# AFP 2006
# Liquidity Survey

## Report of Survey Results

*July 2006*

*Underwritten By*

CREDIT SUISSE

Association for Financial Professionals

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Comments from Credit Suisse

Credit Suisse Asset Management is extremely pleased to sponsor the first 2006 AFP Liquidity Survey.

As a leading provider of cash management services with over $70 billion of global cash and short duration assets under management, we welcome an opportunity to assist in the discovery stage of a process that should benefit corporate and institutional investors.

We believe that the AFP Liquidity Survey will help to establish a baseline awareness of current U.S. cash investment practices and provide new ideas leading to improved investment performance and/or risk reduction.

The AFP Liquidity Survey not only records investor attitudes toward cash investing and the use of well-established investment vehicles, but also explores several newer topics such as the use of "Cash Plus" investment pools. Cash plus pools are similar to money market funds in that they strive for principal stability but seek slightly higher yields and offer less liquidity. The survey also quantifies the growing role of trading platforms that offer a selection of money market funds and securities as well as operating efficiency. In addition, the survey measures the role of cash management separate accounts as distinct from self-directed investments in securities and money market funds.

We are confident that practitioners will benefit from a clearer view of industry practices that will either confirm their current approach or serve as a catalyst for consideration of different approaches used by others.

We look forward to your feedback on the 2006 survey results as well as your thoughts for future survey topics.

Sincerely,

John M. Winters, CFA
Director
Credit Suisse Asset Management, LLC

# AFP 2006 Liquidity Survey

## Introduction

Many organizations have in recent years generated historically high levels of cash flow as the result of a sustained period of strong earnings growth. Due to a perceived dearth of opportunities to invest in new projects or acquisitions, many organizations cash holdings have increased as well. Some cash-rich organizations are using their stockpile to fuel a surge in share repurchases. Others continue to build cash levels while seeking long-term business opportunities that will fuel organizational growth. As organizations wait for new investment opportunities to present themselves, they are looking for ways to bolster the return on short-term investments to contribute to immediate earnings growth.

To improve the return on short-term investments, many organizations are diversifying their short-term portfolios beyond traditional vehicles such as bank deposits, treasury bills, money market funds and commercial paper. Other instruments that organizations commonly use include repurchase agreements, agency securities, Eurodollar deposits, asset-backed securities, auction rate securities and variable rate demand notes. Some organizations are even turning to less liquid, riskier cash plus and enhanced cash funds. As organizations consider these new investments, it is critical that investment decisions be consistent with a written investment policy. Surprisingly, many organizations still do not have such a policy governing their investment activities.

Another method organizations use in attempting to generate higher returns is employing the specialized expertise of outside investment managers. While many organizations use outside investment managers for some portion of their short-term portfolios, this expertise can be especially valuable as organizations consider less liquid or lower-rated investments. Outside expertise may also take on increased importance as organizations increase risk by extending the duration of their core investments.

In addition to looking for higher-yielding investments, many organizations are trying to lower the costs associated with managing and administering a short-term investment program. One of the tools that can help them accomplish these goals is a short-term trading portal. These portals provide a convenient way for investors to compare yields across multiple fund families, reduce paperwork and minimize wire transfer costs.

In May 2006, the Association for Financial Professionals (AFP), through the generous support of Credit Suisse Asset Management (CSAM), conducted a survey to provide the finance profession with an understanding of how organizations are currently managing their short-term portfolios. The 342 responses to that survey are the basis of this report.

  

## Key Findings:

Key findings of the 2006 AFP Liquidity Survey include:

- Forty percent of organizations in May 2006 hold a larger U.S. cash and short-term equivalent balance than they carried six months earlier.
  - Twenty-four percent of organizations are carrying a smaller cash and short-term equivalent balance compared to six months ago, while 36 percent of organizations experienced no significant change in their short-term investment balances.
- Twenty-seven percent of financial professionals expect their organizations to increase their U.S. short-term cash and equivalents balances over the next 12 months.
  - About a quarter of organizations expect their organization to decrease their U.S. short-term balances over the next year while nearly half expect little significant change.
- Eighty percent of organizations have a written cash investment policy.
- Organizations' policies allow for the use of an average of 7.6 investment vehicles for its short-term investments.
  - Virtually all organizations permit the use of bank deposits and treasury bills as vehicles for short-term investments.
  - Eighty percent of organizations permit the use of money market mutual funds, while 77 percent of organizations permit the use of commercial paper.
- On average, organizations use 2.9 investment vehicles for its cash and short-term equivalents balance.
  - Large organizations use an average of 3.0 vehicles compared to 2.8 for small organizations while net investors use an average of 3.3 vehicles compared to 2.3 vehicles for net borrowers.
- Organizations that use cash plus funds typically expect an 8.6 basis point advantage when using cash plus funds over money market funds.
- Twenty-four percent of organizations use an electronic, multi-family trading portal to execute at least some of its short-term investment transactions.
  - Organizations using trading portals move an average of 69 percent of their money/market mutual fund holdings through the trading portal.
- A quarter of organizations use an outside investment manager to administer some portion of their short-term portfolios.

## Investment Policies

Many organizations have increased their U.S. holdings of cash and short-term investment vehicles over the six-month period between November 2005 and May 2006. During the same time period, organizations are less likely to have increased their non-U.S. cash holdings. This finding is most probably the result of organizations repatriating foreign earnings pursuant to the American Jobs Creation Act of 2004.

Forty percent of organizations hold larger U.S. cash and short-term equivalent balances than they carried in late 2005. Twenty-four percent are carrying smaller cash and short-term equivalent balances while 36 percent of organizations experienced no significant change in their short-term investment balances.

Net investors are more likely than net borrowers to have increased their U.S. cash holdings since late 2005 (46 percent versus 35 percent). Further, organizations with non-investment grade credit ratings are more likely to currently hold more U.S. cash those organizations with investment grade credit ratings (49 percent versus 40 percent) than they were in late 2005.

Thirty percent of organizations that have non-U.S. cash and short-term equivalent balances indicate that these balances have increased over the past six months. Half of these organizations indicate little significant change in their non-U.S. cash balances while 22 percent of organizations report smaller non-U.S. balances.

**Change in Cash and Short-term Equivalents Balances Over the Past Six Months**
(Percentage Distribution)

| | | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|---|
| **U.S.** | Much larger | 11% | 12% | 13% | 13% | 12% | 12% | 14% |
| | Somewhat larger | 29 | 30 | 30 | 22 | 34 | 28 | 35 |
| | No significant change | 36 | 35 | 38 | 47 | 29 | 38 | 31 |
| | Somewhat smaller | 17 | 15 | 14 | 8 | 20 | 16 | 11 |
| | Much smaller | 7 | 9 | 5 | 10 | 5 | 6 | 10 |
| **Non-U.S.** | Much larger | 7% | 5% | 7% | 3% | 6% | 3% | 10% |
| | Somewhat larger | 23 | 23 | 26 | 25 | 25 | 22 | 24 |
| | No significant change | 50 | 50 | 59 | 47 | 57 | 53 | 57 |
| | Somewhat smaller | 19 | 20 | 7 | 25 | 10 | 20 | 10 |
| | Much smaller | 3 | 2 | * | * | 2 | 2 | * |

Twenty-seven percent of financial professionals expect their organizations to increase their U.S. short-term cash and equivalents balances over the next 12 months. About a quarter of organizations expect their organizations to decrease their U.S. short-term balances over the next year while nearly half expect little significant change. Financial professionals from smaller organizations report that they are more likely to increase their U.S. short-term cash holdings than are those from large organizations (32 percent versus 25 percent). Further, organizations that are net investors are more likely to increase their short-term balances over the next year than are net borrowers (32 percent versus 23 percent).

Organizations with balances of non-U.S. cash and short-term equivalents report similar patterns of their expectations in the change in balances over the next year. Twenty-two percent of these organizations expect their balances of cash and short-term equivalents to grow over the next 12 months while 27 percent expect these balances to decrease. Fifty-one percent expect little change in their non-U.S. cash balances.

**Expected Change in Cash and Short-term Equivalents Balances over the Next Year**
(Percentage Distribution)

| | | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|---|
| **U.S.** | Larger | 27% | 25% | 32% | 23% | 32% | 28% | 31% |
| | About the same | 49 | 50 | 49 | 54 | 46 | 50 | 46 |
| | Smaller | 24 | 25 | 20 | 24 | 22 | 23 | 24 |
| **Non-U.S.** | Larger | 22% | 19% | 19% | 14% | 24% | 21% | 17% |
| | About the same | 51 | 49 | 59 | 51 | 57 | 59 | 44 |
| | Smaller | 27 | 32 | 22 | 35 | 20 | 20 | 39 |

Most organizations have a written document that defines their policies for short-term investments. Written cash investment policies outline the acceptable investment vehicles and the percentage of the portfolio that may be invested with those vehicles, along with the maximum maturity allowed and the minimum credit rating necessary for each investment vehicle. Maintaining a written investment policy is considered a best practice and often is used as part of an organization's efforts in complying with Sarbanes-Oxley.

Eighty percent of organizations have a written document that outlines the organization's policies on cash investments. Large organizations, organizations that are net investors and those with investment grade credit ratings are most likely to have a written cash investment policy. Surprisingly, a third of organizations with annual revenues below $1 billion do not have a written cash investment policy.

  

**Organizations with a Written Cash Investment Policy**
(Percentage Distribution)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Has a written cash investment policy | 80% | 92% | 66% | 77% | 83% | 85% | 73% |
| Does not have a written cash investment policy | 20 | 9 | 34 | 23 | 17 | 15 | 27 |

Whether they have a written cash investment policy or not, most organizations have a list of permissible investment vehicles that they can use for their short-term investment portfolio. On average, organizations can use 7.6 investment vehicles for their short-term investments. Virtually all organizations permit the use of bank deposits and treasury bills as vehicles for short-term investments. In addition, 80 percent of organizations permit the use of money market mutual funds, while 77 percent of organizations permit the use of commercial paper. A majority of organizations also permit investments in repurchase agreements and agency securities (64 and 63 percent, respectively).

Large organizations permit an average of 8.5 investment vehicles for their short-term investments. Large organizations are more likely than smaller organizations to permit the use of:

- Eurodollar deposits (56 percent versus 35 percent);
- Municipal notes (54 percent versus 37 percent);
- Asset-backed securities (47 percent versus 34 percent);
- Auction rate securities (44 percent versus 24 percent);
- Variable rate demand notes (36 percent versus 17 percent);
- Cash plus funds (21 percent versus ten percent);
- Enhanced cash total return vehicles (19 percent versus five percent); and,
- Ultra-short total return vehicles (13 percent versus five percent).

In addition, organizations that are net investors and those with investment grade credit ratings permit a greater number of investment vehicles than do those that are net borrowers and those with non-investment grade credit ratings.

  

**Permissible Investment Vehicles per Organization's Short-term Investment Policy in Addition to Bank Deposits and reasury Bills**
(Percent of Respondents)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Money market mutual funds | 80% | 89% | 72% | 78% | 83% | 87% | 69% |
| Commercial paper | 77 | 84 | 68 | 76 | 77 | 83 | 69 |
| Repurchase agreements | 64 | 70 | 60 | 61 | 68 | 71 | 56 |
| Agency securities | 63 | 72 | 54 | 60 | 67 | 71 | 56 |
| Eurodollar deposits | 46 | 56 | 35 | 52 | 43 | 48 | 49 |
| Municipal notes | 46 | 54 | 37 | 39 | 51 | 51 | 40 |
| Asset-backed securities | 41 | 47 | 34 | 39 | 43 | 44 | 38 |
| Auction rate securities | 35 | 44 | 24 | 27 | 41 | 43 | 21 |
| Variable rate demand notes | 28 | 36 | 17 | 18 | 33 | 35 | 19 |
| Separately managed accounts | 24 | 28 | 20 | 15 | 31 | 27 | 21 |
| Cash plus funds | 16 | 21 | 10 | 15 | 17 | 17 | 15 |
| Enhanced cash total return vehicle | 12 | 19 | 5 | 7 | 16 | 14 | 12 |
| Ultra-short total return vehicle | 9 | 13 | 5 | 5 | 12 | 10 | 8 |
| **Mean number of permitted investment vehicles** | **7.6** | **8.5** | **6.5** | **7.1** | **7.9** | **8.0** | **7.1** |

Cash investment policies frequently dictate the maximum proportion of an organization's cash and short-term balances that can be placed in specific investment vehicles. These policies are meant to provide an optimal level of diversification while limiting the risk of some more risky investment choices.

More than two thirds of organizations allow at least half of their cash and short-term equivalents balances to be placed in bank deposits, money market mutual funds, agency securities and treasury bills. Conversely, 53 percent of organizations limit the use of ultra-short total return vehicles and enhanced cash total return vehicles to less than a quarter of their cash balances. Other investment vehicles in which many organizations cap the amount invested in their cash portfolio at 25 percent include asset-backed securities, variable-rate demand notes, Eurodollar deposits, auction rate securities and municipal notes.

  

**Maximum Allowable Percentage of Short-Term Portfolio in Which the Organization Can Use Investment Vehicle per Short-term Investment Policy**

(Percentage Distribution of Organizations Permitting Investment Vehicle)

| | 1-25% of portfolio | 25-49% of portfolio | 50% or more of portfolio |
|---|---|---|---|
| Ultra-short total return vehicle | 53% | * | 46% |
| Enhanced cash total return vehicle | 53 | 5 | 43 |
| Asset-backed securities | 48 | 14 | 38 |
| Variable rate demand notes | 46 | 16 | 39 |
| Eurodollar deposits | 44 | 12 | 44 |
| Auction rate securities | 44 | 24 | 32 |
| Municipal notes | 43 | 17 | 40 |
| Commercial paper | 36 | 19 | 45 |
| Repurchase agreements | 32 | 11 | 57 |
| Bank deposits | 29 | 7 | 65 |
| Money market mutual funds | 27 | 8 | 65 |
| Separately managed accounts | 26 | 11 | 62 |
| Cash plus funds | 25 | 22 | 52 |
| Agency securities | 22 | 12 | 66 |
| Treasury bills | 18 | 7 | 75 |

Cash investment polices also stipulate the maximum maturity length and the minimum credit quality for each type of allowable investment vehicle. In 60 percent of organizations, repurchase agreements have a maximum maturity of 90 days or less while 53 percent of organizations cap the maturity of money market mutual funds also at 90 days or less. Conversely, half of organizations allow asset-backed securities and ultra-short total return vehicle with maturities that extend beyond a year. Further, 65 percent of organizations allow separately managed accounts to have a maturity that extends beyond a year—suggesting that most organizations prefer to use outside management to handle their cash investments that use longer-term horizon investment vehicles.

  

## Maximum Maturity Allowed per Short-term Investment Policy
(Percentage Distribution of Organizations Permitting Investment Vehicle)

| | 30 days or less | 31-90 days | 91-180 days | 181-365 days | More than a year |
|---|---|---|---|---|---|
| Repurchase agreements | 40% | 20% | 8% | 18% | 15% |
| Money market mutual funds | 38 | 15 | 10 | 20 | 17 |
| Enhanced cash total return vehicle | 35 | 4 | * | 17 | 44 |
| Bank deposits | 34 | 16 | 8 | 23 | 20 |
| Cash plus funds | 30 | 7 | 11 | 19 | 33 |
| Eurodollar deposits | 29 | 13 | 14 | 26 | 19 |
| Ultra-short total return vehicle | 29 | * | 7 | 14 | 50 |
| Auction rate securities | 15 | 28 | 9 | 14 | 33 |
| Separately managed accounts | 14 | * | 7 | 14 | 65 |
| Commercial paper | 11 | 20 | 24 | 33 | 12 |
| Variable rate demand notes | 9 | 20 | 14 | 20 | 37 |
| Agency securities | 8 | 13 | 9 | 26 | 44 |
| Treasury bills | 7 | 14 | 16 | 31 | 33 |
| Asset-backed securities | 6 | 9 | 17 | 20 | 49 |
| Municipal notes | 5 | 13 | 9 | 29 | 44 |

## Minimum Credit Quality Required per Short-term Investment Policy
(Percentage Distribution of Organizations Permitting Investment Vehicle)

| | AAA/Aaa A-1+, P-1 | AA/Aa A-1+, P-1 | A/AA-1, P-1 | BBB/Baa A-2, P-2 | Not applicable |
|---|---|---|---|---|---|
| Money market mutual funds | 42% | 17% | 31% | 1% | 9% |
| Enhanced cash total return vehicle | 33 | 15 | 41 | 7 | 4 |
| Agency securities | 32 | 12 | 31 | 4 | 21 |
| Repurchase agreements | 29 | 17 | 39 | 5 | 10 |
| Cash plus funds | 29 | 13 | 45 | 3 | 10 |
| Asset-backed securities | 26 | 14 | 51 | 6 | 4 |
| Auction rate securities | 24 | 26 | 40 | 9 | 1 |
| Bank deposits | 23 | 14 | 40 | 4 | 18 |
| Ultra-short total return vehicle | 21 | 11 | 53 | 5 | 11 |
| Municipal notes | 20 | 24 | 48 | 6 | 2 |
| Commercial paper | 20 | 16 | 53 | 9 | 2 |
| Variable rate demand notes | 19 | 28 | 41 | 11 | 2 |
| Eurodollar deposits | 16 | 16 | 46 | 9 | 14 |
| Separately managed accounts | 12 | 12 | 57 | 8 | 12 |

While organizations may allow for a large number investment vehicles for their cash and short-term equivalents, they tend to use only a few of these vehicles at any given time. On average, organizations use 2.9 investment vehicles for their cash and short-term equivalents balances. Large organizations use an average of 3.0 vehicles compared to 2.8 for small organizations while net investors use an average of 3.3 vehicles compared to 2.3 vehicles for net borrowers.

Organizations place nearly two thirds of their cash and short-term equivalent balances among three investment vehicles: money market mutual funds, bank deposits, and commercial paper. Nearly 29 percent of cash and short-term equivalent balances are placed in money market mutual funds, while 23 percent are placed as bank deposits. In addition, nearly 13 percent are in commercial paper.

Smaller organizations, along with those that are net borrowers and those with non-investment grade credit ratings, place a greater percentage of their cash and short-term equivalents in the bank. Large organizations place less of their cash and short-term equivalents in bank deposits than do smaller organizations (16.9 percent versus 28.2 percent). Net borrowers place nearly a third of their short-term investment in the bank while organizations with non-investment grade credit ratings place 28 percent of their short-term investments in the bank.

On the other end of the spectrum, large organizations, along with those that are net investors and those with investment grade credit ratings, are more likely to use money market mutual funds, commercial paper, auction rate securities, variable rate demand notes, and separately managed accounts for short-term investments.

Organizations that use less popular investment vehicles tend to use these vehicles aggressively. For example, organizations that permit the use of auction rate securities place an average of 30.5 percent of their cash/short-term equivalents balances in ARS. Other examples include:

- Variable rate demand notes - 22.7 percent;
- Asset-backed securities - 15.6 percent; and
- Cash plus funds - 38.0 percent.

  

**Current Allocation of Organizations' Short-term Investments**
(Mean Distribution)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Money market mutual funds | 28.5% | 34.6% | 21.9% | 32.3% | 26.2% | 29.4% | 29.0% |
| Bank deposits | 23.0 | 16.9 | 28.2 | 31.7 | 16.7 | 18.9 | 27.6 |
| Commercial paper | 12.7 | 14.9 | 9.6 | 8.6 | 14.2 | 11.3 | 14.6 |
| Repurchase agreements | 5.0 | 3.4 | 7.1 | 4.8 | 5.6 | 5.3 | 6.3 |
| Agency securities | 5.0 | 3.1 | 7.4 | 2.1 | 7.2 | 6.8 | 1.9 |
| Auction rate securities | 4.9 | 6.2 | 3.3 | 1.5 | 7.3 | 5.4 | 4.2 |
| Treasury bills | 4.1 | 3.2 | 5.2 | 2.8 | 4.9 | 4.2 | 4.2 |
| Eurodollar deposits | 3.5 | 2.7 | 4.8 | 4.0 | 3.5 | 3.3 | 3.4 |
| Separately managed accounts | 3.2 | 3.9 | 2.8 | 1.3 | 4.7 | 3.7 | 1.9 |
| Municipal notes | 2.1 | 2.8 | 1.6 | 0.7 | 3.2 | 3.2 | 0.4 |
| Variable rate demand notes | 1.8 | 2.2 | 1.5 | 1.3 | 2.2 | 2.5 | 0.9 |
| Asset-backed securities | 1.8 | 2.1 | 1.5 | 2.7 | 1.3 | 1.6 | 1.6 |
| Cash plus funds | 1.1 | 0.3 | 1.7 | 1.8 | 0.4 | 0.3 | 1.0 |
| Enhanced cash total return vehicle | 0.4 | 0.7 | * | 1.0 | * | 0.6 | * |
| Ultra-short total return vehicle | 0.1 | 0.2 | * | 0.2 | * | 0.2 | * |
| Other | 3.0 | 2.9 | 3.4 | 3.3 | 2.6 | 3.3 | 3.2 |
| **Mean number of vehicles used** | **2.9** | **2.8** | **3.0** | **2.3** | **3.3** | **3.0** | **2.6** |

## Cash Plus Funds

Cash Plus Funds are just a small step removed from Rule 2a-7 money market funds in terms of portfolio risk, stability of the Net Asset Value (NAV) and liquidity. They are designed to provide slightly higher returns for investors while maintaining nearly the same assurances of NAV stability.

Although the fund manager strives to maintain a truly stable $1.00 NAV, the actual valuation is based upon mark-to-market, not amortized cost, and therefore, the NAV might change on any given day. The reward for investors who use cash plus funds over money market mutual funds is a yield that could be 10-20 basis points higher, depending upon fees.

Organizations that use cash plus funds typically expect an 8.6 basis point advantage when using cash plus funds over money market funds. Large organizations expect a 12.5 basis point advantage when using cash plus funds compared to the 7.1 basis point advantage expected among small organizations.

  

### Organizations' Expectation for Investment Return on Cash Plus Funds Versus Money Market Fund

(Percentage Distribution that Use Cash Plus Funds)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| +1 to +4 basis points | 24% | 6% | 35% | 28% | 17% | 21% | 25% |
| +5 to +9 basis points | 29 | 22 | 35 | 16 | 35 | 32 | 25 |
| +10 to +14 basis points | 33 | 44 | 22 | 44 | 26 | 32 | 30 |
| +15 to +19 basis points | 4 | 11 | 4 | 6 | 9 | 5 | 10 |
| 20 or more basis points | 10 | 17 | 4 | 6 | 13 | 10 | 10 |
| Median | 8.6 b.p. | 12.5 b.p. | 7.1 b.p. | 10.7 b.p. | 9.7 b.p. | 9.5 b.p. | 9.5 b.p. |

In exchange for a higher yield in a cash plus fund, investors are expected to accept less access to their cash. Primary liquidity needs should be met through other vehicles such as money market funds, commercial paper or repurchase agreements. As a result, there may be some form of a liquidity constraint imposed by the fund manager when organization requests a redemption from a cash plus fund.

Nearly half of organizations that use cash plus funds as an investment vehicle for their cash and short-term equivalents balances indicate that the cash plus fund does not impose a liquidity constraint. Twenty-three percent of organizations using cash plus funds indicate that the fund limits the size of redemption on a single day while 25 percent indicate that the fund requires a certain number of days notice for redemption.

### Liquidity Constraints Imposed By Cash Plus Funds

(Percentage Distribution)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Limits the size ($/%) of redemption on a single day | 23% | 25% | 23% | 41% | 13% | 14% | 35% |
| Requires a certain number of days for a redemption | 25 | 25 | 19 | 24 | 22 | 25 | 18 |
| Redemption order is subject to delayed payment | 4 | 4 | 4 | * | 6 | * | 12 |
| Cash plus fund does not impose a liquidity constraint | 49 | 46 | 54 | 35 | 59 | 61 | 35 |

## Multi-Family Trading Portals

Organizations have the option of using an electronic, multi-family trading portal to execute short-term investment transactions. Electronic trading portals provide organizations with an opportunity to more easily facilitate transactions and compare investment choices. In addition, trading portals can lower the costs associated with managing and administering an organization's short-term investments.

Nearly a quarter of organizations use an electronic, multi-family trading portal to execute at least a portion of their short-term investment transactions. A third of large organizations use a multi-family trading portal compared to just 15 percent of smaller organizations.

**Organizations Use of Electronic, Multi-family Trading Portals to Execute Any of its Short-term Investment Transactions**

(Percentage Distribution)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Organization uses an electronic, multi-family trading portal | 24% | 34% | 15% | 26% | 23% | 29% | 19% |
| Organization does not use an electronic, multi-family trading portal | 76 | 66 | 86 | 74 | 78 | 71 | 82 |

Organizations that use electronic multi-family trading portals use those portals to transact most of their money market fund transactions. Those organizations using trading portals move an average of 69 percent of their money market mutual fund holdings through the portal. Large organizations and those with investment grade credit ratings use their electronic portals even more regularly—with up to 76 percent of their money market mutual fund holdings moving through the electronic portal.

Only three percent of organizations that use electronic multi-family trading portals expect their use of those portals to decrease over the next two years—suggesting overall satisfaction with the portals. Sixty-two percent expect the use of electronic portals to remain the same while 16 percent expect use of the portal to increase over the next two years.

**Percentage of MMF Holdings Run Through an Electronic, Multi-family Trading Portals**
(Organizations that Use Trading Portals)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Percent of MMFs run through portal | 69% | 76% | 67% | 76% | 72% | 76% | 67% |
| Expected change over next 24 months | | | | | | | |
| Increase | 16% | 11% | 18% | 17% | 17% | 14% | 13% |
| About the same | 62 | 72 | 61 | 62 | 64 | 67 | 60 |
| Decrease | 3 | 6 | 2 | * | 6 | 4 | * |

A majority of organizations consider four attributes when selecting a mutual money market fund trading portal: the ability of the portal to minimize paperwork (73 percent), convenience of yield comparison (68 percent), wide offering of products across various cash instruments (55 percent), and the reputation of the portal (52 percent). In addition, 48 percent of organizations are interested in having a portal that has multiple fund families or securities issuers within each cash instrument category while 42 percent are interested in the ability of the portal to aggregate and net transactions so that the customer only sends/receives one wire. Fewer users of electronic portals are concerned with whether the organization's trading activity is disclosed to the end provider or with the independence of the portal from banks and/or asset managers.

  

**Attributes that Influence Selection of a MMF Trading Portal**
(Percent of Organizations to use MMF Trading Portals)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Ability of portal to minimize paperwork | 73% | 76% | 67% | 76% | 72% | 76% | 67% |
| Convenience of yield comparison | 68 | 78 | 44 | 72 | 67 | 71 | 60 |
| Wide offering of product across various cash instruments | 55 | 53 | 67 | 62 | 56 | 57 | 53 |
| Well reputed portal | 52 | 51 | 56 | 48 | 58 | 53 | 53 |
| Multiple fund families or securities issuers within each cash instrument category | 48 | 53 | 33 | 52 | 42 | 51 | 40 |
| Ability of portal to aggregate and net transactions so that the customer only sends/receives one wire | 42 | 47 | 33 | 52 | 39 | 49 | 33 |
| Visibility of my organization's holdings to asset manager (i.e., trading activity is disclosed to the end provider) | 29 | 31 | 28 | 28 | 28 | 31 | 20 |
| Independence of portal from a bank | 10 | 12 | 6 | 10 | 11 | 12 | 7 |
| Independence of portal from an asset manager | 10 | 10 | 11 | 10 | 10 | 12 | 7 |
| Other | 9 | 8 | 11 | 14 | 6 | 10 | 7 |

## Outside Investment Managers

Some organizations turn to outside investment managers to manage some portion of their short-term investment portfolio. Organizations may choose to use an investment manager because of a desire to generate higher returns from their portfolio, because the organization lacks internally the knowledge necessary for successful investing, or to better manage the organization's credit risks.

A quarter of organizations use an outside investment manager to invest and manage their short-term portfolio. This finding is consistent across many demographic groups with the exception being organizations that are net investors versus those that are net borrowers. Thirty-two percent of organizations that are net investors use an outside investment manager compared to 19 percent of organizations that are net borrowers.

**Use of Outside Investment Managers to Invest Short-term Cash**
(Percentage Distribution)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Organization uses investment manager | 26% | 27% | 27% | 19% | 32% | 26% | 27% |
| Organization does not use investment manager | 74 | 74 | 73 | 81 | 68 | 74 | 73 |

**Factors that Influence the Decision to Use an Outside Investment Manager**
(Percent of Organizations that Use an Outside Investment Manager)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Desire to generate higher returns | 71% | 69% | 73% | 76% | 69% | 73% | 68% |
| Specialized investment knowledge | 69 | 67 | 73 | 57 | 75 | 66 | 73 |
| Scarcity of staff resources to manage investments | 51 | 62 | 39 | 48 | 53 | 41 | 68 |
| Better management of credit risks | 36 | 41 | 30 | 24 | 41 | 34 | 63 |
| Other | 6 | 8 | 3 | 10 | 4 | 9 | * |

When choosing an outside investment manager, organizations consider a variety of factors in their decision. Organizations are most influenced by their perception of an outside investment manager's level of expertise. Sixty-six percent of organizations are influenced by the level of expertise while 44 percent consider the manager's past performance (i.e., comparing historic returns to a benchmark).

In some cases, organizations choose an outside investment manager based upon the manager's banking relationship with the organization. Forty-eight percent of organizations that are net borrowers and 46 percent of organizations with annual revenues greater than $1 billion grant business to an outside investment manager in part to maintain credit or a relationship with a bank.

**Factors that Influence the Selection of an Outside Investment Manager**
(Percent of Organizations that Use an Outside Investment Manager)

| | All Responses | Over 1 billion | Under 1 billion | Net borrower | Net Investor | Investment Grade | Non-Investment Grade |
|---|---|---|---|---|---|---|---|
| Apparent level of expertise | 66% | 77% | 55% | 57% | 71% | 61% | 68% |
| Historic returns versus benchmark | 44 | 41 | 46 | 33 | 47 | 46 | 27 |
| Maintaining relationship with primary bank | 38 | 46 | 27 | 48 | 33 | 43 | 41 |
| Reporting capabilities (e.g., statements, confirmations) | 32 | 36 | 27 | 14 | 39 | 34 | 27 |
| Length of manager experience with similar portfolios | 36 | 33 | 39 | 24 | 41 | 39 | 32 |
| Other | 12 | 18 | 6 | 14 | 12 | 16 | 9 |

# Conclusions

In the six-month period between November 2005 and May 2006, most organizations have increased or maintained their U.S. cash and equivalents balances. In fact, four of ten organizations have increased their short-term holdings, while only one in four have decreased their balances. On a net basis, organizations do not expect these balances to change significantly in the coming year. Twenty-seven percent of organizations expect their balances to increase, while 24 percent expect that they will decrease their cash and equivalents balances.

When investing their short-term cash, most organizations are guided by a written cash investment policy. However, one in five organizations has no written rules to govern its investment selection. The lack of an investment policy raises serious concerns about an organization's internal controls and potentially places those responsible for investing in such an environment at risk of being challenged on the appropriateness of their decisions.

Most organizations are far less diversified than their investment policies allow. While the typical organization is allowed to invest in about eight different types of investment vehicles, it is currently using only about three of the choices available. While bank deposits, treasury bills, money market funds, commercial paper, repurchase agreements, and agency securities are all permitted in well over half of organizations, only money market funds, bank deposits and commercial paper make up more than five percent of the average organization's current investment allocation.

A small minority of respondents currently permits investments in cash plus funds, enhanced cash total return vehicles or ultra-short total return vehicles. The typical investor in cash plus funds expects the return on these funds to be just under nine basis points higher than a money market mutual fund. In return for potentially higher yields, many of those that are using cash plus funds are willing to accept longer time frames to redeem their holdings and limits on the size of their redemptions on a single day.

A quarter of organizations are using an electronic, multi-family trading portal to execute some portion of their money market fund transactions. Those that are using a portal are directing most of their money market fund volume through the portal. Organizations are using these portals primarily to reduce paperwork and conveniently compare the yields of a wide number of investment vehicles.

In addition to leveraging the investment expertise of their staff, more than one in four organizations uses an outside investment manager for some portion of their short-term investment portfolio. These organizations are driven to employ outside management to generate higher returns, access specialized investment knowledge and address a scarcity of staff resources. Organizations select their investment managers based on their apparent level of expertise, as well as the manager's historic returns versus benchmarks and relationship with the organization's primary bank. Maintaining the organization's relationship with its primary bank is especially important to large companies and net borrowers.

  

## About the Survey

In May 2006, the Association for Financial Professionals launched a 23-question survey on strategies associated with the management of short-term investments. AFP sent surveys to 3,000 corporate practitioner members and received 311 responses. After adjusting for misdelivered email, the response rate was 11 percent. An additional 31 responses were received from corporate practitioners who are not AFP members. The 342 responses are the basis of this report

The demographic profile of the survey respondents mirrors that of AFP's membership. The following table summarizes the characteristics of the survey respondents.

**Industry Classification**
(Percentage Distribution)

| | |
|---|---|
| Manufacturing | 21% |
| Retail (including wholesale/distribution) | 13 |
| Energy (including utilities) | 9 |
| Non-profit (including education) | 7 |
| Banking/Financial services | 6 |
| Health services | 6 |
| Insurance | 6 |
| Government | 5 |
| Real estate | 5 |
| Software/Technology | 5 |
| Telecommunications/Media | 5 |
| Business services/Consulting | 4 |
| Hospitality/Travel | 4 |
| Construction | 3 |
| Transportation | 1 |

## Annual Revenues
(Percentage Distribution)

| | |
|---|---|
| Under $50 million | 10% |
| $50-99.9 million | 7 |
| $100-249.9 million | 10 |
| $250-499.9 million | 9 |
| $500-999.9 million | 11 |
| $1-4.9 billion | 33 |
| $5-9.9 billion | 9 |
| $10-20 billion | 6 |
| Over $20 billion | 5 |

## Ownership Type
(Percentage Distribution)

| | |
|---|---|
| Publicly owned | 45% |
| Privately held | 37 |
| Non-profit (non-for-profit) | 12 |
| Government (or government owned entity) | 7 |

## Net Borrower or Net Investor
(Percentage Distribution)

| | |
|---|---|
| Net borrower | 41% |
| Net Investor | 59 |

## Organization's Credit Ratings
(Percentage Distribution)

| | |
|---|---|
| Investment grade | 68% |
| Non-investment grade | 32 |

**Organizations that Hold Cash and/or Short-term Equivalents Outside of the U.S.**
(Percentage Distribution)

| | |
|---|---|
| Hold cash/short-term equivalents outside of the U.S. | 42% |
| Does not hold cash/ short-term equivalents outside of the U.S. | 58 |

  

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Director of Research, Kevin A. Roth, PhD, and is joined by two research analysts. AFP Research also draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. Study reports on a variety of topics, including AFP's annual compensation survey, are available online at www.AFPOnline.org/research.

  

## About the Association for Financial Professionals

The Association for Financial Professionals (AFP) headquartered in Bethesda, Maryland, supports more than 14,000 individual members from a wide range of industries throughout all stages of their careers in various aspects of treasury and financial management. AFP is the preferred resource for financial professionals for continuing education, financial tools and publications, career development, certifications, research, representation to legislators and regulators, and the development of industry standards.


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