and play a key role in this regard – the better the technology deployed, the more you are able to scale and leverage your people.

How has the fintech space evolved in the last 18 months and how do you see it in the future?

Our view is that smart fintech firms are moving faster and are more agile. The days of debating between build vs. buy are effectively over. Today you can access a breadth of services at a fraction of the cost to build or maintain on your own. The new technology coming out in the market today is leading edge addressing even the most difficult challenges such as data/cyber security. Technology is advancing at such a rapid pace that its hard for any legacy technology platforms ingrained within an organization to keep up with today's demands without having to reinvent itself at some stage and that can be costly and very time consuming.

I see more investment from banks and corporates into new technology through venture or incubation. I see cloud being adopted heavily in the future, and I think AI, Predictive Analytics and Big Data will continue to play a major role and be key areas of focus for Buy-Side institutions.

What critical pieces of technology is ENSO building to support these trends in the industry?

ENSO is not a typical capital markets fintech business. We have always been very progressive, staying one step ahead of our clients needs and pushing the industry forward. We are more aligned to a silicon valley type tech firm with a healthy balance of industry practitioners and world class engineers. And over the past two years we have heavily invested in our underpinning technology frameworks and have made significant enhancements to

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the platform for our growing customers which includes more than just hedge funds, but also managed accounts, seeders, and large asset managers. We continue to innovate everyday, its part of our culture.

We've found that the key in delivering the best technology for our customers is by building solutions collaboratively. We've worked with some of the best COO's and treasurers across our community to create unified products that all our customers can leverage, and we make it easy for our clients to implement.

Along with our existing treasury capabilities we have just finished building out some workflow-related functionality further broadening our capabilities addressing the needs of our customers. This means our customers can "Point, Click and Execute" cash payments directly through our portal for margin management and also manage third party relationships. They can also use our platform to invest excess cash in money market funds, made available through our partnership with NEX markets. In early 2018 we will have the capabilities to instruct security transfers and even execute FX moving towards a one stop shop for treasury optimization.

We're also going to continue to invest in our optimization algorithm – which will help clients identify on a pre-trade basis, where they should be allocating their longs and shorts based on predefined requirements set by the fund or prime broker, effectively smart order routing for hedge funds. Its where we think the world is going.

Throughout 2017 and onwards, funds will want to be automated as to how they allocate their balances to their prime brokers pre-trade as opposed to post-trade. Further, banks are becoming smarter about where they are most competitive and what matters most, and working together to be more efficient benefits all.

For a period, a couple of years ago banks were culling a decent number of prime broker clients due to balance sheet constraints related to global regulations. This trend now appears to have subsided, but what do you make of the current climate between PB/HF relations and could things tighten again?

The amount of balance sheet related pressure has certainly subsided, it's certainly the perception that we're seeing. We are no longer seeing the sense of urgency from the prime brokers, the initial set of optimization has taken effect and their books are in a much better position and clearly a lot of effort goes into maintaining and growing that every year. This year, fund performances rebounded, the market is up which is a positive thing. 2017 has also been a good year for emerging manager launches, and many of the PB clients that we have are competing for new business. Obviously, the pendulum can swing either way as we've seen in the past however prime brokers have become smarter about the types of business they go after and have built technology to deal with various constraints and we are seeing a lot of competition back in the market today.

We hear a lot about new entrants in the PB space. What do you make of this and do you think new entrants could make a sizable dent in the market share of the top 15 PBs?

We continue to see the concept of unbundling where managers continue to look for areas of expertise vs generalist capabilities, that being said our wallet data shows that the larger prime brokers are increasing market share but the tail is getting longer in terms of the breadth of the participants in the market.

One notable area that has stood out is the notable aspect of Canada-based prime brokers coming into the marketplace. Given the regulatory pressures on the banks' balance sheets, I'm sure a lot of the Canada and Asia-based prime brokers look at this as an opportunity to grow their business with clients that may not necessarily be the best, given the new regulatory regime in the US, but due to regional differences they may still be willing to finance certain types of assets.

As for making a dent in the marketplace, it really all depends on what sizable truly means. The prime broker wallet is heavily weighted at the top, and has been for a long time. A sizable dent for new entrants in the space could be 5-10%. That may not seem like a large number in the scheme of things, but for them, this could be enough to satisfy their ROI targets for their shareholders.

> ***The better the technology deployed, the more you'll be able to scale and leverage your people.***
>
> **MATTHEW BERNARD**

How do you foresee the NEX partnership evolving and what does this mean for clients?

Being part of NEX Group is extremely exciting and comes with many benefits. NEX is a financial technology services company that's empowering global financial markets and is a the forefront providing services that underpin the entire transaction life cycle, both pre and post. At NEX Optimization, we're committed to unlocking benefits for clients. We're taking the best of what each of the underlying portfolio companies has, and making that the standard across the entire group. Clients will start to see benefits from streamlining increasingly complex processes around data management, and seamless integrations, all the way to the launch of new products combining a multitude of our unique and pioneering services. We're focused on our client's needs and the ever progressing market landscape and will continue to push the market forward. ◘