



A New Entrant to the Treasury Technology Market: Arlington Securities' Experience

by James Cornell, Treasurer, Arlington Securities

Smaller treasuries do not necessarily have less sophisticated needs, such as in the areas of risk management. Treasury management systems which provide the level of sophistication which is required are not necessarily geared for smaller operations, requiring more investment to implement and maintain than many treasuries are able to dedicate. Recently, we implemented a new system - a market entrant to Europe - which gives us the tools we need whilst being cost-effective and suitable for a treasury of our size.

I joined Arlington Securities in July 2005 and soon afterwards, in December 2005, the company was acquired by Australian-listed industrial property company, the Macquarie Goodman Group. At the time, Arlington was using a well-known treasury management system (TMS) but had never been in a position to dedicate the necessary resources to implementing and using it properly. At the time, we had only two people in treasury but a broad range of complex requirements, both on behalf of Arlington itself and the funds we manage. As our needs were quite demanding for a small treasury, we decided that the amount of investment and resource would have been required to implement the system was not going to be worth it; rather, using the TMS actually slowed us down rather than giving us the efficiency and performance improvements that we were seeking.

New demands on Treasury

The acquisition by Macquarie Goodman increased the demands on Treasury further as we took responsibility for the Macquarie Goodman corporate treasury in Europe. The larger corporate balance sheet capacity available to us acted as a catalyst for the growth of funds under management and associated treasury activities. The acquisition also gave us the opportunity to consider other technology options and we looked at the systems they had in place. The treasury at Macquarie Goodman had recently purchased an Australian system - Visual Risk, a well-respected system in the Australian market amongst

corporate and financial institution treasuries, with a particular emphasis on risk management. We received a demonstration of the system and had the strong impression that it was very well-suited to our purposes, particularly arranging debt and managing risk on behalf of the funds we manage. The reporting capabilities looked intuitive and enabled clear visual representations of information. The newest part of the system, namely the back office, was simple and intuitive which appealed after using a system which had required far more in the way of configuration. Consequently, we decided to license Visual Risk without a formal systems selection process which would have been time consuming and resource intensive.

Shared system

As we could share the system with our Australian treasury, we used a single database which we accessed through a Citrix connection. This gave us some advantage during implementation, as some of the data such as market rates was already held in the database. From a business perspective, the benefits are far greater, as we can manage our business on a 24-hour basis which is a definite advantage for running our treasury operations efficiently. The implementation took one week, including training, by which time we were running the system live. One of Visual Risk's representatives from Australia worked with us and we transferred all of our data from our existing TMS and spreadsheets into Visual Risk.

summary

The author of this article describes how his company's takeover by a large Australian-listed industrial property company, increased the demands on Treasury as it took on responsibility for the Macquarie Goodman corporate treasury in Europe. The enlarged corporate balance sheet capacity available boosted the growth of funds under management and associated treasury activities, and the company decided to implement a new Australian treasury system - a market entrant to Europe - which gives them the necessary tools whilst being cost-effective and suitable for their size of treasury.



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We made the decision to input data manually rather than trying to import information electronically, even though our volumes are quite high. We manage from the UK on behalf of our corporate treasury and our managed funds with around 45 credit facilities including bilateral, syndicated, unsecured, secured and capital markets issues in addition to a large derivative portfolio and complex inter company positions. We input the data manually into Visual Risk, avoiding the need to try and 'shoe-horn' one data set into another format and also gave users practice in how they would use the system in a live environment. We don't perform the accounting for transactions in treasury or even try and set up accounting rules within the TMS - this would have lengthened and complicated a systems project significantly and would have proved very difficult as many of our funds report under different accounting standards.

Benefits

At the time of writing (June 2007) we have now been using the system for three months and it has seven users, four in Europe and three in Australia. We have around A\$13bn in debt under management, over 50 per cent of which is managed from the UK in addition to autonomous management responsibility for a

range of funds and clients, which is effectively the same as managing the treasury operations of approximately 12 separate companies, all bringing their own individual challenges. It has been a considerable benefit to us both from an operational and control perspective to have all of our treasury information stored in a secure and structured way.

The ability to model risk using Visual Risk, such as creating 'what if' scenarios has been a major advantage for us. While this capability exists in other systems, it does not seem as straightforward and intuitive to do so. For example, in the past, we often had to ask the banks for risk modelling, such as Monte Carlo simulation. This was far from ideal, partly because we lacked the analytical capabilities that we and our clients needed, and partly as asking the banks for this analysis can create a sense of obligation to transact business with them, whereas we would prefer to maintain bank independence as far as possible. Another advantage is that the output from the system is very user-friendly and the bespoke report writing, which is so often required with other systems, is minimised. We can create scenarios and place the visual output straight into management and client reports without having to manipulate the data further. Information is



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presented in a very user-friendly way so that those who do not necessarily have a detailed financial background are able to understand and interpret the data without the need for lengthy explanations and footnotes in the report. We see the quality and clarity of reporting as a potential strategic advantage for our business.

European market appeal

A number of the systems in use in Europe today have their origins in Asia Pacific and we see Visual Risk as having significant appeal in a European market. In particular, its attributes in risk measurement and management together with the ability to present high quality output would seem to be useful tools for many treasuries, whether the system is used in isolation or alongside another TMS. The speed and cost-effectiveness with which the system can be implemented, without having to dedicate months of resource to a project is potentially a significant advantage to smaller treasuries and we see other companies following suit. □

Arlington Securities

Arlington Securities was founded in 1981 and pioneered the business park concept in the UK with the development of Globe Park, Marlow. Expansion followed quickly with the creation of business parks at other UK locations as demand for high quality business park accommodation strengthened. After various change of ownership, and the acquisition of Aberdeen Property Investors in June 2004, the company's strategy focused its attentions in three key areas: Property Investment Services, Development Services and Property Services. In December 2005 Arlington was acquired by the Macquarie Goodman Group, the second largest industrial property Group globally. As a result Arlington is now positioned as a leading property services and property investment management business.

James Cornell
Treasurer, Arlington Securities

After the first four years of his career in management accountancy with Tate and Lyle, James Cornell took a treasury analyst role in a mid-cap listed plc in the distribution sector in 2001, and subsequently became Group Treasurer. This was a loss-making group which made the financing work particularly challenging, and as he had taken the ACT examinations he looked for a new treasury position in a FTSE company. He joined Arlington Securities in 2005 and has enjoyed tackling the challenges that came with the explosive growth following its acquisition by the Macquarie Goodman Group.