

Transform Treasury Investing With Portal Technology

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Corporate cash levels have skyrocketed to historical highs over the past decade. Consider in 1999 corporations held an estimated 3.5 trillion in cash and equivalents growing to nearly 5.25 trillion in 2008*. Industry experts expect this trend to continue as larger cash reserves are held for several reasons including heightened balance sheet conservatism in the wake of Sarbanes-Oxley (SOX) and simply a lack of sufficient opportunities to immediately deploy corporate cash in many industries. As a result of larger cash reserves and SOX requirements, organizations are taking a harder look at how they go about investing their cash surplus as a part of their overall working capital management strategy. A traditionally time-consuming manual investment process is ripe with opportunities for reengineering in today's era where corporations strive for maximum efficiency and sound compliance.

Over the past decade, the financial services industry has developed a variety of automated systems designed to improve the short-term investment process. These tools range from simple Web sites offered by money fund providers to robust investment portals offering a market of investments to the investor over a secure integrated Web site. These tools are quite different with respect to the level of features and functionality. It is important for the corporate investor to understand the major differences as well as the subtleties among the various online investment products offered by financial services providers (FSPs) and to adopt a product that will meet their needs while optimizing performance and control. The proper portal can consolidate the investment process, saving significant time with transacting and reporting and enhancing SOX compliance all while achieving competitive returns.

An aerial photograph showing a winding, meandering river or canal cutting through a lush green field. The water is a dark, reflective color, contrasting with the vibrant green of the surrounding land. The river's path is irregular and curves back and forth across the frame.

Problems with Traditional Short-term Investing

Prior to discussing the robust online investment portals available in the market today, let's consider some of the inefficiencies associated with a traditional, more manual investment process. Treasury departments and other investors of short-term corporate operating cash often report their investment process burdensome and inefficient. These investors typically deal with several broker/dealers and mutual fund providers in an effort to achieve adequate diversification and maximize their return on excess operating cash. Investment choices as well as rates are normally quoted via the telephone over multiple conversations each day. In some instances, limited trading ability and information may be available online as is common with the individual Web sites of money fund families.

Unfortunately for the corporate investor, inefficiencies do not end with the transaction — subsequent to the trade itself, the investor is faced with the daunting task of confirming transactions and gathering information from multiple sources to satisfy their accounting and reporting requirements. Sometimes transactions are confirmed via phone, multiple individual Web sites or even worse, by waiting for the mailed transaction confirmations. In addition, investors receive monthly or quarterly transaction reports from different sources, at different times, in varying formats. Consolidating all of this information for internal accounting and management reporting is a time-consuming manual process often prone to errors. Both transacting with multiple providers and attempting to report the results cause considerable waste of valuable employee resources and thus corporate expense. Adding to the cost, companies are faced with outbound wire charges, as they often must initiate wires to their various investment providers.

Considering the gaining popularity of the Internet and customers' desire to transact online, FSPs have steadily introduced online investment capabilities to the corporate treasury market over the past decade. The earlier Internet-based systems allowed investors to execute certain investment transactions online and, in some instances, view information regarding their investments. While these earlier investment platforms were a modest start in using technology to improve the investment function, many of the inefficiencies remain with the early online platforms. Typically, these platforms suffer from a limited selection of investment choices. As an example, Web sites of money market fund providers and banks typically will only offer their own proprietary products. With such sites, investments are often not competitive and process consolidation on the reporting side isn't feasible, as the investors still must access multiple sources of data for their reporting needs.

Modern Investment Portals

Recently, FSP industry leaders are introducing more robust investment portals. These Internet-based platforms typically offer hundreds of proprietary and third-party investment choices, and allow for process consolidation around accounting and reporting, thus saving users valuable time and enhancing SOX compliance. These more advanced treasury portals are a significant improvement over the initial online investing platforms, but not all treasury portals are created equal. There are key differences between portals that corporate treasury departments and other short-term investors should be aware of prior to selecting an online portal or in evaluating retention of a current portal. Some of the more important considerations follow:

INVESTMENT OPTIONS

An investment service offered in a treasury portal should ideally offer a wide variety of 2a-7 money market mutual funds, both proprietary and third party. Better portals offer thirty or more fund providers for the investor to choose from. Selection is important when considering diversification and the ability to invest in the funds of an investor's relationship banks. Investors often use fund positions as a means of supporting their banking relationships so the funds of their bank providers should be available on their portal of choice.

US-based multinational corporations, as well as companies headquartered in Europe or elsewhere, commonly have the need for USD offshore funds or funds denominated in other currencies such as Euro, Sterling, or CAD. A portal should provide the offshore investments a respective entity needs. Portals offering offshore capabilities work well internationally with either a centralized or decentralized treasury structure. In a decentralized structure, the treasury group of each country/subsidiary logs onto the portal and trades in the currencies needed. Reporting is provided to each sub showing the activity for that respective sub. The parent company can access consolidated reports showing activity across the entire organization. In a centralized structure, the parent logs onto the portal and performs trading for each sub in the respective currencies needed. If present, multi-account trading functionality on the portal provides the parent with one Web page trading across all subs.

The better portals in the marketplace go beyond funds and offer a selection of securities, allowing investors to access a complete market of short-term investments all with a couple clicks of the mouse. Instruments such as commercial paper and other discount notes are sometimes found on investment portals. Portal industry leaders offer hundreds of these instruments to the investor. For organizations using or considering a combination of funds and securities to optimize short-term portfolios, having everything available on one consolidated portal service provides ultimate convenience and efficiency.

The changes in current market conditions illustrate the power of an investment portal offering a wide selection of investment choices. Given Fed easing in early 2008, money funds largely outperformed most short-term issuers of commercial paper and other instruments. As a result, some investors chose to shift their portfolios from individual security issuers into heavier concentrations of money funds. An investment portal allows the investor to efficiently purchase a market of money funds, taking advantage of out-performance opportunities. Should the Fed reverse course into a tightening posture, portal users can easily redeem their money fund positions and reenter securities markets on the portal, purchasing instruments such as commercial paper and other discount notes. The portal arms the client with a tool that is useful in an array of prevailing market conditions. Users are able to conduct all of these transactions on one consolidated portal offering both money fund and securities.

In addition to Fed policy causing a shift in investor behavior, problems in the money fund industry with sub-prime and SIV exposure have raised questions with investors. In most instances, these events around troubled instruments necessitate investor due diligence into the funds they are holding. Certain investment portals facilitate this research by making fund holdings, fact sheets, prospectuses and sub-prime/SIV position statements from the fund families available directly on the portal. In addition to online information, investment representatives, who are assigned to clients by some portal providers, continue to prove instrumental in assisting clients with due diligence around sub-prime and SIV exposure. In many instances investors are able to obtain an adequate comfort level in their fund positions. Other investors, however, do not achieve an acceptable comfort level and choose to exit prime money funds altogether moving assets into government or treasury money funds. For these investors, an investment portal executes this move from prime to government or treasury funds in seamless fashion with a few clicks of the mouse.

INFORMATION AND REPORTING CAPABILITIES

Considering today's heightened focus on financial and management reporting, accurate, timely reporting in a manageable package is now a necessity rather than simply a luxury. Provided a respective portal's investment inventory is robust enough to allow one-stop investing, the investor can significantly benefit from consolidated reporting of their investment activity. Automation and process consolidation of reporting are some of the most powerful benefits of an investment portal. Investors formerly pulling information from multiple monthly statements and other sources and then subsequently entering into spreadsheets or workstations certainly appreciate custom online reports available on portals containing everything they need to satisfy their reporting requirements and saving considerable time in the process.

Better portals typically provide custom data on demand including yields, factors, positions, transactions, income accruals, and dividends. Those reporting on a 4-4-5 basis or some period other than the calendar can customize reports to their unique fiscal periods on select portals. Some investors also benefit from the ability to download information directly from the portal, receive a custom FTP file transmission from the portal provider, or establish real-time connectivity to a treasury workstation. In these scenarios, reporting is fully automated from transaction to ledger or workstation.

The best portals go beyond accounting information and provide a host of other reports including compliance, performance, maturities and research reports. Performance reports allow the user to instantly generate reports comparing fund yields or portfolio-weighted averages to short-term rate benchmarks. Such reports are often used for management reporting, board meetings, or simply to benchmark performance at any one time. Research reports facilitate easy comparison between funds and provide a host of information about a fund or group of funds the investor may be interested in. As a component of research, fund fact sheets and prospectuses are typically available online. Considering portals widely vary in the information they offer and capabilities around reporting, investors should take a hard look at the reporting capabilities of a portal they may be considering or using in the interest of attaining maximum efficiency around the reporting process.

COMPLIANCE

Most corporations have a formal investment policy in place to address the primary goals of short-term investing — preservation of principal and liquidity while maximizing returns. Corporate investment policies widely vary. Some corporations limit investments to certain ratings, asset size of funds, investment practices of funds, length of tenure, and other such characteristics. Other companies go as far as limiting investments to specifically named issuers and fund providers. Whatever the particular policies and procedures may be for a given entity, it is important to have the proper controls in place to ensure compliance with the corporate investment policy. A manual process can make compliance challenging as it is difficult to ensure corporate investors will not invest in an instrument outside the guidelines.

If designed properly, online investment portals will enhance controls around investment policy compliance. Some online platforms allow for customization of the investment inventory, providing corporations the opportunity to only display investments that meet their specific investment policies. This ability to customize inventory significantly reduces the risk a corporate investor could purchase an investment not in compliance with corporate policies. In addition, a portal user should have the ability to enter their parameters such as asset size, limit per fund, and percent of fund into the portal. The portal then checks against these parameters upon login and with every trade. Compliance reports available on the portal can easily demonstrate a history of compliance.



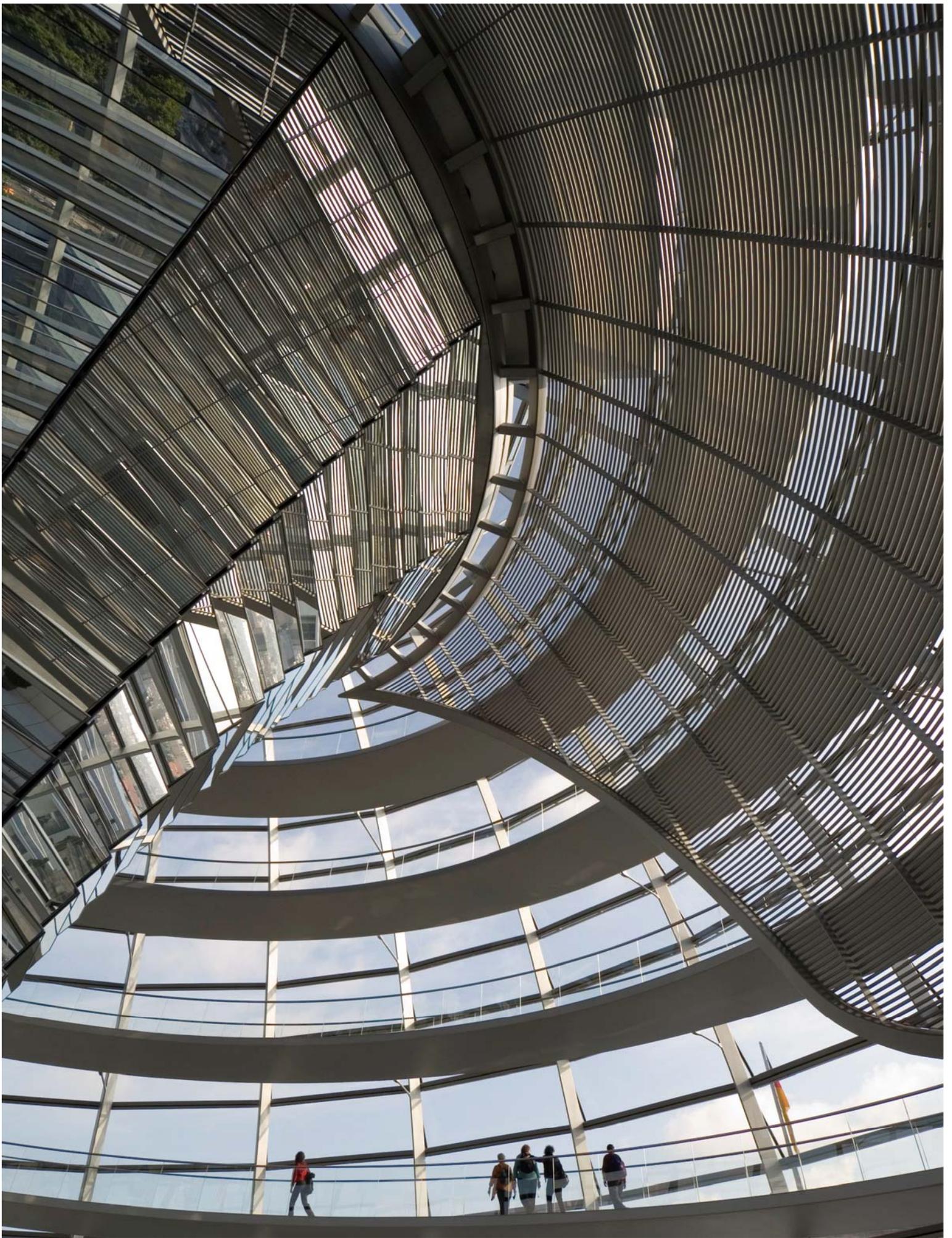


INVOLVEMENT OF INVESTMENT PROFESSIONALS

Unfortunately, some investment portals are pure technology solutions removing all human involvement. In some instances the portal providers are simply licensing software or private-labeling someone else's technology. These portals may offer a tech help line to report systemic issues but typically do not offer adequate investment consultation. This approach can place the investor in a difficult spot when they're looking for information on investments or the market in general.

Investing through an online treasury portal is most powerful when combined with the expertise of an investment professional. Some portal providers assign an investment representative to each client. These investment professionals work closely with clients to devise the appropriate strategy given the corporate investment policy and applicable time horizons. They will proactively contact clients with investment opportunities. At all times the investment representative serves as the client's single point of contact for any questions or concerns with investments or technology.

In conclusion, the arrival of online investing has come a long way with improving the short-term investing and reporting processes of treasury departments deciding to adopt an investment portal. It is crucial for the investor considering an online portal for the first time or evaluating their current portal to understand the key benefits of an ideal portal to ensure receipt of the best service available. The investor is encouraged to select a portal provider that offers an extensive menu of investments in the interest of facilitating time saving process consolidation and achieving competitive returns. Reporting and compliance should be accomplished with ease using the appropriate investment portal. Given the dynamics of capital markets and specific investment policy requirements, an investment professional should complement any online service. The right online investment portal could completely consolidate the short-term investment process in an organization and measurably impact the bottom line.





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