

WHITE PAPER

MONEY MARKET FUNDS IN UNCERTAIN TIMES:

Investors demand digitalisation and resilience



INTRODUCTION



Money market funds (MMFs), investing in high-quality, short-term debt instruments, play a key role in investors' portfolios, offering a balance of security, liquidity and yield.

This survey reveals investors' views on the current MMF investment process — their value drivers, the opportunities for improvement, and the future potential for the industry. We commissioned financial services consultancy Ideas and Action to conduct an independent online survey of 150 decision-makers from corporations and financial institutions (FIs) in major financial hubs — the United States, the United Kingdom, Singapore and Hong Kong. The quantitative survey was supplemented by eight qualitative interviews to add depth and colour to the data. More details on the survey respondents can be found in the Methodology section.

YIELD, YIELD, YIELD

MMFs continue to play a key role in giving firms a safe haven, especially during periods of uncertainty when firms look for an effective way to manage their capital and liquidity management strategies. Otherwise, yield was identified as a primary driver for investors (70%) which suggests firms almost always view MMFs as an intrinsically safe and liquid investment play and use the marginal differences in yield to make the ultimate choice.

CUT COSTS FOR ADDED RETURNS

Amidst today's uncertain, low interest rate environment, investors struggling to achieve target returns need to consider how they can reduce investment-related costs that drag down overall returns. To improve returns, they are looking to easy-to-deploy technology solutions that will quickly reduce friction and complexity — and their related costs — throughout the investment process.

This drive for efficiency, coupled with firms' recent experience of managing MMF investments remotely due to the pandemic, has revealed inadequacies in the current investment process — a lack of automation, real-time information and systems integration. This report demonstrates how the vast majority of investors believe that better automation is needed across the MMF investment cycle. It also offers industry participants — investors, liquidity providers, technology and market infrastructure entities — insights into how we can work together to create a more effective, efficient and resilient market for all.

Thank you to everyone who participated in the survey. Should you require further information, please visit calastone.com/solutions/money-market-services or contact your Calastone relationship manager.

Simon Keefe

Managing Director
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KEY FINDINGS

Seventy-one percent of investors say that their strategic priority for MMFs is to improve capital and liquidity management, as firms use MMFs when they need to achieve a balance of liquidity, security and returns. This is a challenging balance to achieve amidst today's low interest rate environment.

Complexity and friction come from multiple areas in the investment process, which are compounded for firms that invest in multiple funds with different investment managers through different channels.

61% of firms use three or more fund providers, and **64%** hold three or more funds from each provider. In addition to this, **48%** of firms access and manage their investments through two or more channels, creating further complexity.

WHEN IT COMES TO SELECTING SPECIFIC FUNDS, THE MOST-OFTEN CITED CRITERIA ARE:



Yield (**70%**) and fees, (**57%**) — together determine overall returns from the investment



Safety, or risk profile, (**49%**) and reputation of the investment firm (**47%**)



Liquidity / redemption (**45%**) — is the ease with which investors can access their cash

THERE ARE THREE APPROACHES TO ADDRESS COMPLEXITY AND COST:



1 Improve operational efficiency by fixing investment process problems using automation — **93%**

The primary areas where investors want automation are:

Reporting
46%

Information to support fund selection
35%

Settlement automation
32%



2 Increase transparency by using real-time information to address cumbersome data processing activities throughout the chain — **73%**



3 Deliver system connectivity and integration solutions to alleviate the burden of managing different systems/providers and enable better fund selecting, transacting and reporting — **71%**

The primary challenges affecting investor decisions are:

87% do not have fully configurable, real-time reporting

75% cannot automatically reconcile trades into their ERP or TMS


64% are not able to initiate, authorise and settle transactions in real-time

52% do not offer access to real-time rates, tenure and fees for MMF options

Respondents noted that a more efficient MMF investment process will deliver reduced complexity, risk and cost. The top areas where MMF investors expected to see tangible benefits were:

61% expect a fall in manual processes

46% believe they could make better investment decisions



MONEY MARKET FUNDS

THE RIGHT TOOL AT THE RIGHT TIME

IN BRIEF

- With yields currently depressed, investors are under pressure to improve the efficiency and performance across the MMF investment process and reduce costs that drag down overall returns.
- MMF operations today can be complex and unwieldy, due to a lack of automation and system integration throughout the investment lifecycle.
- The complexity of MMF operations is further compounded by the large number of providers, funds, portals and systems in use that are seldom interoperable.
- The inefficiency is most noted by larger corporates and FIs who hold significant investment volumes with multiple fund providers managed through a suite of systems and portals.
- The survey revealed three potential approaches to improve the MMF investment process: automate for operational efficiency, enhance transparency of information and improve systems connectivity
- Investors believe that with improvements to money market fund processes, they will: reduce manual processes, make better investment decisions and improve returns.

The security, liquidity and returns offered by MMFs have made them an asset class of choice for investors. Market events — from earlier geopolitical stresses such as Brexit and trade wars, to the more recent Covid-19 pandemic — have had firms reeling from the shock of disrupted operations and depressed revenues. Despite the resultant record-low interest rates, investors continued to look for a highly liquid place to park cash rather than prioritise security and yield. Interviewees reported that in the early days of the pandemic, they moved cash from other asset classes to MMFs, despite lower yield potential.

While the flight to MMFs may have been a natural reaction for investors seeking security and liquidity, for many, the use of MMFs is not just a crisis response. The overwhelming majority of investors (71%), see MMFs as strategic tools for capital and liquidity management.

"The idea is to keep the balance sheet as liquid as possible, especially given the current scenario. Liquidity, or preservation of capital has become much more important than yield at this point in time."

— CORPORATE, USA

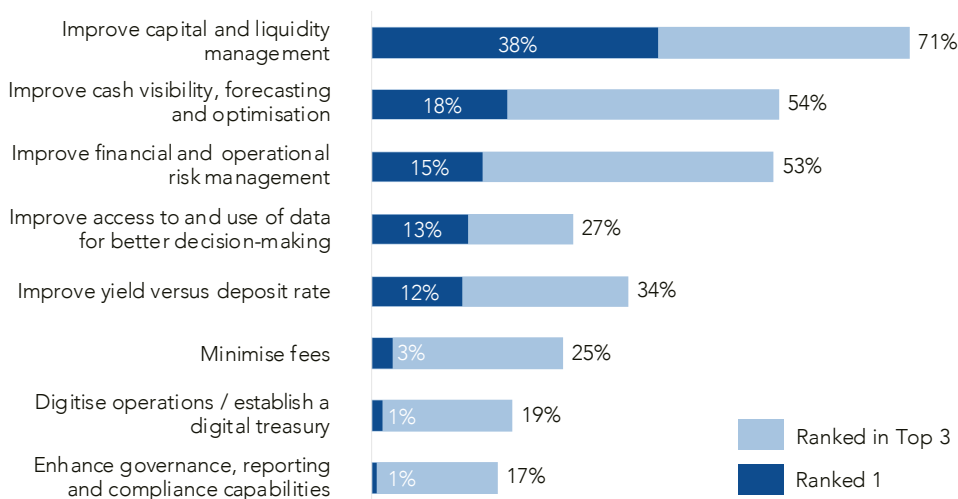
"Of course, our allocations to cash versus bonds, or cash versus equities, will change as a result of our risk tolerance in general, and how much risk we want to be taking in funds. So at times this leads to greater allocations to money market funds, or money market instruments, liquidity pools, etcetera."

— ASSET MANAGER, HONG KONG

FIGURE 1

STRATEGIC PRIORITIES FOR MONEY MARKET FUNDS

What would you consider as your top three strategic priorities for your money market fund investments over the next 12 months?



THE HUNT FOR YIELD

Once firms have made the decision to invest in MMFs as part of their capital and liquidity management strategies, they turn to reviewing and selecting specific funds. At this point, when selecting specific funds to invest in, return becomes the most important consideration. Yield is the most cited criterion for money market fund selection for 70% of corporate and FI investors. The emphasis on yield is stronger among FIs — 80% decide on funds based on the yield on offer, compared to only 60% of corporates. Fees, which also impact a fund's overall return, is the second most-cited selection criterion.

Unsurprisingly, security is also considered when selecting specific funds. Factors that evidence a fund's safety, such as its risk profile, the fund manager's reputation, and ease of redemption, are part of the fund selection criteria for almost half of all respondents respectively.

With interest rates remaining low, and yields elusive, firms are seeking other ways of optimising their MMF investments. They are actively reviewing their MMF processes in search of opportunities to improve both performance and efficiency, so as not to further erode already meagre returns.

This is resulting in a heightened awareness of the gaps in the current MMF investment process, highlighting areas that create friction, thus increasing cost and risk. It is revealing inefficiencies that are particularly onerous for those with significant MMF trade volumes.

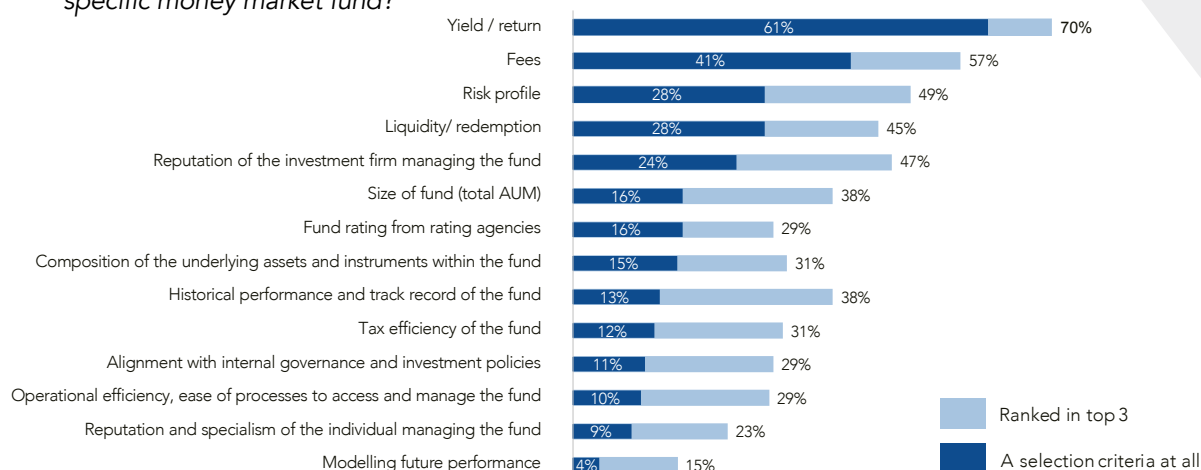
"I think, frankly, as far as many money market funds are concerned, I think the [providers] don't really understand the operation that some very large corporations like us have to go through to make this work... we do not just put in one trade by picking up the phone... or go to the portal of the money market fund... In our case our treasury department has almost 45, 50 people so we run a little bit of a factory as far as treasury goes."

— CORPORATE, UK

FIGURE 2

CRITERIA FOR SELECTING MONEY MARKET FUNDS

What are your primary selection criteria when selecting a specific money market fund?



THE VIEW DURING A TIME OF LOCK DOWN

While firms had to sacrifice yield in favour of liquidity during the high-stress early days of the Covid-19 pandemic, the Financial Times reports that once things started to normalise and there was greater clarity on government backstops, a number of investors started to divert cash into higher-yielding instruments. The paper further reports that MMFs experienced outflows of almost \$105 billion for four consecutive weeks to the end of June 2020. This confirms the importance investors place on yield, even while they acknowledge the value of liquidity and security.

This trend is echoed by the survey results, which show that almost half of investors (47%) said that they have reduced their investments into MMFs despite the current pandemic. Interviewees likewise report that their investment strategies changed during the pandemic, as they recalibrated their risk appetite and reallocated cash accordingly. This, however, could be temporary, and once recovery is certain, their hunt for yield will likely resume.

With interest rates potentially remaining low as economies recover, it would stand MMF providers in good stead to help investors improve overall returns, thus maintaining the viability of MMFs as a liquidity and capital management tool.

INVESTMENTS IN MONEY MARKET FUNDS DURING COVID-19

As a result of COVID-19 are you increasing or decreasing the amount you invest in money market funds?

¹ Bullish investors pull \$105bn from US money market funds in four weeks; www.ft.com, 23 June 2020

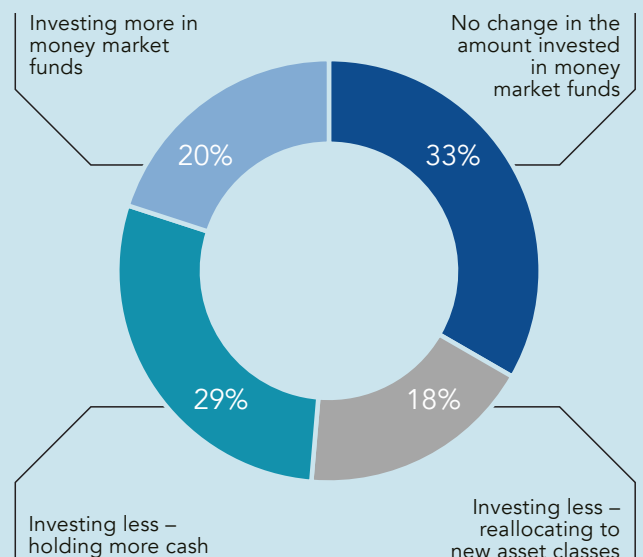
"We are affected by Covid in terms of the increased amount of claims we've had to pay. That's caused us to take a little bit of risk off the table on the investment side..."

Depending on what happens, once the impact of Covid becomes more clear, [with] forward-looking cash yield or money market yield being so low, then I imagine there will be a desire from the Board to reallocate away from cash exposure - money market exposure - in pursuit of high yield."

— INSURER, UK

"We have seen a fair amount of change as a result of Covid. In March there was a huge 'risk-off' wave and people went into cash big time. And by cash, I mean both big deposits as well as money fund balances... A lot of people are still in a 'wait and see' frame of mind as far as how the recovery is going to play out. If, let's say, we get a vaccine tomorrow and the economy is looking like it's going to bounce back, then I could see the money fund investments really nose-diving and all the cash would probably re-enter like risk assets, pushing up equities etc."

— CORPORATE, USA



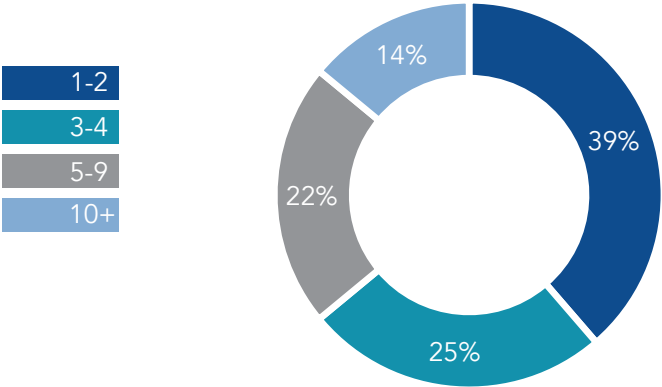
THE MULTIPLICITY OF COMPLEXITY

The integration of systems and processes continues to be a recurring challenge. Aside from those with large trade volumes, there are also more potential points of friction for other investors who have to deal with multiple funds from multiple providers through a variety of systems. Almost two-thirds of firms (61%) use three or more fund providers. Compounding the complexity, almost two-thirds (64%) hold three or more funds from each provider.

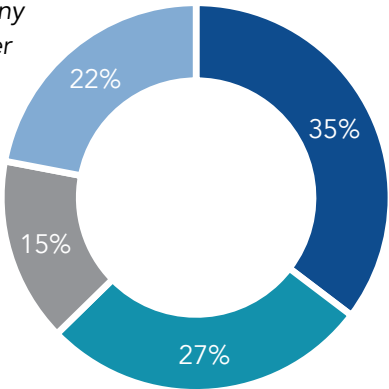
The number of funds per provider also tends to increase with the number of providers used. For example, of those using 1-2 providers, 14% hold five or more funds per manager. For those using five or more providers, 67% hold five or more funds per manager.

FIGURE 3
INVESTORS INVEST IN MULTIPLE FUNDS ACROSS A RANGE OF MONEY MARKET FUND PROVIDERS

How many money market fund managers / providers does your firm use?



Approximately how many money market funds per manager / provider do you invest in across all currencies?



Further difficulty comes from the multiplicity of channels investors use to manage funds. While the overwhelming majority of respondents use portals as the primary way they manage their funds (Figure 4), findings show that they also use multiple systems in addition to portals, such as order management systems, treasury management systems, providers to source market rates and data, and the like.

Almost half of the respondents report using two or more systems, and around a third use three or more. These portals and systems are seldom interoperable, with distinct data formats and standards. This creates additional manual work for investors who have to key in information from one system to another, creating friction, greater operational burden, and additional cost. Without systems interoperability, it will be impossible to achieve full straight through processing, real-time reconciliation analysis or reporting.

"In terms of the analytics, and the fact that not all funds are available in the order management system at the same time, all the analysis that we do is outside the system. The selection of the fund has already happened when we go to the order management systems. There is no system or software or application for us to use for comparing the funds - that we do outside of the system."

— CORPORATE, USA

FIGURE 4
MONEY MARKET FUND ACCESS POINTS

Which of the following do you use to access and manage money market funds?

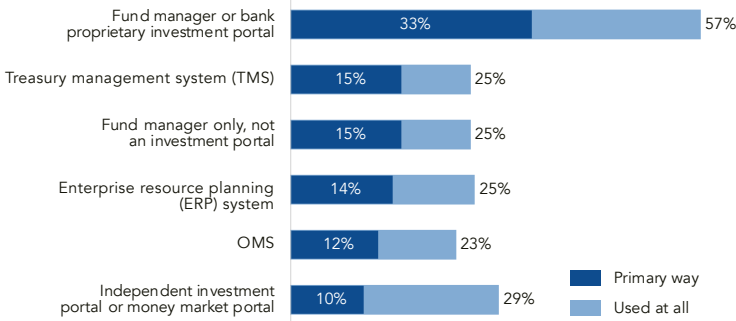
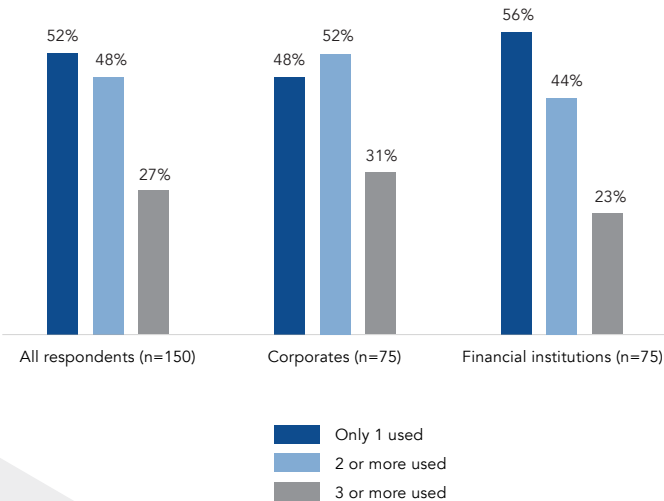


FIGURE 5
INVESTORS MANAGE THEIR FUNDS USING MULTIPLE SYSTEMS AND CHANNELS

Number of different channels used to access and manage MMFs



REMODELLING FOR RESILIENCE

This study reveals three approaches that can be applied to the MMF investment process to help investors address the issues of complexity and cost:

1. IMPROVE OPERATIONAL EFFICIENCY THROUGH AUTOMATION

Amidst today's era of digitisation, MMF operations still suffer from a lack of automation. Overall, 93% of investors report that parts of the MMF process need better automation (Figure 6). This need is more strongly felt by corporates, 97% of whom want better automation, compared with 88% of FIs.

"To process 80% by volume of automated stuff, it takes literally somebody pounding or pressing a few buttons on a computer system. But to process the remaining 20% of the stuff that has to go through manually... that ends up taking 70, 80% of your time."

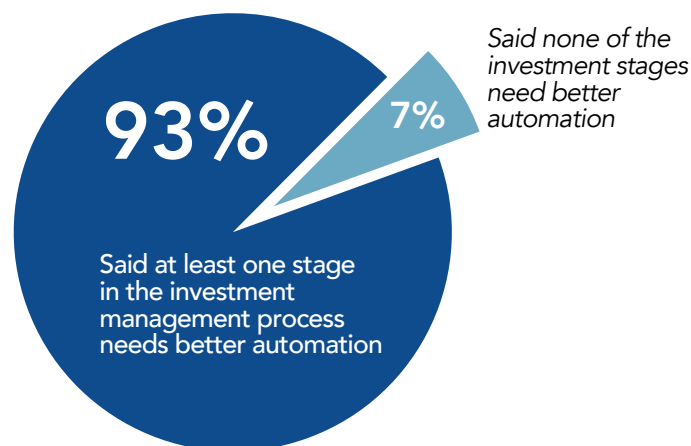
— CORPORATE, UK

FIGURE 6

AUTOMATING THE MMF INVESTMENT MANAGEMENT PROCESS

Which areas of MMF investment management need better automation?

(Options: fund selection, trading, settlement, reporting, analytics, none of these)



2. INCREASE TRANSPARENCY THROUGH REAL-TIME INFORMATION

Almost three-quarters (73%) of investors reported a lack of real-time information in some aspect of the MMF investment process. Having the right information at the right time is critical for decision-making, and can spell the difference between an opportunity missed, or an opportunity optimised. This becomes even more important during a crisis when agility is key.

In addition to decision-making, real-time information improves compliance and reporting — enabling highly regulated firms to comply with internal policies and regulations. It also enables FIs to quickly respond to ad-hoc requests by regulators and policymakers during times of market stress.

"To improve, we need to be able to take the best decision based on real-time data. If you have all the information you need to make your decision, your decision should be in the right direction. If you need to scramble through different sources, you are able to take a decision only one day later."

— CORPORATE, USA

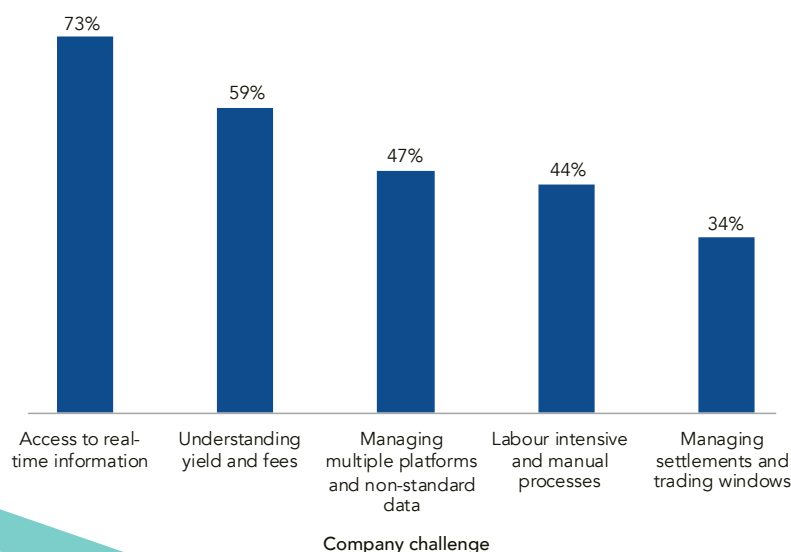
"It's important for us to have look-through capability so that we can see the instruments... to have these come through on our systems so that our systems can deal with it and make sure that we're not inadvertently breaching any limits"

— ASSET MANAGER, HONG KONG

FIGURE 7

ACCESS TO REAL-TIME INFORMATION IS A KEY CHALLENGE

Which of these do you find most challenging when accessing and managing money market investments?



Shows the percentage of respondents who selected at least one challenge under a particular challenge category

Access to real-time information	<ul style="list-style-type: none"> Accessing sufficient real-time information on fund composition Accessing sufficient real time information on fund performance Gaining a consolidated, real-time view of all money market fund investments
Understanding yield and fees	<ul style="list-style-type: none"> Access to yield reporting Lack of fee transparency Fees charged by intermediaries / fund portals
Managing multiple platforms and non-standard data	<ul style="list-style-type: none"> Managing money market funds across multiple platform Inconsistent or non-standardised data and data formats
Labour intensive and manual processes	<ul style="list-style-type: none"> Labour-intensive trade initiation, authorisation and settlement processes Manual data entry into TMS / proprietary systems
Managing settlements and trading windows	<ul style="list-style-type: none"> Managing across trading windows / time zones Settlement certainty

3. ESTABLISH REAL-TIME CONNECTIVITY ACROSS SYSTEMS

Underlying the deficiencies in automation and real-time information is the lack of integration among the different systems used throughout the MMF investment process. Over two-thirds (71%) of respondents report that capabilities that require real-time systems connectivity need improvement.

Systems integration is critical in order to achieve straight through processing, which will reduce the need for manual intervention and its related errors, risks, and costs. While other capital markets processes already benefit from digital straight through processing, this is not the case for MMFs. Investors have to use different portals and systems throughout the lifecycle of the investment — from funds selection, to trade initiation, execution, reporting and monitoring.

"If we can do trading over APIs, if we can have deeper integrations with the fund managers, I think that would be super helpful in reducing the time it takes to process the orders each day."

— BANK, USA

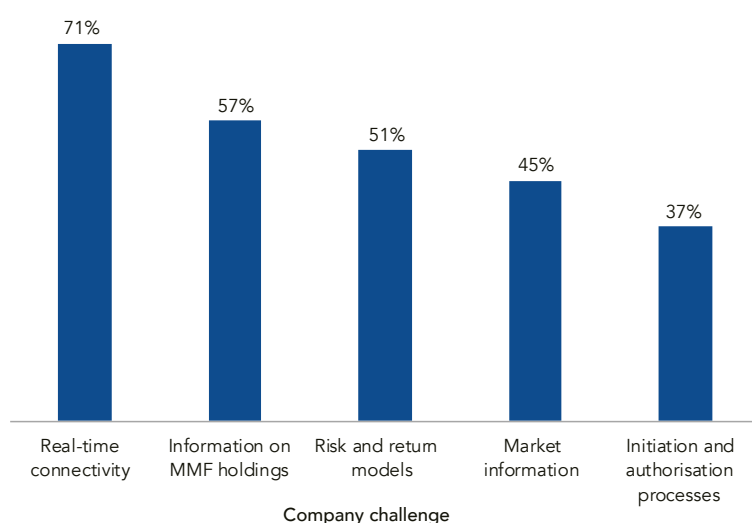
"When we place a trade and it is not successfully sent by the third-party portal to the fund provider, we lose the interest on the investment... But in the case of a redemption, and where we are expecting to use the funds to make another payment, we end up with bank overdraft charges, which are usually higher."

— CORPORATE, SINGAPORE

FIGURE 8

NEED FOR REAL-TIME SYSTEMS CONNECTIVITY

Which areas do you feel could use the most improvement to benefit your money market fund investment process?



Shows the percentage of respondents who selected at least one challenge under a particular category of areas for improvement

Real-time connectivity	<ul style="list-style-type: none"> Access real-time rates, tenure and fees for money market fund options Initiate, authorise and settle trades in real-time Automatically reconcile the trade into internal treasury management systems (TMS), enterprise resource planning (ERP) or proprietary systems Fully configurable, real-time reporting on all your underlying holdings in money market funds
Information on MMF holdings	<ul style="list-style-type: none"> Access detailed information on your current money market fund investment holdings per provider or fund manager Access your aggregated money market fund investments across all providers Enhanced reporting for tax and compliance requirements
Risk and return models	<ul style="list-style-type: none"> Model 'what-if' scenarios of your liquidity position and potential returns for different money market fund options Modelling risk
Market information	<ul style="list-style-type: none"> Access detailed information on money market funds for due diligence purposes Comparison to money market rates e.g. LIBOR / Euribor
Initiation and authorisation processes	<ul style="list-style-type: none"> Configure different types of initiation and authorisation limits Enable external investment management consultants to initiate and settle instructions on your behalf Automation / robotic process automation (RPA)

POTENTIAL IMPACT

If these and other shortcomings across the MMF process are improved, investors believe that their firms would reap a range of benefits, thus improving efficiency and performance.

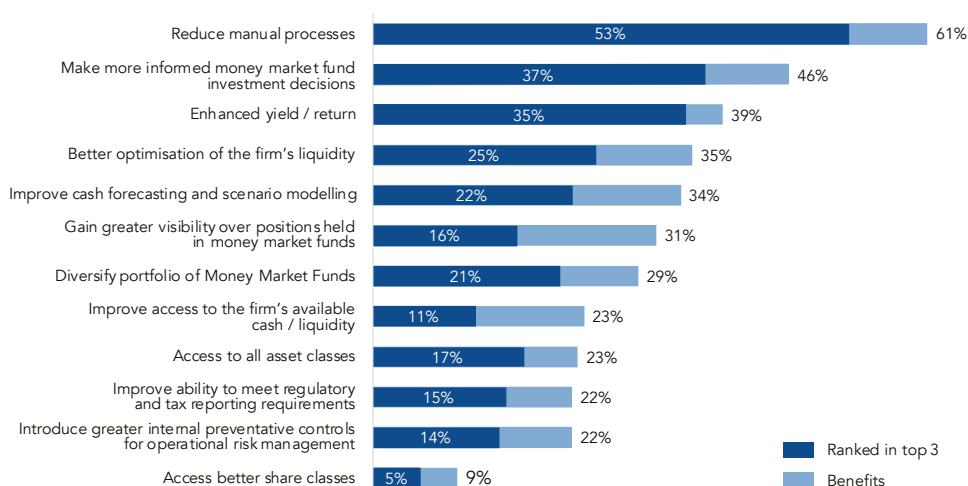
Efficiency is the most obvious benefit to investors, with almost two-thirds (61%) saying that improvements would reduce the need for their teams to process manually. The reduction of manual processes came as the top potential benefit for both corporates and FIs, although it was more prominent among FIs — presumably because of the sheer volume of trades they process (69% for FIs vs 53% for corporates).

Beyond efficiency, around half of firms (46%) believe that improvements would enable them to make more informed MMF investment decisions, improving performance. Related to this, improving cash forecasting and scenario modelling — a perennial challenge for corporates — was selected as a potential benefit by 40% of corporates.

FIGURE 9

BENEFITS FROM IMPROVING MONEY MARKET FUND PROCESSES

What do you feel would be the benefits to your firm if these improvements were a part of your short-term liquidity processes?



THE CASE FOR AUTOMATION

IN BRIEF

- The vast majority of investors see a pressing need for greater automation across each stage of the MMF investment process, from fund selection, trade implementation, through to reporting and monitoring of investments.
- Settlement certainty is particularly important, not only to ensure interest is optimised, but also to avoid potential bank overdraft charges that would erode already slim yields.
- Reporting is the most-requested area for automation, particularly for FIs responding to regulatory requirements.
- More automated access to information and analytics is seen as an important factor in improving MMF processes involving investment decisions.

While automation has been a major theme in the MMF industry in recent years, there are still processes across the MMF lifecycle that remain manual and onerous, increasing operational costs, complexity and risk.

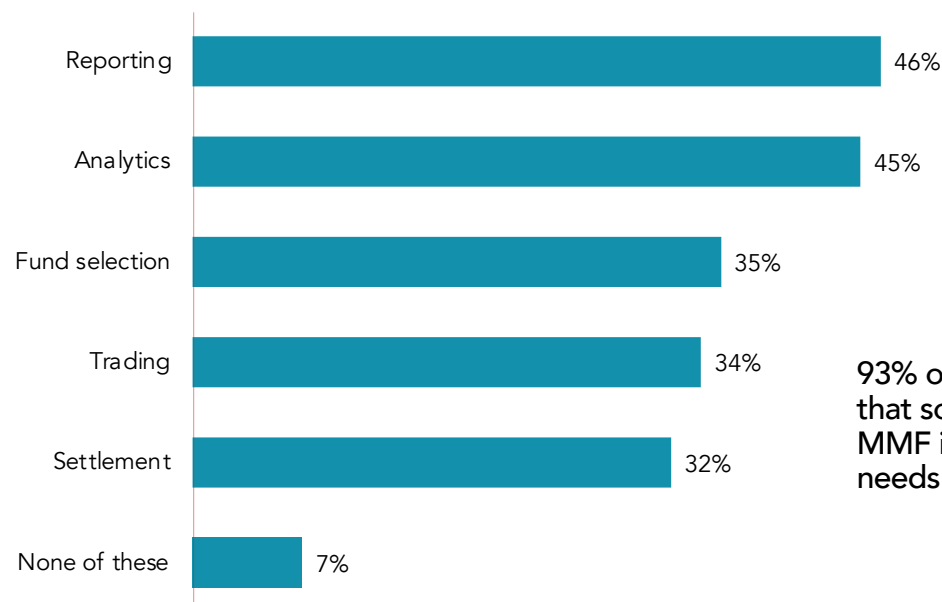
Notably, investors would like to see better end-to-end automation across each stage of the investment process:

1. **FUND SELECTION** — *making the right choice*
2. **TRADING AND SETTLEMENT** — *agility and certainty*
3. **REPORTING AND MONITORING** — *foresight and insight*

FIGURE 10

BETTER AUTOMATION IS NEEDED ACROSS ALL STAGES OF MMF INVESTMENT MANAGEMENT PROCESS

Which areas of money market fund investment management need better automation?



93% of respondents feel that some aspect of the MMF investment process needs better automation

1. MAKING THE RIGHT CHOICE:

Automation for optimal fund selection

Over-all, a third (35%) of investors flagged the need for better automation of fund selection. Fund selection includes market discovery, access to fund information, fund comparisons and market rates.

More corporates than FIs highlighted this as an area that needs better automation (43% versus 28%). Corporate interviewees note the need to automatically access fund information from multiple systems to make comparing and selecting funds easier. Automating access to consolidated, up-to-date information on the status of their holdings will also enable corporates to get a better handle on current liquidity positions. This creates better visibility and aides more accurate cash forecasting.

For FIs, automating access to market and fund information is key — whether it is to compare rates in real-time, to access underlying fund information for due diligence and compliance with regulations, or to meet customer demands.

Improving the speed of onboarding into a fund is also critical, with firms expressing the desire for more automated activation of accounts to enable them to implement investment decisions in a timelier manner.

"Sometimes what happens is the market is completely different by the time your onboarding process is done. We are living in pretty volatile days at this point and I have had money market deposit accounts with banks at a particular yield, and by the time you open those accounts those yields no longer exist... We spent all the time onboarding them and it wasn't even in the right direction."

— CORPORATE, UK

"If you can understand why 'x' investment is offering a higher yield over 'y' investment, know why that is, and understand the general drivers, even if it is higher risk, you're deciding from an informed point of view. You can decide whether or not you can live with that risk."

— INSURER, UK

2. AGILITY AND CERTAINTY:

Trade and settlement automation

Automation of trade execution is seen as sub-optimal. Around a third of respondents would like better automation of trading (34%) and settlement (32%). By automating the booking, execution and settlement of trades, firms can respond more quickly to market movements, make strides towards settlement certainty, with the potential for delivery versus payment (DVP), and reduce operational and settlement risk.

Automating settlement in particular, has significant impact on firms' ability to optimise their liquidity positions. Settlement errors and delays can result in forfeited opportunities, increased bank charges or penalty fees, and extra effort in trying to find manual work-arounds. Automated settlement also effectively extends settlement cut-off times, which is particularly helpful for firms that have to manage across time zones.

"In terms of settlement certainty... there is one particular incident in our firm where we went into an overdraft trying to put money into a money market fund. This completely defeats the purpose because you don't get that much [yield] ... to compensate for the fees that the banks will end up charging you."

— CORPORATE, UK

"The biggest pain point that we have is the limitation in terms of same day settlement. If we need to place a large order for money fund shares, we are a little bit handicapped by being [in our time zone]. We are looking at some pretty early cut-offs."

— BANK, UK

3. FORESIGHT AND INSIGHT:

Reporting and reconciliation automation and integration

Respondents coalesce around the need to automate reporting, with almost half (46%) of respondents raising it as an area of concern. In today's environment the ability to access data coherently without creating more work for already over-extended teams is important. Equally as important is the ability to integrate data feeds into the treasurer's system of choice to remove the time drag and risk associated to pulling information from different systems in different formats.

The ability to automate reaches deep into the ability to improve reporting as it can reduce the potential for human error and supports timeliness and accuracy of reports. For this reason automated reporting is more often cited by FIs as an area for improvement.

"If I could change anything about the process, I would have more analytics, more up-to-date information so I wouldn't have to go direct to the fund provider."

— CORPORATE, SINGAPORE

"About a year and a half or two years ago, we were trying to automate the gathering of the seven-day yields for the various fund vehicles that we work with and there was just no clean way to pull that data down and integrate it into some of our other treasury reporting."

— BANK, USA

TRANSPARENCY: REAL-TIME INFORMATION

IN BRIEF

- Access to real-time information is a pressing challenge for MMF investors.
- Real-time information can enhance investors' decision-making and investment monitoring, ensuring compliance with their firm's investment criteria, and monitoring liquidity positions.

Alongside the lack of automation is the difficulty of accessing real-time information. Investors find the lack of transparency in the MMF process an issue, with the majority of respondents selecting capabilities related to real-time information as among their key challenges.

Investors need real-time information to not only make sure investment decisions meet yield and fee targets, but even more critically, to ensure that they comply with the firm's other investment criteria and policies, such as risk profiles, ease of redemption, and fund characteristics (composition, size, investment manager).

Overall, investors note the challenges of accessing real-time insights on fund composition (42%), fund performance (30%) and a consolidated view of all their MMF investments (33%). Fee transparency is also a top three issue, reinforcing the need for greater visibility throughout the process.

FIs are significantly more interested in getting visibility of fund composition (49%) than corporates (35%) as they need to meet internal risk and regulatory compliance parameters on investments.

On the other hand, corporates are more conscious of the challenges of monitoring fund performance in real time (35%) than FIs (25%). This is to support their daily cash flow forecasting and planning activities.

"It's important for us to have look-through capability so that we can see the instruments — being able to have that come through on our system so that basically our systems can deal with it and make sure that we're not inadvertently breaching any limits."

— ASSET MANAGER, HONG KONG

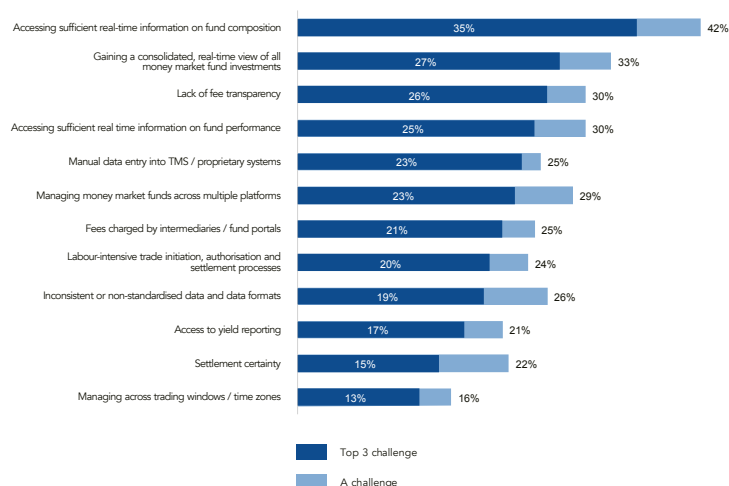
"One thing we monitor is our concentration. This isn't specific to money market funds but all approved fund investments we're in. Then we can ask is how big of a fund is it, and what percentage of the fund assets does our investment represent?"

— INSURER, UK

FIGURE 11

ACCESS TO REAL-TIME INFORMATION ARE AMONG THE TOP CHALLENGES WHEN MANAGING MONEY MARKET FUNDS

Which are the top 3 areas that you feel could use most improvement in your money market fund investment process?



CONNECTIVITY: REAL-TIME ACCESS AND INTEGRATION

IN BRIEF

- Investors are currently forced to use a suite of systems to access fund information and market data, as well as process and monitor MMF investments.
- The lack of systems integration and connectivity results in process and information fragmentation, creating efficiency and transparency issues across MMF investments.
- This has particular impact on reconciliation and reporting on investments.
- With the impact of Covid-19 front and centre, both corporates and FIs are focusing on scenario modelling improvements, driven by automation and real-time information, to improve contingency plans.
- Investors are frustrated with manual and fragmented processes, seeing the need to improve automation, information access and integration across MMF processes.
- Proprietary and third-party portals are in high use; however, investors often need to manage MMF investments across multiple portals and systems.
- A number of portals lack important or desired functionality, including:
 - Configurable, real-time reporting.
 - Automatic reconciliation of trades into an enterprise resource planning (ERP) or treasury management systems (TMS).
 - Real-time initiation, authorisation and settlement of trades.
 - Information on MMF options in real-time, including rates, tenure and fees.

Ultimately, the efficiency and transparency issues that plague the MMF investment process can be traced to a lack of systems integration across the industry. Investors report that they use a suite of systems — from market data sources, to multiple portals, order management systems and treasury management systems. This creates process and information fragmentation. Two-thirds of respondents identified seamless real-time access and connectivity capabilities as key areas for improvement.

As systems remain fragmented, investors say accessing information in real-time is virtually impossible. Access to real-time rates, tenure and fees is the most requested area for improvement, identified by almost half of respondents (45%).

The lack of systems integration also means that there is a lack of standardisation of information, impacting reconciliation and reporting capabilities. Around a third of respondents would like to see automatic reconciliation of trades to their treasury management or enterprise resource planning systems (30%). Reconciliation of trades into treasury systems is key for treasurers who make decisions based on cash positions and forecasts. More corporates than FIs identified automatic reconciliation as an area for improvement (33% vs 17%).

"[Information is] not in similar format. You log into multiple places, [get] pricing from different sources and things like that. There is definitely standardisation that can be done in this process of collecting information from multiple funds... like [a] single platform that can pull information from various sources but in a similar format."

— CORPORATE, USA

"Accessing real-time data with regards to the money market is relatively limited. I would say that our fund systems aren't great at the best of times. We have limited ability to track in real-time or indeed at all, on the money market specifically, other than checking the institutional liquidity fund's stated yield on Bloomberg."

— ASSET MANAGER, HONG KONG

"I think that we would be looking for a solution that would provide us with a robust data feed. What we don't want to be doing is manually tracking the fund balances in a separate internal system. It would be great if there was just a feed from the vendor that sent the information directly into our treasury management solutions."

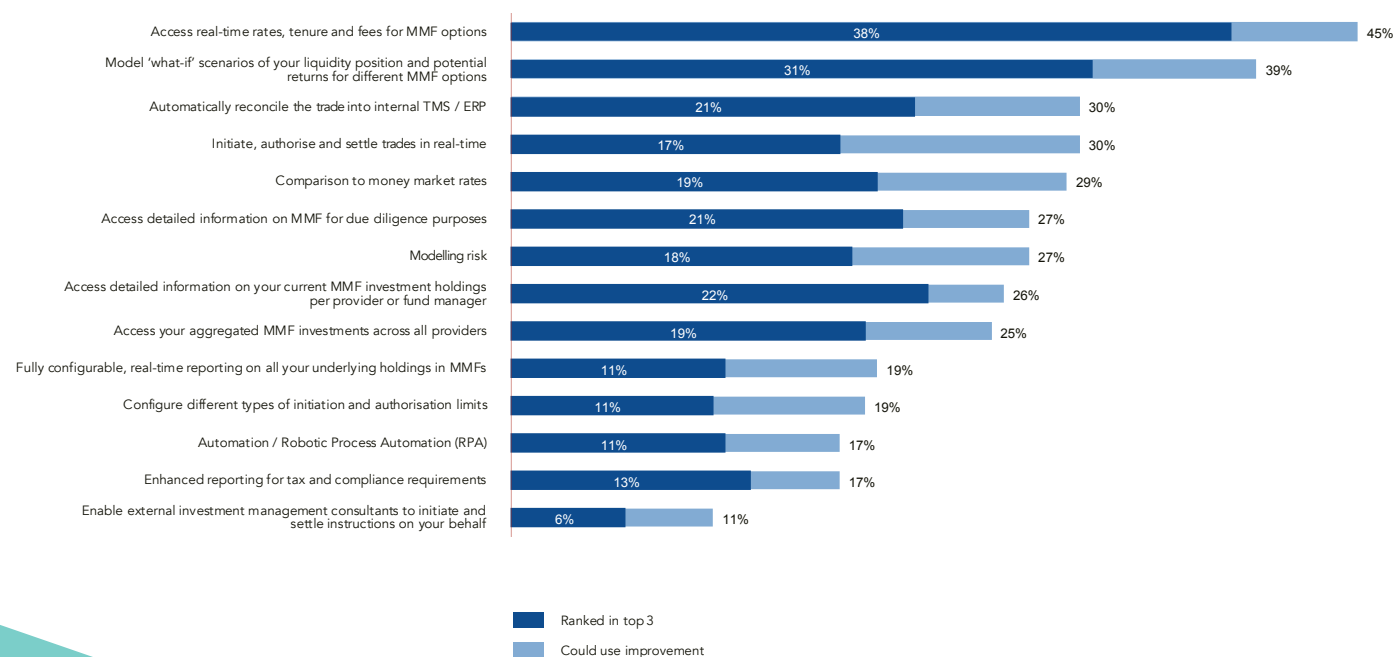
— BANK, US

Additionally, 39% of investors believe that a critical area for improvement is scenario modelling. This is a capability that is highly dependent on automated access to complete firm-wide data and enhanced by better integration of systems and accurate reporting. Scenario modelling has become even more critical for both corporates and FIs alike, as the Covid-19 experience revealed the shortcomings of existing liquidity contingency plans and stress scenarios.

FIGURE 12

PRIORITY AREAS FOR IMPROVING MONEY MARKET FUND MANAGEMENT REVOLVE AROUND REAL-TIME SYSTEMS CONNECTIVITY

Which areas do you feel could use most improvement within your money market fund investment process? (Select top 3)



The need to manage funds via different portals — both proprietary and third-party — also adds to the fragmentation. Despite having access to a variety of systems, investors still do not have access to what they believe are critical functionalities. For example, the vast majority using portals (87%) do not have fully configurable, real-time reporting on all their underlying holdings. Three-quarters (75%) cannot automatically reconcile trades into their ERP or TMS. Around two-thirds (64%) are not able to initiate, authorise and settle trades in real-time, and around half (52%) do not offer access to real-time rates, tenure and fees for MMF options.

Three-quarters (75%) cannot automatically reconcile trades into their ERP or TMS. Around two-thirds (64%) are not able to initiate, authorise and settle trades in real-time, and around half (52%) do not offer access to real-time rates, tenure and fees for MMF options.

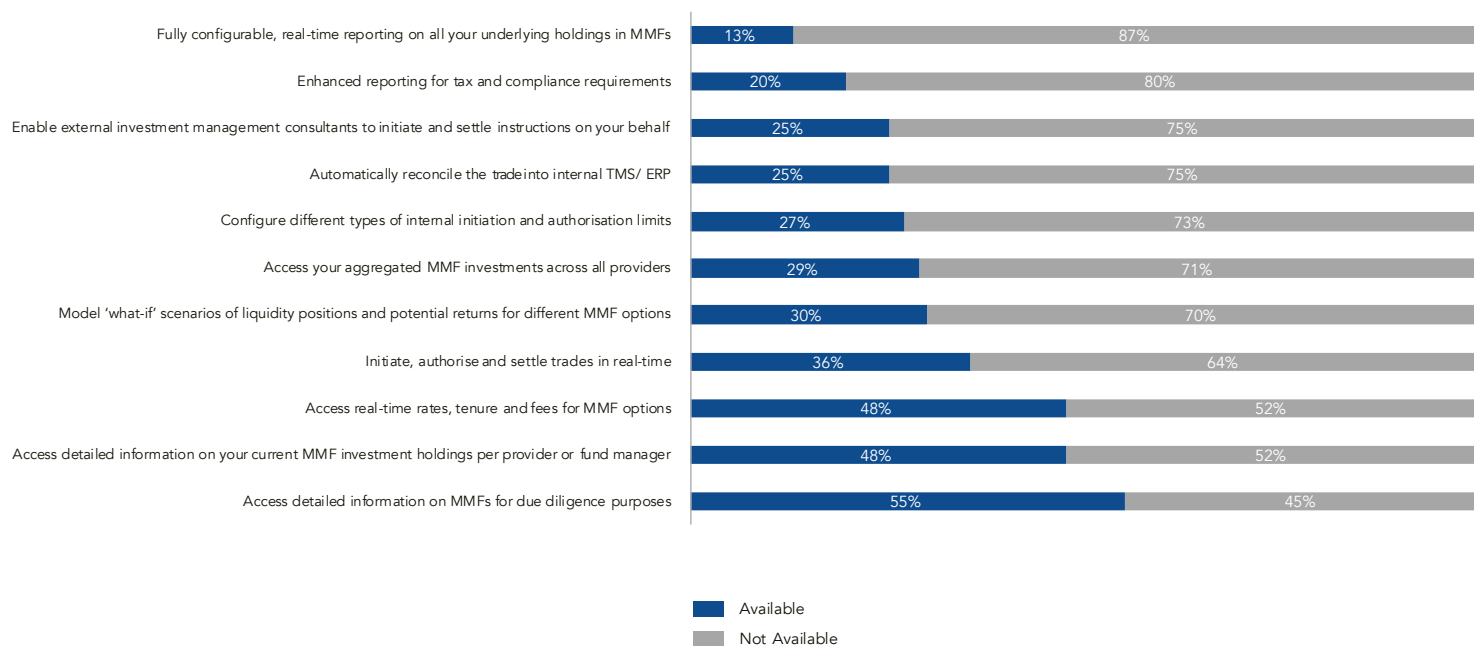
"I had to spend a lot of time with our trading platform and one of the money market fund providers about how to get the interface [between the fund provider's system and the firm's ERP] to work. Because it just wouldn't result in straight through processing and if it is not straight through processing ... compliant to Sarbanes-Oxley, we've got to explain it to our auditors... So all of that net overhead basically means that we will try our level best to avoid putting money into that money market fund."

— CORPORATE, UK

FIGURE 13

MONEY MARKET PORTAL FUNCTIONALITY

Thinking about the primary way in which you access and manage MMFs, which are available to you? Showing respondents accessing and managing MMFs through a portal.



SEGMENT SUMMARY:

FINANCIAL INSTITUTIONS IN FOCUS

When managing MMF investments, FIs are very much focused on three key elements:

1

RETURN
OPTIMISATION

2

ACCURATE
AND TIMELY
REPORTING

3

RISK
MANAGEMENT

RETURN OPTIMISATION

Even as FI investors seek to balance the traditional MMF investment objectives of security, liquidity and yield, the pressure to continue to produce returns on investments cannot be denied.

Key considerations when selecting an MMF

1. Fund performance	80% want more yield 63% want lower fees to avoid (performance drag)
2. Liquidity	61% want to be able to redeem easily
3. Security	51% are looking for the right risk profile 49% are focused on the reputation of the investment manager

Once a fund is selected, 95% want to remove the complexity and cost of the investment process using automation.

31% want better settlement automation due to the desire to transact free from the limitations of time zones or cut-off times and enabling them to access more fund options for better yield opportunities.

REGULATORY REPORTING

Given the heavy reporting demands from regulators, over half of FI respondents say reporting needs to be better automated.

- 51% want real-time access to fund information
- 41% want real-time market rates

These all contribute to more accurate and timely reporting, especially during times of market stress when reporting requirements may change or increase as regulators increase oversight in response to market pressures.

RISK MANAGEMENT

Risk management is a clear priority for FIs who have flagged the need for access to real-time market data and insights on fund composition.

- 38% want real time positions, rates, yield, gain/loss information.

Overall, better systems connectivity and integration will give rise to better access to market data and fund information — including the underlying composition of funds. It will help FIs ensure that:

- Risk policies are not inadvertently breached
- Internal investment requirements and parameters are adhered to
- Regulatory and client reporting requirements are met quicker

SEGMENT SUMMARY:

CORPORATES' CONSIDERATIONS

Corporates key considerations when selecting an MMF are split by:

1

YIELD (61%)

2

FEES (51%)

3

FUND RISK
PROFILE (48%)

Performance — yield and fees — remains a priority overall. However, depressed yields are forcing corporates to look for ways to ease the operational burden and reduce the costs that further erode already low returns. At the same time, corporate treasury teams are set on becoming a more strategic business partner, which means providing timely and insights to support business decisions.

This means running an agile team and system set. To do this corporates want less operational friction and more transparency across the investment process.

REDUCING FRICTION

- 97% of corporate respondents note the need for automation throughout the investment process.

This includes easily accessing fund and market information, across multiple systems to support forecasting and decision-making, to automating settlement and position monitoring.

- 33% site manual data entry and reconciliation across systems that do not interact or integrate seamlessly as a significant burden that should be eliminated.

Corporates are also asking for the ability to automate the trade settlement process and move towards a real time settlement environment. This would enable them to optimise their cash usage and avoid incurring bank fees on overdrawn accounts when redemptions earmarked for investment do not arrive on time.

INCREASING TRANSPARENCY

Automating access to real-time information is of particular importance to corporate treasurers whose core responsibility is to manage and optimise cash positions. Real-time information improves the cash forecasting process which facilitates agile decision-making.

Real time information was broken down by the following improvement requirements:

- 48% rates, tenure and fees
- 35% fund performance
- 35% fund composition

Scenario modelling was cited as the second major area of improvement (37%). This is understandable given the survey was conducted from May to July 2020 where firms were revisiting liquidity contingency plans for different stress scenarios. Scenario modelling calls for more integrated, real-time data and insights from the different portals and systems corporates currently use.

- 61% would like more automated MMF analytics.

The use of data to drive analysis is an emerging trend among treasury functions that are increasingly called upon to provide analytics to support business strategies.

SEGMENT SUMMARY: REGIONAL REVIEW

Overall, the regional picture closely mirrors the global one throughout the survey, with some nuances. The main priorities by region were:

1

ASIA
AUTOMATION
(96%)

2

UK
AUTOMATION
(88%)

3

US
AUTOMATION
(94%)

IMPROVING LIQUIDITY AND CAPITAL MANAGEMENT

This was the most frequently mentioned priority for firms in all regions — Asia (Hong Kong and Singapore), the United Kingdom (UK) and the United States (US).

- Asia (52%) noted liquidity and capital management was the most important priority (38% globally).

YIELD

Yield was the major priority when selecting funds globally.

- Asia (84%) yield drives their choice of funds
- UK (48%) viewed MMFs as a means of improving yield versus deposit rates
- US (58%) yield and fees share the top ranking when selecting funds. This might demonstrate a focus on overall returns.

Fees rank in the three most frequently cited criteria for the UK (56%) and Asia (56%).

AUTOMATION

Operational costs and interest rates are a major drag on overall returns across all geographies. With operational costs being more controllable it is no surprise that firms everywhere are turning to operational efficiencies in a bid to reduce manual processes, which create friction, risk and ultimately, costs.

Automation is therefore a theme that is resonant across all regions, with the vast majority of firms noting that automation in one or more stages of the MMF investment process needs improvement.

- Asia (96%), US (94%), UK (88%) one or more stages of the MMF investment process need better automation.

Key areas where firms wanted improvements were:

- Asia (52%) settlement automation (vs. 32% globally)
- UK (50%) reporting automation (vs. 46% globally)
- US (50%) reporting + analytics automation (vs. 46% and 45% globally, respectively)



CREATING CERTAINTY IN UNCERTAIN TIMES

With the increased uncertainty in today's markets, digital transformation of the MMF investment process becomes even more imperative. The Covid pandemic has injected urgency into firms' automation agendas, particularly as businesses embrace digitalisation to enhance business contingency plans.

IMMEDIATE SOLUTIONS TO TODAY'S CHALLENGES

Investors responding to the challenge are looking to easy-to-adopt, proven solutions that can deliver a combination of automation and efficiency, as well as trade, settlement and reporting certainty, whether they manage their investments in the office or remotely. They are looking for technology solutions that they can quickly deploy in order to integrate and standardise data from the multitude of systems they currently use. This will give them the real-time transparency required to access fund information and make better decisions faster, initiate and settle trades with certainty, and monitor and report on them more accurately.

"It's important for us to be connected with money market funds in a very seamless operational way. Interfacing should be easy to do."

— CORPORATE, UK

THE FUTURE IS NOW: TOOLING UP FOR THE 'NEXT NORMAL'

In response to investor appetite to break down current operational constraints imposed by traditional payment and settlement infrastructure, new technology use cases are already being trialed across the industry. For example, tokenisation and distributed ledgers are of particular interest to investors seeking a globally connected, frictionless industry that offers access to MMFs in various currencies around the world, with 24/7 trading and settlement hours. There is also the attraction of on-demand rich, real-time information and reporting for better risk management.

"In the future, there is potential with distributed ledgers to improve settlement times and provide real time settlement capabilities around fixed income."

— BANK, USA

CONCLUSION

Ultimately, investors recognise the benefits that a more cohesive, automated MMF industry can offer them. Integrated systems that eliminate friction will provide investors with the agility and optionality to successfully implement their capital and liquidity management strategies, whatever the market environment.

Such a friction-free investment cycle will benefit the entire ecosystem by reducing complexity, risk and cost, and ultimately bolster MMF returns.

METHODOLOGY

Calastone commissioned financial services client engagement firm Ideas and Action to conduct independent research as the basis of producing this report.

The research explored senior treasury and investment professionals’ strategic priorities, challenges and opportunities as they manage their firms’ money market investments.

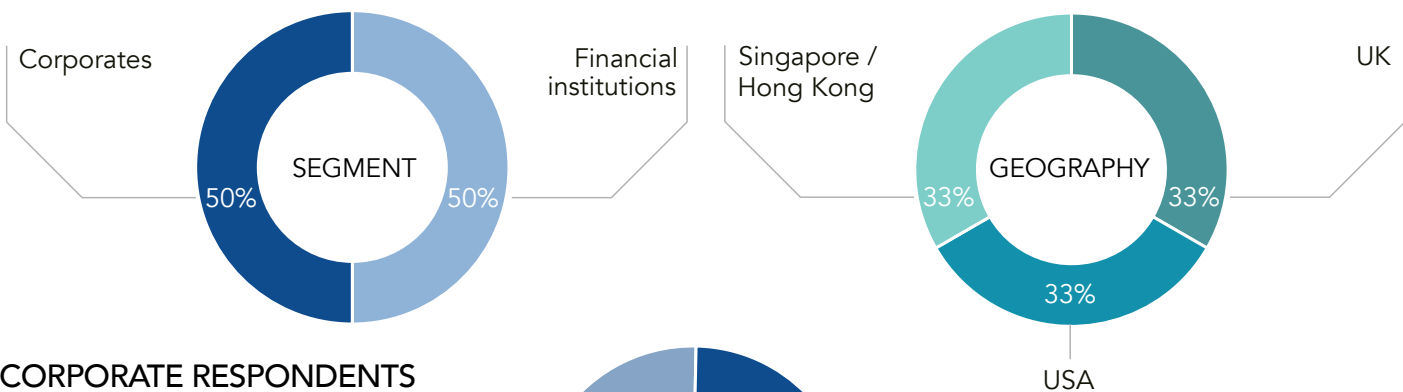
From May to June 2020, Ideas and Action surveyed 150 treasury and investment professionals from large, multinational corporations and financial institutions in the United Kingdom, the United States, Hong Kong and Singapore.

All respondents are senior professionals with direct responsibility for MMF investment strategy or execution on behalf of their firms.

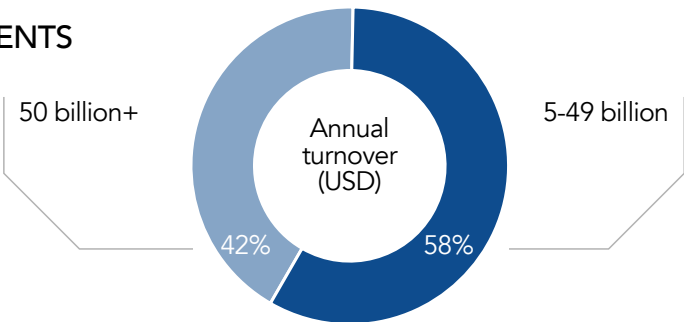
Corporate respondents are senior treasury professionals from businesses with a minimum turn-over of USD500 million per annum across the full industry spectrum.

Financial Institutions respondents were composed of banks, insurers and institutional investors. Turn-over and assets under management are in the charts below.

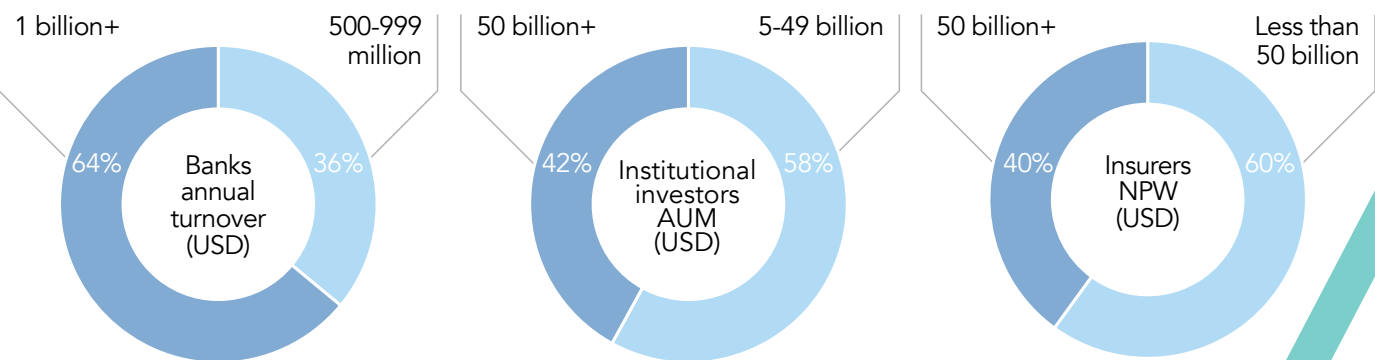
SURVEY RESPONDENT PROFILE



CORPORATE RESPONDENTS



FINANCIAL INSTITUTION RESPONDENTS



ABOUT CALASTONE **MONEY MARKET SERVICES (MMS)**

MMS helps companies, public sector organisations and financial institutions balance their security, liquidity and yield objectives when investing surplus cash.

Using our new Distributed Market Infrastructure (DMI), based on distributed ledger technology, liquidity fund managers are directly connected to their investors, using a fully automated trade process that includes:

- **FULL INTEGRATION:** Fund providers, portals, TMS' and treasury teams can connect using their preferred connectivity method and avoid the need to manage multiple connections with multiple business partners.
- **TRADE PLACEMENT:** Treasurers place all trades with Calastone, or a TMS, and have them automatically routed to their fund provider, or portal, for confirmation and action.
- **CASH SETTLEMENT:** We automatically instruct the fund provider's client bank to make payment upon order placement / redemption.
- **SWEEPS:** Instantly share cash balance information from any bank and any geography to automate the calculation and execution trades.
- **REPORTING:** Investment information, including rates, yields and real time positions, is automatically combined and shared with the treasury team, or made available via a TMS for download.

To learn more about **Calastone Money Market Services** and how it can benefit your organisation contact marketing@calastone.com



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Our mission is to help the asset management industry transform by creating innovative new ways to automate and digitalise the global investment funds marketplace, reducing frictional costs and lowering operational risk to the benefit of all. Through this, we generate the opportunity for the industry to deliver greater value back to the end investor.

Over 2,300 clients in 43 countries and territories benefit from Calastone's services, processing £200 billion of investment value each month.

Calastone is headquartered in London and has offices in Luxembourg, Milan, Hong Kong, Taipei, Singapore, New York and Sydney.

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