NeuGroup Insights

Key Takeaways from NeuGroup's 22021 H1 NeuGroup for Cash Investment 2 Meeting Cycle

At a virtual meeting sponsored by State Street Global Advisors, members discussed ESG, cryptocurrency and hybrid working solutions

All Aboard? The Crypto Train Has Left the Station

Finance teams need to look beyond Bitcoin to broader opportunities offered by blockchain technology and digital assets.

Don't let all noise blaring from Bitcoin drown out the broader implications of blockchain technology and the need for finance teams to understand the potential opportunities offered by cryptocurrency and other digital assets, including tokenized securities.

- That bottom-line takeaway emerged at a recent meeting of NeuGroup for Cash Investment 2 sponsored by State Street, where representatives from Deloitte as well as cryptocurrency fintechs Lukka and Arca Labs walked members through the innovative possibilities of digital assets.
- "From a treasurer's standpoint, I've seen a progression of acceptance of digital assets through the years," said Carina Ruiz, a Deloitte Risk & Financial Advisory partner. "From our first conversations with clients saying 'heck no' to understanding that this is the way of the future and something they need to accept, whether or not we receive or pay through it. The ship has sailed."

Beneath the headlines. Tim Davis, a Deloitte Risk & Financial Advisory principal and Deloitte's Global Center of Excellence for Blockchain Assurance leader, said frequent headlines about Bitcoin's ups and downs can cause people to miss the point. "The point is not Bitcoin's volatility, the point is the innovation," he said. "It's a Cambrian explosion of innovation in the financial markets."

- Blockchain innovations have led to trustless computing and decentralized finance (DeFi) tools that he said can disintermediate traditional ecosystem platforms and allow for more efficient, transparent transactions.
    - Trustless computing eliminates a middleman, allowing for direct account-to-account transactions, and DeFi that relies on a blockchain can eliminate the need to trust a bank or other counterparty.
- Mr. Davis referred to two pieces Deloitte published about corporate investing and the use of cryptocurrency in business, which emphasize that cryptocurrency technology is an area ripe with opportunity.
    - Lukka CEO Robert Materazzi said crypto is not simply a new asset class, but a technology that can be applied to any asset class.

- "It has resulted in some new asset classes, like cryptocurrencies such as Bitcoin; we'll see if these assets are around in 10 years," he said. "I don't know if Bitcoin specifically will be, but I do believe assets will be using blockchain, and I think it will change the way that assets are managed around the world—across all businesses."

An opportunity to educate. Many members are asking what steps treasury can take in the near future to prepare for the changes coming with crypto and other digital assets.

- Rob Massey, a partner and global tax leader for Deloitte's blockchain and cryptocurrency team, said a good start is enabling the organization to use digital assets "in an investment category, payment or in your business. It is a good way to test-drive and stress-test [your company's] systems."
- He said this can also help treasury understand how another team within the company will potentially treat cryptocurrency. "What they used to do with some other asset is different from what they're going to do with crypto, so you have to learn their sensitivities real-time. You're in it together."

Other takeaways. Mainstream financial institutions, including custody banks, are adopting the tech and data management infrastructure of cryptocurrency native exchanges. Fintechs can offer some assistance on the data management side; one example is Lukka, which transforms blockchain data into business information that's easier to parse.

- As cryptocurrency becomes more regulated, KYC is also becoming more critical—and more digitized, a digital onboarding process that may be more intensive.
- Tokens or new digital securities backed by Treasury securities—like those of Arca—highlight how traditional investment products could be wrapped in the ecosystem, and be more likely to pass muster with corporate investment policies as well.
- Popular cryptocurrencies like Bitcoin and ether go up to eight and 18 decimal places, something members say corporate and bank systems are not currently set up to handle.

Hot Desks, Hybrids and Introverts: Managing Post-Pandemic Work

Takeaways on talent management as 100% remote work gives way to hybrid models and new hiring challenges.

The transition from completely remote work to whatever comes next—back to the office, work at home, a bit of both—is in full swing across companies in the NeuGroup Network. The topic is generating lots of interest at meetings as finance teams plot a course for post-pandemic work that will in many cases be unlike what work life resembled pre-pandemic.

NeuGroup founder and CEO Joseph Neu moderated recently moderated a pair of meetings, including NeuGroup for Cash Investment 2, that covered details of the transition and the larger issue of talent management. Here are some of his takeaways. Here are some of his takeaways.

- **Introverts vs. extroverts.** The former will want to keep working from home and the extroverts may be enticed back in to the office because they miss the social interaction. Consider how this plays out in your current team and roles, and factor it in as you onboard new hires.
- **Hoteling and hot desking.** These approaches to creating a more flexible workplace—one involves reserving desk space in advance, the other doesn't—are in vogue now. That means many employees will be returning to an office landscape that's unfamiliar. Be ready for that. Not all members are sold on this solution working or lasting.
- **Meet outside the office.** Since hoteling and hot desking may change the dynamics of the office and present booking and scheduling complications, don't be afraid to continue meeting with people outside of the office.
- **Over-engage.** A few members who switched companies recently noted that their remote or hybrid onboarding was heavily facilitated—far more than for the typical new finance hire. This prompted the thought to over-engage with new hires for the treasury team in a similar way.
    - The same approach could be taken for existing team members. One member indicated employee surveys suggest that people appreciate check-ins, so weigh that carefully against the fear that you, the boss, are intruding.

- **Virtual still works.** Most members agree that banker meetings work well virtually and should continue to be remote more often than not. Take an inventory of other meeting types that continue to work well virtually post-pandemic.
- **Skill gaps and how to fill them.** Soft skills especially, like how to present to senior management and appear before the board, are harder to acquire remotely. So members are concerned about gaps in development that may take more time to fill. Proactive steps should be taken to mitigate them accordingly.
- **Policy uncertainty.** You simply don't know where people are until you tell them they have to come back. Members noted that when companies make a definitive return-to-office announcement, they will not know how many of their employees have moved away from the ring-fencing zone for work-from-the-office mandates, no matter how many days a week that is. Therefore, policies, as announced, may change if key talent says no.

Talent management: Insights from a NeuGroup partner:

- The fight for talent means supporting employees to reach their full potential, whether they are hybrid, primarily at home, primarily in the office or fully remote.
- To stay agile, establish guardrails, but allow team leaders both in business development and operations to create the plan that works best for their teams.
- Integrate key corporate attributes and the "company way" with employee engagement, training and development.
    - It starts with a well-thought-out onboarding process with tangible waypoints and extends into learning management with a company "academy."

Leaning into ESG: How a Portfolio 'Tilt' Can Pay Off

State Street experts recommend how to optimize an investment portfolio for both ESG and credit quality.

It's a complicated world of ESG scores and standards, especially when managing an investment portfolio. Top of mind for NeuGroup members putting corporate cash to work: Should they prioritize ESG performance or maximize returns? Hint: It's not too much to ask for both.

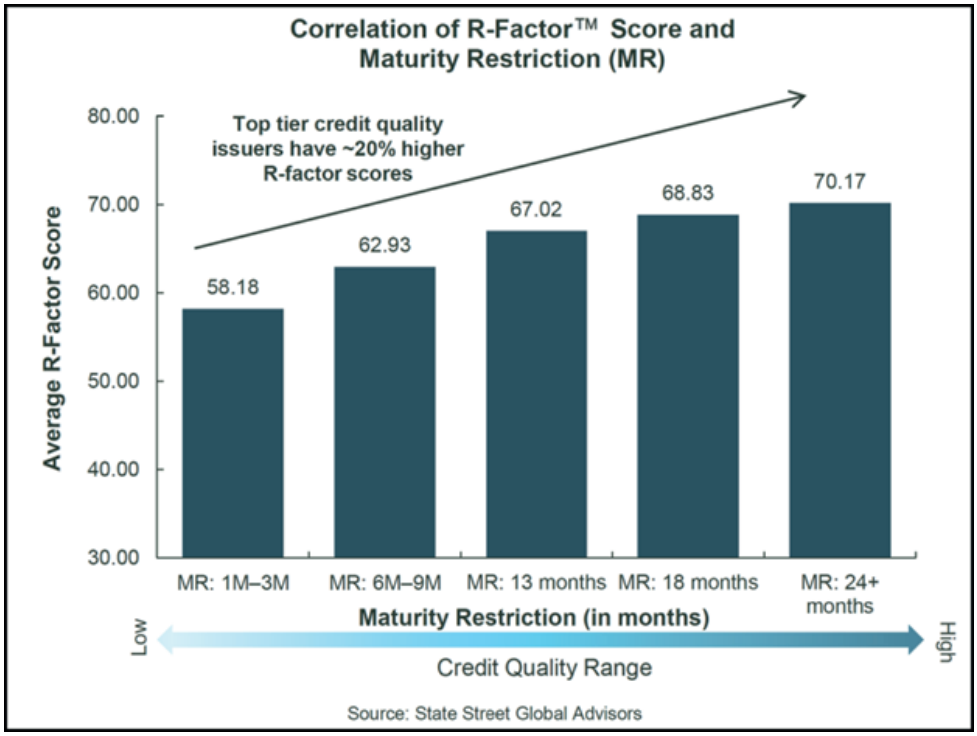
- At a recent meeting of NeuGroup for Cash Investment 2, Will Goldthwait and Karyn Corridan, ESG investment experts from State Street Global Advisors, shared the advantages of tilting a portfolio toward companies with higher ESG scores, and why that may be more beneficial than an exclusionary approach.
- •According to State Street data, there is a strong correlation between a money fund's ESG score and its overall credit value, a testament to the benefits of tilting—though it requires that an investor trusts the ESG scorer's approach and methodology.

Understanding tilts and taking a stance. Historically, ESG investment mandates applied exclusionary screens to equities that contradicted the holders' social or moral values (like tobacco companies). However, concern about missing upside and the larger global stance on environmentalism and human rights has shifted the way some investors think about ESG investing.

- "What's changed in the last couple years is tilting a portfolio, and not being exclusionary," Mr. Goldthwait said. "I think, ultimately, that is beneficial to ESG efforts here in the US."
- By looking at what funds include, rather than what they exclude, asset managers (like State Street) can focus on financial materiality, creditworthiness and the wider sustainability strategies of fund composition.
- Looking at European companies, "we can see that over there, clients are like 'I want carbon-free, right now, let's do it,'" Mr. Goldthwait said. "I don't think the US is quite there yet, we're sort of in the process of trying to understand what that return construct looks like."

Higher scores, stronger credits. Flipping to an inclusive approach and tilting asset allocation has allowed State Street to push performance while keeping within the perimeters of a client's moral compass and to prioritize safety, liquidity and yield.

- State Steet's ESG scoring system, named Responsibility Factor or R-Factor, uses Sustainability Accounting Standards Board (SASB) frameworks to evaluate the performance of a company's ESG business operations and governance.
- "When we first looked at applying it to a money market fund, what we found, very interestingly, is there's a strong correlation between companies that have a higher R-Factor score and our maturity restrictions set by our credit analyst," Ms. Corridan said (see chart to the right).



- "By having a fund that integrates ESG considerations, it's essentially giving you a portfolio with a higher credit quality."

Transparency, trust and communication. But many corporates have said they are still sitting on the ESG sidelines trying to make sense of scores and various benchmarks, repeating in various NeuGroup meetings that it's a real challenge to weed through the noise and get an apples-to-apples comparison when evaluating investment options.

- Compounding this difficulty is that asset management firms are weighting ESG components differently, including measurements like R-Factor.
- Members agreed that it is important for them to be able to have frequent dialogues with their asset managers to appropriately understand their investment approach and how their funds are tilted (overweight) to equities or exclusionary (underweight) to ESG.
    - In addition, asset managers should provide full transparency as to how their investment accounts tilt so that corporates may trust and believe in their process.
- "The future state is if ESG is successful, it's going to be successful by picking companies that ultimately help perform on your traditional metrics while also delivering high-performing ESG scores," Mr. Goldthwait said.