



Success story

RIMES breaks new ground with FX overlay project

Client

One of Switzerland's largest pension funds

Need

To calculate the benchmark return and FX overlay

Key Takeaway

A solution that provides complete and reliable visibility into the fund's strategic benchmark FX exposures

it quickly became apparent that RIMES would be able to provide a workable and cost-effective solution

One of Switzerland's largest pension funds had overhauled its investment process and needed to recalculate its strategic performance benchmark as a result. With FX overlay calculations proving challenging, the firm looked to RIMES for help.

A benchmark refresh

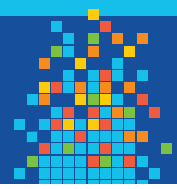
In 2018, one of Switzerland's largest pension funds had commissioned Dr. Stefan J. Illmer, a globally-respected investment performance consultant, to conduct a review of the performance calculation underpinning its strategic benchmark as part of an operational refresh. Having defined how best to calculate the return on the benchmark, Stefan and his client hit a roadblock relating to the fund's FX overlay strategy. One problem was that the firm uses a large number of indices from different providers, each with its own technical setups for calculating hedged returns.

Additionally, the firm only needed to hedge certain specific FX components of its strategic benchmark – not all of them. If the fund was to calculate its hedged returns consistently and accurately, it would need access to the data within each vendor index in order to simulate the hedged return. But more than that: it would need access to the actual FX exposures.

Calculating FX exposures

The challenge is that in some areas, particularly equity accounts, the FX exposure isn't always identical to the currency exposure of the index. For example, Swiss stock traded in New York is traded in dollars; however, the FX exposure will be in Swiss francs given the country of domicile. To gain a true understanding of its FX exposure, the firm therefore needed to change currency data into domicile data.

A similar challenge related to the indices the firm used to measure the performance of its illiquid investments. The fund needed to find a way to incorporate the FX exposure of these investments, which it received on an irregular basis, into its strategic benchmark calculation.



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RIMES comes on board

At this stage, the firm had defined a manual for its strategic benchmark, identifying the data and calculations required. The next step was to find a partner to calculate the benchmark return and FX overlay.

The fund put out an RFP to six potential partners, one of which was RIMES – data provider to its global custodian. During the RFP process, it quickly became apparent that RIMES would be able to provide a workable and cost-effective solution. Significantly, although RIMES didn’t have an ‘off-the-shelf’ solution to the fund’s challenges, it did have access to the requisite constituent data and was ready and willing to build a unique, tailor-made solution to meet the firm’s needs.

A unique solution

Over just three months, RIMES identified and accessed the constituent-level data the pension fund would need to accurately identify FX exposures within its performance benchmark and worked on the associated calculations. Following that, a further three months were spent testing and perfecting the system. During this process, RIMES demonstrated its ability to adapt to the client’s unique processes and calculations.

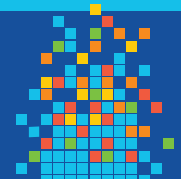
For example, during the test phase it emerged that the calculations RIMES uses for FX forward rates was different to the fund’s calculations. This is because the latter calculates its own bespoke forward rates using a spot mid-rate, and then adding a forward basis point series based on the bid, something unique to the company. Thanks to the flexibility of RIMES’ data processes, however, it was able to match the fund’s method and harmonize its FX forward rate calculations.

Once the FX overlay calculations had been honed, the pension fund involved its global custodian so that the FX overlay calculations could be included in its overall return calculation for the strategic benchmark. The resulting solution from RIMES provides the pension fund and its custodian with granular, fully automated, quality-assured FX overlay data in system-ready feeds. The approach means that the fund can have complete confidence in its strategic benchmark and removes the need to manage the highly complex data calculations internally, allowing the firm to focus on its core business activities.

The benefits of RIMES

As a managed data service provider, the immediate benefit of working with RIMES was that it had instant access to the index and reference data required by the fund for its benchmark. What’s more, as the FX overlay services leverages the RIMES Managed Data Services, the fund benefits from validation and workflow optimization that guarantees the timeliness, accuracy, completeness and validity of the data. RIMES therefore provides complete and reliable visibility into the fund’s strategic benchmark FX exposures.

What’s more, RIMES’ service is provided in feeds that are pre-formatted for immediate use in the fund’s internal systems. In the case of this project, RIMES also provides a feed to the global custodian, tailored to its own systems and controls.



“As this project shows, RIMES’ strength lies in our ability to spin up new services using the core building blocks of our MDS”

As Stefan Illmer explains: “Of all the companies we spoke to, RIMES was the only one that understood immediately what we required and how we could meet our aims. The team showed a willingness to engage with the client on something that was totally new and worked incredibly fast to build a solution. FX overlay is a highly complex process, especially to run it regularly. That RIMES could completely automate the process stands testament to its capabilities and I honestly doubt that any other provider would have had as much success.”

James Rixon, the RIMES Sales Engineer involved on this project, added: “RIMES is primarily known as a data management company, but we do so much more. As this project shows, RIMES’ strength lies in our ability to spin up new services using the core building blocks of our MDS. As in this case, the request of a single client has allowed us to develop a new, value-add service that we can take to other clients experiencing similar challenges. For me, this is the key benefit of RIMES: our access to the data and tools needed to flex to clients’ exact operations and investment strategies. The work with the Swiss fund has been a great experience and we look forward to working with more clients in the future on such ground-breaking projects.”

Let’s talk.
Contact us at
info@rimes.com
to find out how we
can help your firm.



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