5 trends impacting fund managers' approach to cash

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1. Fund managers are changing their approach to cash management.

2. 5 trends including high interest rates, possible recession and a volatile foreign exchange market are driving these changes.

3. Managers of all sizes are looking for innovative ways to make their cash management process active.

Markets are moving in unpredictable cycles, driven by high inflation, interest rate rises, geopolitical shocks and economic shifts. There is a greater expectation on fund managers to find solutions in this volatile environment, as Paul Clohesy and Paul Brighton explore below.

1. High interest rates

Central banks across all major economies have introduced aggressive interest rate hikes over the past 12 months to tame inflation back to target levels. Higher interest rates have created an opportunity for surplus or dormant cash to earn increased yield within flexible on- and off-balance sheet banking products.

The previous negative and low interest environment provided little on low-risk investment products, stifling any encouragement to strategically move funds around. With recent spikes in interest rates in major currencies, there is a lot more opportunity – and therefore interest – from managers to make their money work for them.

The banks’ products and services are constantly being updated in line with economic and market environments and they work with us to provide the best options for our clients.

2. Risk of recession

Within this period of economic and political uncertainty, with the continued crises in Ukraine and the Middle East, economic polls have suggested a continued risk of global recession. This could mean that the window for higher interest rates could be closing.

For fund managers, it becomes important to take advantage whilst the opportunity is still available. For example, managers could actively manage their cash portfolio with low risk, flexible and higher yield products which are being offered by our banking partners, all of whom have gone through a rigorous due diligence process.

3. Foreign exchange volatility

The volatility of the foreign exchange (FX) market is an area of potential risk for clients within the current landscape. Clients can take advantage of bank hedging products to secure an exposure to additional currencies, with differing degrees of participation and optionality. This means that if they are moving money from multiple currencies, FX products can provide a future rate based on the current prices and expected market predictions.

The strike or execution risk of an FX trade on a moving or longer-term date can provide uncertainty for investors who wish to convert cash from another currency. For a client who hasn’t the infrastructure or resources to do this, a fund administrator with experience with multiple currency products within different jurisdictions is an attractive option. The administrator can reduce execution risk, ensure correct reporting and fulfil the regulatory requirements.

4. Resource and technology strategies

Another factor influencing how clients are leveraging their cash is the change in the banking landscape. Whilst global banks are facing challenges in resource capacity and fulfilling the requirement for relationship managers and management of Know Your Client (KYC) and Anti Money Laundering (AML) regulations, we have seen a giant shift in technology investment strategy.

Since the start of the pandemic, heavier investment in third party fintech partnerships and internal technology recruitment drives have created greater focus on bank platform user experience and self-service tools. Technology plays a major part in the speed of opening bank accounts, receiving time-sensitive information, such as the swift GPI (global payment innovation) service to track payments and cash forecasting tools, which all build an improved client experience.

There are several banks now beginning to play catch up with those who invested heavily in 2020 and continue to do so. We work alongside our banking partners with full visibility of those able to provide the superior products and services to our clients.

5. Active vs passive cash management

The biggest trend of all is the uptick in the volume of clients asking for effective cash management solutions. Increasingly too, it is not only the big players, but the smaller fund managers seeking support from fund administrators who have the capacity, technology and negotiating power to deliver innovative ways for them to make their cash management active.

Fund managers who haven't yet taken stock of how their cash is working for them, should do so now, actively managing their cash portfolio while there are still deals to be negotiated in their favour. Simply managing cash passively, for example, putting it in a deposit account and leaving it there, is a missed opportunity – and the window is closing.

To continue the conversation, contact Paul Clohesy who is in the process of developing Aztec Group's banking and treasury team.