

Demand for middle office outsourcing surges in 2024

All services see rising volumes as alternatives managers continue to outsource non-core functions



Introduction

Alternatives managers serviced by the Citco group of companies (Citco) increased their use of outsourced middle office solutions last year, with volumes in several areas accelerating, new data can reveal.

Among the key findings, the data showed significant growth in both the number of clients outsourcing functions such as collateral and treasury management, and in the volumes they are outsourcing, as managers continue to look for ways to support their future growth by getting external support for non-core activities.

Citco data showed an acceleration in the value of treasury transactions, which rose by 27% year-on-year to almost \$2 trillion, with new monthly records for payment volumes seen continuously throughout 2024.

The amount of collateral transactions outsourced to Citco also climbed in 2024, rising by almost a third, while the value of margin movements processed surged some 75%.

There was also a significant uplift in the number of clients outsourcing trade operations, while volumes for outsourced trade operations, one of the busiest areas in 2023, continued to grow in 2024.

Why are these areas seeing sustained growth? There are multiple drivers behind the trends we are seeing playing out across middle office.

Firstly, in today's world managers are not trading in a single region, but around the globe. With new rules coming in – including the T+1 settlement which took effect this year in Canada, the US and Mexico – managers are seeing increasing value in turning to service providers to deliver follow the sun coverage, saving them the expense of building global teams in-house.

Trade operations is another case in point. Managers want their trades matched efficiently and effectively and having a third party to take responsibility gives them peace of mind.

Outsourcing these elements of middle office can help support managers as they strive to scale up their businesses, and our data shows this playing out – managers increasingly want an extension of their businesses via third parties who can offer the best-in-class people and technology, allowing them to get on with their core business of delivering returns to their investors.

As investor expectations increase in key areas, putting more pressure on managers to keep them better informed about their portfolios, we expect middle office outsourcing growth rates to accelerate further, and we stand ready to support our growing client base by delivering leading solutions and services.

Looking forward, Citco sees a new model taking hold across alternatives and beyond whereby most operational work will be outsourced, allowing in-house teams to focus on oversight and true value-add tasks.

Our data insights

Citco's Middle Office Solutions team has compiled data on overall trade volumes, values and collateral calls for 2024.

Data on payments volumes and collateral moves are constituted by all dispatched payments including Letter of Acceptances. All data is drawn from clients using our proprietary systems, AExeo® Collateral and AExeo® Treasury. All transaction types are included from tax payments to loan funding, transaction costs, cash collateral and OTC settlements, among others. The underlying funds include all Hedge, Private Markets, Real Assets, Family Office and Institutional funds in our client base encompassing a significant proportion of the more than \$2 trillion of Assets Under Administration Citco administers.

Treasury volumes and values

Citco saw the number of clients using outsourced treasury surge by 25% year-on-year in 2024, far outstripping the previous year.

The amount of treasury transactions processed grew at 17%, in-line with the previous year, and taking the tally to over 597,000 individual transactions processed in 2024.

The value of treasury transactions grew much faster, at 27% in 2024. In total, the value of treasury transactions processed rose to \$1.97 trillion, with growth seen across all major areas.

Invoice volumes climbed 9% year-on-year, while trade settlement and margin/broker transfer volumes both climbed 21%.



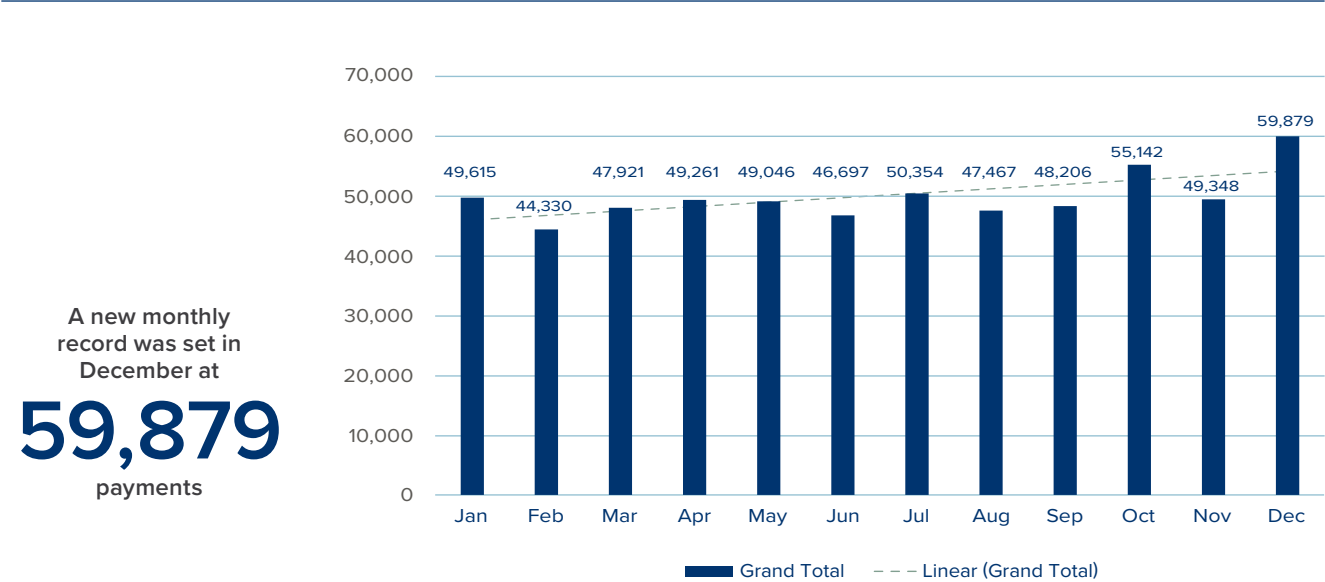
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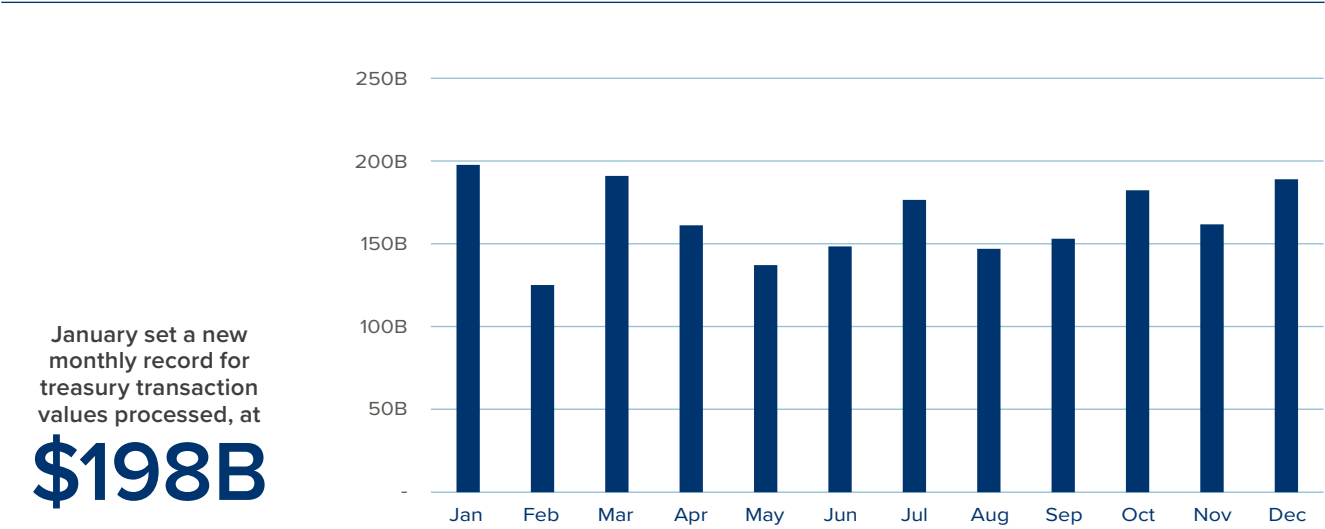
Value of treasury transactions processed by Citco hit

\$1.97 trillion

2024 TREASURY VOLUMES BY MONTH



2024 TREASURY VALUES BY MONTH



Collateral calls

Outsourced collateral call volumes administered by Citco jumped by almost a third (31%) year-on-year in 2024 as funds continued to use third parties to cover their collateral trade administration.

Collateral volumes climbed to over 80,000 trades, with the number of clients outsourcing collateral rising 6% year-on-year.

Activity was concentrated in the final month of the year when Citco saw a surge in cash margin movements. Market volatility was the big driver of this surge, amid the interest rate cut from the Federal Reserve which lowered the range to 4.25%-4.5%.

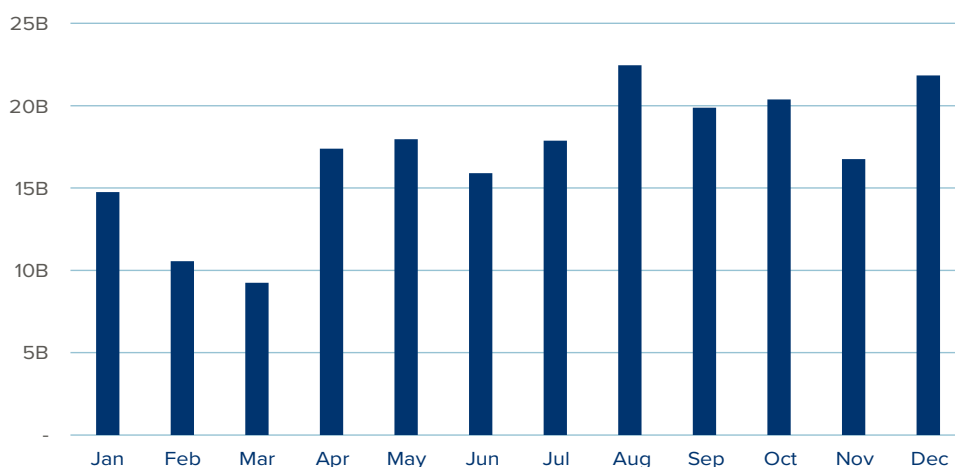
The value of margin movements that ran through Citco's middle office platform also jumped sharply, rising 75% to almost \$205B, up from \$116B the previous year.

Both cash and securities margin movements rose by 52% year-on-year, although cash margin calls remain far more popular, accounting for almost 90% of all collateral transactions.

Our Æxeo Treasury platform, which integrates seamlessly with Citco's proprietary Æxeo Collateral and Invoice Management module, provides a completely end-to-end workflow for tracking collateral movements. Our collateral management tool is directly integrated into Swift via Æxeo Treasury so that once a collateral movement is agreed to, it flows to treasury for approval and then into Swift, all using straight through processing.

2024 COLLATERAL BY MONTH

75%
increase in value of
outsourced collateral
transactions in 2024



Trade operations

Trade operations activity rose by 12% year-on-year in 2024, with the amount of clients outsourcing to Citco growing by 16%.

Having seen a huge surge in demand in 2023 when outsourced trade operations more than doubled, growth was more normalized in 2024, going through 2.2m trades processed annually.

Listed trade volumes rose 29%, while equity swaps climbed 18%, but the big area of growth in 2024 was FX. Currency trade operations jumped 117% in 2024 overall to make it the second highest category by volume.

In comparison, there was a drop in futures and options trades of 88%, while OTC trades also dropped 61% as FX became one of the key areas of interest.

Trade fails also dropped back by a fifth to just 4% of all trades, even as the number of trades administered by Citco rise sharply, thanks to Citco’s ongoing investment in its technology, people and processes.

↑ Citco saw a
117%
↑ increase in FX
↑ trades versus the
previous year



How we can support and improve your Middle Office

Citco is focused on providing solutions to any challenges clients and prospects may be facing, and is in regular contact with market participants to develop the right products and services you need. We stand ready to support your business with a range of middle office solutions.



1. Legacy treasury management requires the use of physical tokens and separate usernames and passwords for all of a firm's different banking portals. A manager's cash management can be severely hindered, with payments halting, if any of these expire. Citco designed the cloud-based Æxeo Treasury platform with this in mind, and its functionality allows for streamlined, centralized access for approval of wires, removing the need for tokens, and providing you with clarity on whether funds have been paid and received.



2. Citco's Æxeo Collateral platform was designed to provide peace of mind to managers, giving teams information about counterparty risk instantly, along with daily management reporting for quick and timely decision-making. Citco also has a dedicated team for the timely and accurate management of counterparty exposure and daily calls, ready to manage a significant increase in margin movements so that your fund avoids being labelled as a credit risk.



3. Increased trading volumes create the potential for reconciliation issues in the form of an increase in breaks. Citco's scalability means our team can handle increased volumes and break resolution directly to the street. Citco's Æxeo® Trade Operations solution allows for the automation and streamlined matching of trading on T+0, resulting in a decrease in breaks on T+1. Citco can also help funds by providing daily-dedicated coverage to handle street-facing break resolution and timely settlement of OTC trades and related cash flows.



4. Citco's collateral management tool is directly integrated into Swift via Æxeo Treasury. Once a collateral movement is agreed, it flows to treasury for approval and then into Swift – all STP.



2024 was another impressive year of growth for middle office, with more clients than ever before outsourcing this function.

While it has historically been done internally, the mindset among alternative asset managers, as well as corporates and banks, is changing, and we see it very much like the development of the cloud.

A decade ago, businesses wanted everything on their own premises but fast-forward to today, and you would be hard pressed to find anyone who doesn't have data in the cloud.

We see the same thing happening for middle office – we are on the cusp of a generational shift for middle office, with managers starting to see the benefits of the major advancements in technology and servicing which they can utilize to help scale their own businesses faster.”

Ryan Fitzgerald, Head of Middle Office Solutions, Citco Fund Services (USA) Inc.

Overview of Middle Office Solutions

Reduce costs, add scale and minimize operational risk by partnering with Citco and our proprietary technology.



SWIFT CONNECTIVITY SOLUTION:

Citco offers best in class service for payments, settlement, corporate actions and more

Swift connectivity is an essential operational must-have for institutions across the financial spectrum involved with capital markets. However, building and maintaining your own Swift infrastructure can be costly and time-consuming. Citco's Swift Service Bureau is here to remedy that, offering a multi-layered solution.

Citco's Swift Service Bureau enables hedge, private markets and other alternatives managers to access the Swift network via their own platforms, or through Citco's Æxeo Treasury platform.

Via the Bureau, our certified specialists help clients connect their own Business Identifier Code (BIC) to access the Swift network without having to build their own infrastructure to facilitate this access.

In addition, our simplified Customer Security Programme (CSP) solution lowers users' annual compliance burdens by over 60%, saving them time and reducing costs.

FOR SWIFT CONNECTIVITY WITH ZERO MAINTENANCE, WE OFFER:



Digital Identity BIC (Business Identifier Code) management

- Operational scaling and efficiencies
- Solution for risk and compliance needs



Platform agnostic Swift connectivity

- Integrate with any industry systems



Citco's Æxeo Treasury platform Swift connectivity



Access to latest Swift services

- Messaging channels – FIN MT, ISO20022 and FileACT
- Future proofed with Swift essentials (not limited to); GPI – Global Payments Innovation, Financial Crime Compliance, Relationship Management Application (RMA) and more.

CITCO

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