



2009 AFP
Liquidity Survey
Report of Survey Results

Underwritten by



BNY MELLON

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June 2009

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**Association for
Financial Professionals®**

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The Bank of New York Mellon is pleased to sponsor the 2009 AFP Liquidity Survey. As global providers of liquidity services, we at the Bank are keenly interested in the thoughts and opinions of the respondents, as they provide insights into how we may better meet our clients' investment goals.

The turbulence of the present period has had no small impact on the liquidity needs and practices of individuals and corporations worldwide. The survey bears this out and mirrors our experience at the Bank: our clients' risk profiles have become far more conservative and their liquid funds have been repositioned accordingly. You will note as you read the survey that only 5% of respondents said they had neither reviewed nor modified their cash investment policy over the past year. Modification has primarily been driven by caution: 84% of respondents said that safety of principal was their most important cash investment policy objective, a significant increase over previous years.

The survey also revealed that many believe the tightening of available credit will persist in 2009, so conservative, safety-based investment strategies can be expected to continue. Such thinking has caused a growing number of investors to partner with The Bank of New York Mellon. Our fiscal stability throughout the financial crisis, our understanding of the current environment, and our ability to provide the right tools to respond to the ongoing market challenges, have made our bank an attractive source of investment advice at a time when many financial institutions are themselves grappling with liquidity and capitalization issues.

The performance of the financial markets in 2008 and 2009 has required our portfolio managers to re-evaluate both their asset allocation strategies and the individual securities within their portfolios. Two key issues were holdings in complex assets and the need to change the asset allocation in portfolios that held illiquid or hard-to-sell assets. To help clients more effectively and efficiently rebalance portfolios—especially those with illiquid or hard-to-sell assets—we launched BNY Mellon Beta Management in 2008. This service utilizes derivatives and futures to facilitate asset allocation shifts within portfolios. The service overlays existing assets and change the asset allocation profile of the portfolio without requiring the sale of the underlying assets. Innovations such as this, combined with our strength and understanding of the current environment, have made our bank a solid choice for many new clients in need of a partner to better manage their liquidity needs.

I think you will find the 2009 survey to be both interesting and illuminating and I thank the AFP for their excellent work. The Bank of New York Mellon is proud to have had the opportunity to collaborate with them as sponsors.

Very truly yours,
Eric Kamback,
CEO of Treasury Services
The Bank of New York Mellon

2009 AFP Liquidity Survey

Introduction

In 2006, the Association for Financial Professionals (AFP) released its inaugural *Liquidity Survey*. That report and the follow-up survey in 2007 both indicated that many organizations were generating historically high levels of cash flow resulting from a sustained period of strong earnings growth. In addition, the findings of both surveys revealed a perceived dearth of opportunities for investing in new projects or acquisitions. Some cash-rich organizations used their stockpile of cash to fuel a surge in share repurchases; others were building cash as they sought long-term business opportunities to foster organizational growth.

The initial *AFP Liquidity Surveys* also showed that many organizations were diversifying their short-term investment portfolios beyond traditional vehicles to improve the return on investments. These other instruments included repurchase agreements, agency securities, Eurodollar deposits, asset-backed securities, auction-rate securities and variable rate demand notes.

But the state of the U.S. and global economies has deteriorated dramatically over the past two years. Global credit markets have frozen in the wake of the collapse of the U.S. housing market and the deepest economic recession in several decades. In the face of turbulent market conditions, both corporate and individual investors have fled from investment vehicles that previously had been deemed as safe havens for short-term investments. Because of the detrimental impact that the turmoil in the financial sector and the deep recession have had on their access to short-term credit, organizations have renewed their emphasis on protecting principal. A number of them have moved investments into ultra-safe investment vehicles, such as bank deposits, money market mutual funds and Treasury securities.

In May 2009, the Association for Financial Professionals conducted its fourth annual *Liquidity Survey* to provide financial professionals with an understanding of how organizations currently manage their short-term investment portfolios. This year's survey also repeated questions about short-term credit access that AFP asked its members in two surveys conducted during the latter half of 2008 as the credit markets rapidly deteriorated. Through the end of May, the survey generated 360 responses, which are the basis of this report.

The 2009 AFP Liquidity Survey was underwritten by The Bank of New York Mellon. The Research Department of the Association for Financial Professionals, which designed the survey questionnaire, analyzed the survey results and wrote/edited the report, is solely responsible for the content of this report.

Key Findings

Key findings of the *2009 AFP Liquidity Survey* include:

- A plurality of organizations increased their balances of cash and short-term investments in the six months leading up to May 2009.
 - In May 2009, 42 percent of organizations held a larger U.S. cash and short-term investment balance than six months earlier.
 - Twenty-eight percent of organizations carried smaller cash and short-term investment balances compared to six months earlier, while 30 percent of organizations had no significant change in their short-term investment balances.
 - Thirty-two percent of organizations that have non-U.S. cash and short-term investments balances indicate that these balances have increased over the same six months.
- Twenty-nine percent of financial professionals expect their organizations will increase their U.S. short-term cash and investment balances over the next 12 months.
 - Twenty-seven percent of organizations expect to decrease their U.S. short-term investment balances over the next year while 44 percent expect little significant change.
 - Sixty-four percent of organizations with balances of non-U.S. cash and short-term investments indicate that they intend to maintain these balances at current levels over the next year.
- Eighty percent of organizations have a written policy that outlines acceptable short-term investment policies.
 - About three-quarters (77 percent) of organizations that have written cash investment policies review and update those policies on a regular basis.
- In reaction to slowing business conditions and volatility in financial markets, organizations have moved to a more conservative investment strategy over the past 12 months.
 - Virtually all organizations permit the use of bank deposits as a short-term investment vehicle.
 - Overall, organizations' investment policies allow for the use of an average of 4.1 short-term investment vehicles, in addition to bank deposits and Treasury bills. The average number of permitted investment vehicles in 2009 remains well below the 7.6 average reported in the 2006 survey.
 - Sixty-five percent of organizations permit the use of "pure" Treasury money market mutual funds.
 - The permitted use of a number of investment vehicles declined significantly over the past 12 months; including:
 - Auction-rate securities (eight percent versus 18 percent in 2008)
 - Asset-backed securities (20 percent versus 31 percent in 2008)
 - Variable rate demand notes (12 percent versus 17 percent in 2008).
- Even if their investment policies allow for the use of a large number of investment vehicles, most organizations have reduced the number of vehicles they actually use. On average, organizations use 1.6 investment vehicles for their cash and short-term investment balance compared to 2.4 investment vehicles as reported in the *2008 AFP Liquidity Survey*.
 - Organizations allocate an average 78 percent of their short-term investment balances in three safe and liquid investment vehicles: bank deposits, money market mutual funds and Treasury securities.
 - In the *2008 AFP Liquidity Survey*, 73 percent of short-term investment vehicles were placed in the same three investment vehicles, while the percentage reported in the *2007 AFP Liquidity Survey* was 67 percent.

- The use of commercial paper, separately managed accounts, and auction-rate securities in short-term portfolios declined significantly over the past year.
 - Twenty-six percent of organizations use an electronic, multi-family trading portal to execute at least some of their short-term investment transactions.
- Organizations using trading portals execute an average of 72 percent of their money market mutual fund transactions through the trading portal.

In addition to questions related to cash and short-term investments, the *2009 AFP Liquidity Survey* repeated questions from two surveys conducted during the latter half of 2008 that focused on the impact on short-term credit access due to turmoil in the financial markets.

- Fifty-nine percent of survey respondents report that their organizations' access to short-term credit has not changed significantly since the beginning of the year.
 - Thirty-five percent of organizations with non-investment grade credit ratings indicate they have less access to short-term credit relative to the beginning of the year; 23 percent of organizations with investment grade credit ratings report the same.
 - Thirty-three percent of organizations that are net borrowers report less access to short-term credit than do those organizations defined as net investors (22 percent).
- Two-thirds of organizations do not anticipate a change in access to credit over the next year.
 - Twenty-two percent of organizations anticipate a greater availability in access to short-term credit while 12 percent expect their access to short-term credit will further deteriorate.
- Ninety-three percent of survey respondents indicate that their organizations have taken at least one action as a direct result of the decline in short-term credit access during the month of September. Among the most widely implemented defensive actions taken include:
 - Reduced capital spending (70 percent of organizations that have taken at least one defensive action since September 2008)
 - Reduced or frozen hiring (69 percent)
 - Considered/implemented staff reductions (58 percent)
 - Moved all or most short-term investments to bank deposits and U.S. Treasuries (44 percent).
- Two-thirds of financial professionals expect that their organizations would take additional actions to protect their organization's well-being should short-term credit conditions not improve in the next three to six months.
 - Reduce capital spending (67 percent of organizations that expect to take additional defensive actions should credit conditions not improve)
 - Reduce or freeze hiring (56 percent)
 - Consider/implement staff reductions (63 percent).
- Seventy-four percent of financial professionals believe the worst is over or believe the credit markets will start recovering by the end of 2009.
 - Twenty-six percent of financial professionals believe the credit markets will not recover until 2010 at the earliest.
 - Eighty percent of organizations with annual revenues over \$1 billion believe the worst is over or that the credit markets will recover by the end of this year, while only 68 percent of organizations with annual revenues of under \$1 billion believe the same.

Holdings of Cash and Short-Term Investments

Facing a deep economic recession and remarkably tight credit markets, a plurality of organizations has increased their cash and short-term investment balances in the six months leading up to May 2009. Forty-two percent of organizations held larger balances of U.S. cash and short-term investments in May 2009 than they did in late 2008. Still, the percentage of organizations that decreased their U.S. and non-U.S. holdings of cash and short-term investments is nearly the same as a year earlier. Twenty-eight percent of organizations are carrying smaller cash and short-term investment balances, while 30 percent of organizations report no significant change in their short-term investment balances. In the *2008 AFP Liquidity Survey*, 37 percent of organizations reported that they carried larger cash and short-term balances over the previous year, while 29 percent reported carrying smaller balances.

Large organizations are more likely to have increased their cash and short-term investment balances than are smaller organizations. For 47 percent of organizations with annual revenues greater than \$1 billion, their cash and short-term investment holdings have increased since late 2008 compared to 41 percent of smaller organizations. Conversely, a greater percentage of smaller organizations (33 percent) than larger organizations (22 percent) have seen declining cash balances during the same period.

Whether an organization is a net borrower or a net investor has little impact on the decision (or ability) to grow or shrink cash and short-term investment holdings. This finding reverses the trend found in previous *Liquidity Surveys*. Forty-four percent of net borrowers increased their cash holdings during the early months of 2009 compared to 43 percent of net investors that did the same. While equal percentages of organizations that hold either investment grade or non-investment grade ratings (45 percent) have increased their cash and short-term investment holdings since December 2008, a greater percentage of organizations with non-investment grade ratings have seen their cash and short-term investment balances deteriorate during the same period as compared to organizations with investment grade ratings. This may reflect the extraordinary tightness of credit markets that have made it difficult (and very expensive) for all but the highest rated organizations to secure credit.

Thirty-two percent of organizations that have non-U.S. cash and short-term investment balances indicate that these balances increased over the six months between November 2008 and May 2009. Just over half (52 percent) of these organizations indicate little significant change in their non-U.S. cash balances, while 17 percent of these organizations report smaller non-U.S. balances.

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

		All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
U.S.	Much larger	20%	21%	26%	22%	24%	25%	18%
	Somewhat larger	22	20	21	22	19	20	27
	No significant change	30	26	31	28	28	33	24
	Somewhat smaller	16	21	13	16	18	15	17
	Much smaller	12	12	9	12	11	7	14
Non-U.S.	Much larger	9%	12%	7%	8%	10%	5%	12%
	Somewhat larger	23	18	23	24	19	19	27
	No significant change	52	45	56	46	56	60	41
	Somewhat smaller	10	16	8	13	10	9	16
	Much smaller	7	8	8	9	5	7	4

As organizations look forward, just under half of them (44 percent) do not anticipate altering the size of their cash and short-term investment holdings over the next year. Nearly equal percentages of organizations that *do* expect to change their strategy indicate that they are likely to increase or decrease their cash and short-term investment balances. While the percentage of organizations expecting to grow their cash holdings over the year is just four percentage points lower than that found in the *2008 AFP Liquidity Survey*, only 17 percent of respondents to last year's survey had anticipated that their organizations' holdings would diminish in the succeeding year.

Twenty-nine percent of financial professionals anticipate their organizations will increase their U.S. cash and short-term investment balances over the next 12 months. By comparison, 27 percent of organizations expect their organizations to decrease their U.S. short-term balances over the next year.

Unlike the trends found in the 2008 survey, the percentage of organizations expecting to increase their cash and short-term investment balances over the next year differs only slightly by net borrower versus net investor status. But the results are dramatically different based on organizations' credit rating. Thirty-two percent of organizations that are net investors expect to increase their cash holdings over the next year compared to 28 percent of net borrowers that expect to do the same. While "just" 21 percent of organizations with investment grade ratings expect to grow their cash and short-term investment balances over the next year, 41 percent of organizations with non-investment grade ratings expect to do so. The difference is consistent with the findings of the table above that show non-investment grade organizations are more likely to have seen their cash holdings recently shrink as they need to replenish their cash and short-term investment holdings.

A majority of organizations with non-U.S. cash and short-term investment balances intend to maintain those balances at current levels over the next year. Twenty-one percent of these organizations expect their balances of cash and short-term investments to grow over the next 12 months, while another 15 percent expect those balances to decrease. Sixty-four percent expect little change in their non-U.S. cash balances.

Expected Change in Cash and Short-term Investment Balances Over the Next Year
(Percentage Distribution)

		All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
U.S.	Larger	29%	27%	34%	28%	32%	21%	41%
	About the same	44	48	34	45	40	51	34
	Smaller	27	25	32	28	28	28	25
Non-U.S.	Larger	21	18	22	15	24	14	24
	About the same	64	70	63	65	71	75	60
	Smaller	15	12	15	20	5	11	16

Investment Policies

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 an organization's portfolio that may be invested in 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 to comply with regulations under Sarbanes-Oxley.

Eighty percent of organizations have a written document that outlines the organization's policies on cash investments. But the likelihood of organizations having such a written guideline increases significantly if those organizations are large (94 percent), are net investors (84 percent) or have investment grade ratings (86 percent). Conversely, significant percentages of smaller organizations, along with those that are net borrowers and those with non-investment grade credit ratings, do not have a written investment policy. Thirty-eight percent of organizations with annual revenues under \$1 billion do not have a written cash investment policy compared to just six percent of those with annual revenues greater than \$1 billion. A third of net borrowers (33 percent) and 36 percent of organizations with non-investment grade ratings do not have a written cash investment policy.

Organizations with a Written Cash Investment Policy
(Percentage Distribution)

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
Has a written cash investment policy	80%	62%	94%	67%	84%	86%	64%
Does not have a written cash investment policy	20	38	6	33	16	14	36

Organizations change their investment policies due to a variety of factors. Those factors include changes in the financial condition of the organization, changes to the organization's risk tolerance, changes in overall market conditions (such as the fallout from the sub-prime mortgage crisis) and evolving preferences of the Board of Directors or the auditors. Consequently, written investment policies are dynamic documents subject to periodic review in order to accommodate those changes.

Both the economic recession and the turmoil in the financial markets appear to have sparked greater interest in updating investment policies (and to do so on a more frequent basis). About three-quarters (77 percent) of organizations that have written cash investment policies review and update those policies on a regular basis. In previous *AFP Liquidity Surveys*, closer to two-thirds of organizations with written cash investment policies updated them on a regular basis.

Of those organizations that regularly update their cash investment policies, the vast majority review the policies at least once a year. Overall, 49 percent of organizations review and/or update the policies once a year. Fifteen percent of organizations with written investment policies review/update them even more frequently, some on a quarterly basis (ten percent). Thirteen percent of such organizations update their cash investment policies every two to four years. Organizations that are net borrowers or those with outstanding debt that is non-investment grade update their written cash investment policies more frequently than do other organizations. In the case of net borrowers, this is a dramatic reversal of recent trends that showed that these organizations were far less likely to review their written cash investment policies and, if they did, they reviewed them on a less frequent basis.

Frequency of Review/Update of Cash Investment Policy
(Percentage Distribution)

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
Once a quarter	10%	7%	14%	10%	12%	10%	14%
Every 6 months	5	8	3	9	3	4	9
Once a year	49	46	48	47	47	47	50
Every 2-4 years	13	16	44	11	14	15	8
Not on a regular basis	23	24	23	23	24	24	19

Ninety-five percent of organizations with a cash investment policy have reviewed that policy in response to volatile market conditions that faced all investors over the past year, an increase of 14 percentage points from the *2008 AFP Liquidity Survey*. Of the organizations that have recently reviewed their policies, nearly two-thirds modified those policies as a result. Thirty-nine percent of organizations have changed the relative priority placed on safety of principal, liquidity and rate of return while 30 percent have altered the list of permissible investment vehicles.

Modifications of Cash Investment Policy in Past Year
(Percent of Organizations)

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
My organization has neither reviewed nor modified its cash investment policy over the past year	5%	9%	2%	3%	5%	5%	2%
My organization has reviewed but not modified its cash investment policy over the past year	36	38	36	40	36	35	41
Relative priority placed on safety of principal, liquidity, and return	39	38	38	29	44	35	49
Permissible investment vehicles	30	25	31	25	32	30	27
Minimum credit rating	12	13	10	9	13	12	8
Maximum maturity	10	12	10	9	13	12	7
Other	6	3	9	5	6	7	3

In devising their cash investment policies, most organizations historically have looked to balance their desire for safety and liquidity with a desire to generate a competitive rate of return. But in 2009, most organizations' primary investment policy objective is to protect the principal of their investments. Safety of principal is the most important cash investment policy objective for 84 percent of organizations in 2009, compared to 75 percent of organizations a year ago.

Nearly a quarter of survey respondents in 2008 noted that their most important cash investment policy objective was liquidity compared to just one out of six in the current survey. Naturally, the turmoil in the credit markets and the deep recession that started in late 2007 have removed yield as a key investment objective. In fact, no respondents to the 2009 survey indicated that return was a key investment objective compared to two percent in the 2008 survey.

Most Important Cash Investment Policy Objective
(Percent Distribution)

		All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
2009 Survey	Safety of principal	84%	84%	86%	84%	86%	85%	83%
	Liquidity	16	16	14	16	14	15	17
	Return (Yield)	*	*	*	*	*	*	*
2008 Survey	Safety of principal	75%	66%	80%	73%	74%	75%	70%
	Liquidity	24	28	17	23	23	23	24
	Return (Yield)	2	4	2	2	4	4	*

Current Strategy

Whether or not they have a written cash investment policy, most organizations have a list of permissible investment vehicles they can hold in their short-term investment portfolio. Virtually all organizations permit the use of bank deposits as a vehicle for short-term investments. In addition, 83 percent of organizations permit the use of Treasury bills, while 65 percent of organizations allow the use of "pure" Treasury money market mutual funds. A majority of organizations also include agency securities and commercial paper (56 and 55 percent, respectively) as permissible investment vehicles.

Turmoil in the credit markets led a number of organizations to remove certain products from their list of permissible investment vehicles – particularly those investment vehicles that tend to be inconsistent with the "flight to quality" that many organizations took over the past year. In 2008, 18 percent of organizations permitted the use of auction-rate securities (and a third of organizations permitted them in 2007)—in 2009, the number of organizations that permit the use of auction-rate securities (ARS) declined to eight percent. The lack of a market for such instruments has been a major factor in the re-

removal of ARS as a permissible investment vehicle. Other investment products less likely to be included in organizations' list of permissible investment vehicles include:

- Asset-backed securities (20 percent versus 31 percent in 2008)
- Variable rate demand notes (12 percent versus 17 percent in 2008).

On average, organizations permit 4.1 investment vehicles beyond bank deposits and Treasury bills for their short-term investment portfolio. The average number of permitted investment vehicles in 2009 remains well below the 7.6 average reported in the 2006 survey.

Large organizations permit the use of an average of 4.1 investment vehicles (in addition to bank deposits and Treasury bills) for their short-term investments compared to 3.3 investment vehicles for smaller organizations. Large organizations are more likely than smaller ones to allow the use of:

- Commercial paper (62 percent versus 51 percent)
- Diversified money market mutual funds (59 percent versus 40 percent)
- Eurodollar deposits (45 percent versus 29 percent).

In addition, organizations that are net investors permit a greater number of investment vehicles than do those that are net borrowers. But an organization's credit ratings appear to have little impact on the number of permissible investment holdings. Organizations that are net investors allow for the use of an average of 4.7 investment instruments versus 3.5 for net borrowers. Organizations with non-investment grade ratings permit the use of an average of 3.8 investment vehicles versus 3.7 for organizations with investment grade ratings.

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

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
Treasury bills	83%	85%	81%	78%	87%	84%	82%
"Pure" Treasury money market mutual funds	65	62	69	57	73	63	75
Agency securities	56	56	55	40	67	61	47
Commercial paper	55	51	62	51	63	58	56
Repurchase agreements	50	43	53	45	51	52	44
Diversified money market mutual funds	49	40	59	39	60	53	49
Eurodollar deposits	37	29	45	39	38	38	46
Municipal notes	28	27	30	21	34	23	35
Asset-backed securities	20	14	25	18	22	21	18
Separately managed accounts	16	8	22	9	21	14	15
Enhanced cash total return vehicle	14	8	20	10	18	14	15
Variable rate demand notes	12	11	15	9	16	14	11
Auction-rate securities	8	4	12	6	10	12	4
Mean # of investment vehicles*	4.1	3.6	4.7	3.5	4.7	4.2	4.2
Mean # of investment vehicles**	3.7	3.3	4.1	3.2	4.2	3.7	3.8

*- beyond bank deposits

**- beyond bank deposits and Treasury bills, the count combines "pure" Treasury money market funds with diversified money market mutual funds

Cash investment policies frequently dictate the maximum proportion of an organization's cash and short-term investment balances that can be placed in specific investment vehicles. Such policies are meant to minimize risk from exposure to any single class of investment.

At least two-thirds of organizations allow at least half of their cash and short-term investment balances to be placed in bank deposits, money market mutual funds, agency securities and Treasury bills. At least half of organizations limit the use of variable rate demand notes, auction-rate securities, and commercial paper to less than a quarter of their cash balances. Other investment vehicles for which many organizations cap the amount invested in their cash portfolio at 25 percent include municipal notes, asset-backed securities, Eurodollar deposits and repurchase agreements.

**Maximum Allowable Percentage of Short-Term Portfolio That Organizations
Can Allocate to Investment Vehicle per Short-term Investment Policy**
(Percentage Distribution of Organizations Permitting Investment Vehicle)

	Up to 25% of Portfolio	25-49% of Portfolio	50% or More of Portfolio
Variable rate demand notes	75%	10%	15%
Auction-rate securities	60	20	20
Commercial paper	54	16	30
Municipal notes	44	25	31
Asset-backed securities	39	29	32
Eurodollar deposits	37	11	52
Repurchase agreements	36	15	4
Bank deposits	26	10	64
Agency securities	20	15	66
Diversified money market mutual funds	19	16	65
Separately managed accounts	18	6	76
"Pure" Treasury money market mutual funds	13	9	78
Treasury bills	12	5	83

Cash investment policies also stipulate the maximum maturity length and the minimum credit quality for each type of allowable investment vehicle. For 63 percent of organizations, repurchase agreements have a maximum maturity of 90 days or less; 63 percent of organizations cap the maturity of Euro-dollar deposits also at 90 days or less. Thirty-seven percent of organizations allow separately managed accounts to have a maturity that extends beyond a year.

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	Greater than 1 year
Repurchase agreements	48%	15%	9%	18%	10%
Bank deposits	44	17	11	16	12
"Pure" Treasury money market mutual funds	37	24	9	15	15
Eurodollar deposits	35	28	15	10	12
Diversified money market mutual funds	34	20	15	17	14
Enhanced cash total return vehicle	27	9	18	26	18
Auction-rate securities	17	17	16	33	17
Agency securities	16	10	15	30	29
Variable rate demand notes	15	5	30	35	15
Treasury bills	13	19	19	26	23
Separately managed accounts	13	19	13	18	37
Asset-backed securities	12	16	16	24	32
Commercial paper	11	32	21	29	7
Municipal notes	3	19	19	22	37

Compared to previous *AFP Liquidity Surveys*, financial professionals indicate that their organizations have less taste for risk in 2009. For most investment products, organizations have raised the minimum credit quality required for holding a particular investment vehicle.

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/A A-1, P-1	BBB/Baa A-2, P-2	Not applicable
Diversified money market mutual funds	55%	17%	21%	3%	4%
Agency securities	45	6	27	4	18
Repurchase agreements	41	14	30	5	10
Enhanced cash total return vehicle	40	0	40	7	13
Auction-rate securities	31	23	15	23	8
Bank deposits	26	16	33	3	22
Separately managed accounts	25	6	44	12	13
Municipal notes	24	19	43	14	*
Commercial paper	24	19	47	10	*
Asset-backed securities	23	19	39	19	*
Eurodollar deposits	14	23	40	7	16
Variable rate demand notes	10	25	35	25	5

Current Allocations

The continued turmoil in financial markets and the deep recession that have impacted both the U.S. and most of the rest of the world have led organizations to keep their cash and short-term investment balances in fewer and safer investment vehicles than they had in previous years. On average, organizations invest in 1.6 types of vehicles (compared to 2.4 vehicles in the 2008 survey and 2.7 in the 2007 survey) for their cash and short-term investment balances. Large organizations allocate their cash and short-term investments to an average of 2.3 vehicles compared to 2.2 for small organizations. In 2008, the averages were 2.5 and 2.3 vehicles, respectively. Net investors use an average of 2.6 vehicles compared to 1.7 vehicles for net borrowers.

Organizations allocate an average of 78 percent of their short-term investment balances in three safe and liquid investment vehicles: bank deposits, money market mutual funds and Treasury securities. In the *2008 AFP Liquidity Survey*, 73 percent of short-term investment vehicles were placed in the same three investment vehicles, while the percentage reported in the *2007 AFP Liquidity Survey* was 67 percent. Balances in bank deposits surged at a dramatic pace over the past year. More than 37 percent of cash and short-term investment balances are placed in bank deposits (compared to 25 percent a year ago), while 32 percent are placed in money market funds.

Smaller organizations, as well as those that are net borrowers and those with non-investment grade credit ratings, place a greater percentage of their cash and short-term investments in banks than do large organizations—45 percent versus 28 percent. Large organizations are more likely than smaller ones to embrace money market mutual funds (21 percent versus 12 percent). Net borrowers place half of their short-term investment balances in the bank, while organizations with non-investment grade credit ratings place 47 percent of their short-term investments in bank deposits.

As noted in last year's survey, organizations have placed their short-term investments into bank deposits, money market mutual funds and Treasury bills, shying away from more aggressive—and riskier—investment vehicles. Those vehicles from which corporate investors have primarily retreated include auction-rate securities (-94 percent) and variable rate demand notes (-87 percent). Also experiencing significant declines in usage for short-term investments are:

- Commercial paper (off by 63 percent)
- Repurchase agreements (off by 51 percent)
- Separately managed accounts (off by 38 percent)
- Eurodollar deposits (off by 37 percent).

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

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	All (2008 Survey)
Bank deposits	37.2%	45.3%	27.7%	49.2%	25.3%	27.3%	46.6%	25.0%
"Pure" Treasury money market mutual funds	16.1	11.8	20.6	15.9	16.6	18.4	14.4	39.4%**
Diversified money market mutual funds	15.7	11.8	21.2	12.6	19.5	16.1	18.7	**
Treasury bills	9.2	9.1	8.9	6.1	11.2	10.4	6.8	8.1
Commercial paper	3.5	1.7	4.9	2.5	4.7	5.7	1.5	6.7
Agency securities	3.4	4.4	2.3	2.8	3.8	4.5	2.0	5.3
Repurchase agreements	3.1	4.9	1.1	3.8	2.8	3.6	3.1	3.5
Eurodollar deposits	2.9	2.4	3.7	2.4	3.5	3.4	3.1	6.0
Separately managed accounts	2.1	1.4	3.1	1.0	3.1	3.4	*	1.5
Enhanced cash total return vehicle	1.9	1.7	2.3	1.1	2.7	2.5	1.8	1.6
Asset-backed securities	0.8	0.7	0.9	1.1	0.7	1.3	0.4	0.7
Municipal notes	0.7	0.6	0.9	0.1	1.2	0.7	0.2	*
Auction-rate securities	0.3	0.5	0.2	*	0.6	0.2	0.6	0.9
Variable rate demand notes	0.2	0.5	*	*	0.5	0.1	*	*
Mean # of vehicles	1.6	2.2	2.3	1.7	2.6	2.4	2.0	2.4

** - 2008 Survey combined money market mutual funds

Matching trends in previous *AFP Liquidity Surveys*, organizations place most of their short-term investment portfolio into investment vehicles that have very short maturities. On average, three-quarters of all short-term investment holdings are invested in vehicles with maturities of one month or less. Another 15 percent of short-term investments are held in instruments with maturities of between 31 and 90 days. Organizations that are net investors and those with investment grade credit ratings are slightly more likely to hold their short-term investments in instruments with longer maturity horizons. For example, “only” 72 percent of investment holdings of net investor organizations are held in instruments with maturity horizons of less than a month.

Three-quarters of financial professionals (77 percent) expect their organizations to maintain the current percentage distribution of their short-term investment portfolios in terms of maturity over the next year. Fourteen percent of organizations expect to lengthen the average maturity of their short-term investment portfolios, while nine percent expect to shorten the average maturity over the next year. In the 2008 survey, 12 percent of respondents expected their organizations would lengthen the average maturity of their short-term investment holdings while 25 percent of respondents to the 2007 survey had intended to do the same.

Average Maturity of Organization’s Short-Term Investment Portfolio
(Percentage Distribution of Total Portfolio)

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
0-30 days	76%	74%	77%	79%	72%	74%	80%
31-90 days	14	17	16	15	16	15	15
91-364 days	6	8	3	3	8	5	4
1 year or more	3	4	3	2	5	5	1
Expectations for change in average maturity of holdings over next year (Percentage Distribution)							
Lengthen	14%	15%	12%	13%	14%	11%	18%
Keep the same	77	77	78	80	76	78	76
Shorten	9	8	10	7	10	11	6

Multi-Family Trading Portals

Organizations have the option of using an electronic, multi-family trading portal to execute short-term investment transactions. These portals provide organizations 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.

A quarter of organizations use an electronic, multi-family trading portal to execute at least a portion of their short-term investment transactions. Large organizations are more likely than smaller ones to use such a portal: 38 percent of large organizations use a multi-family trading portal compared to just 14 percent of smaller organizations. The use of multi-family trading portals has remained stable over the past few years.

Organization's Use of Electronic, Multi-family Trading Portals to Execute Any of Their Short-Term Investment Transactions (Percentage Distribution)

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
Organization uses electronic, multi-family trading portal	26%	14%	38%	24%	29%	34%	18%
Organization does not use an electronic, multi-family trading portal	74	86	62	62	76	71	82

Organizations that use electronic multi-family trading portals use those portals to transact the majority of their money market fund transactions. But the share of those money market holdings transacted through those portals has declined. Those organizations using trading portals moved an average of 72 percent of their money market mutual fund holdings through these portals, compared to 80 percent in 2008.

Percentage of Money Market Mutual Fund Holdings That Are Run Through an Electronic, Multi-family Trading Portal

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
2009 Survey	72%	60%	79%	81%	66%	72%	69%
2008 Survey	80	88	77	80	81	80	76
2007 Survey	74	87	68	75	73	71	76
2006 Survey	69	67	76	76	72	76	67

Credit Crisis and Impact on Investment Strategies

As shown earlier in this report, just under half of organizations have increased their cash and short-term holdings during the early months of 2009. One factor underlying the increase has been the turmoil in the financial sector that, in turn, has led to a dramatic decline in organizations' access to short-term credit. In both September and December of 2008, AFP asked its corporate practitioners about the impact that the credit crunch was having on their organizations' access to credit. As the credit markets had not yet recovered by the Spring of 2009, AFP decided to repeat a number of these questions in the *2009 AFP Liquidity Survey*.

Over half of financial professionals (59 percent) report that their organizations' current access to short-term credit was about the same in May 2009 as it was at the beginning of 2009 despite the aggressive and unprecedented actions taken by the U.S. government and the Federal Reserve. Further, organizations were more likely to have less access to credit than they were to see an improvement. Twenty-seven percent report that credit was less plentiful than it was five months ago versus 14 percent that indicate that credit access has improved.

As financial institutions have tightened credit standards, organizations that do not have investment grade credit ratings are more likely to have experienced more difficulty acquiring credit compared to those with better credit ratings. Thirty-five percent of organizations with non-investment grade credit ratings have less access to short-term credit relative to just five months ago versus 23 percent of organizations with investment grade credit ratings. In addition, organizations that are primarily net borrowers have a more difficult time gaining access to credit (33 percent) than do those organizations defined as net investors (22 percent). Interestingly, the size of organizations does not appear to have an impact on their access to short-term credit.

Organization's Current Access to Short-Term Credit Relative to the Beginning of 2009 (Percentage Distribution)

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
Significantly greater access	4%	4%	5%	4%	5%	6%	3%
Somewhat greater access	10	7	13	10	11	14	6
No significant change in access	59	60	57	53	62	57	56
Somewhat less access	17	17	16	22	12	13	23
Significantly less access	10	12	9	11	10	10	12

A majority of organizations expect their access to short-term credit will not change over the next year. Two-thirds of financial professionals believe their organizations will have the same access to very short-term credit (with maturities of less than a year) over the next 12 months as they did in May, while 54 percent indicate no change for short-term credit (with maturities of between one and five years). Just under half of organizations (48 percent) anticipate that their access to long-term credit will not change in the coming year.

Expected Change in Organizations' Access to Credit Over Next 12 Months
(Percentage Distribution)

	Very short-term credit (Under 365 Days)	Short-term credit (1 -5 Years)	Long-term credit (Greater than Five Years)
Increased Availability	22%	24%	22%
No Change in Availability	66	54	48
Decreased Availability	12	22	30

Ninety-three percent of survey respondents indicate that their organizations have taken at least one action as a direct result of the credit crisis that had started last September. This is a substantial increase from the 62 percent of organizations that had taken action by late September (per the *2008 AFP Short-Term Credit Access Survey*) but nearly matches the 92 percent that had acted by early December (per the *2009 AFP Business Outlook Survey*).

But while most organizations have taken at least one defensive action as a result of the market turmoil of the past nine months, a smaller percentage of them anticipates taking additional actions should credit access not improve in the coming months. Sixty percent of organizations expect to take an additional defensive action should access to credit not improve over the next three to six months. This compares favorably to the 72 percent of organizations in late September and the 79 percent of organizations in early December that had expected to take additional defensive actions should their access to credit not improve in the coming months.

The actions that organizations have taken (or could take) as a result of the difficult credit conditions include changing their short-term cash strategies. Forty-four percent of organizations that have taken any action as a result of the difficult credit conditions have moved all or most of their short-term investments to bank deposits and U.S. Treasuries while 34 percent have shortened the duration of their short-term investment portfolios. Further, 19 percent are delaying payments to vendors while 17 percent of financial professionals indicate that their organizations have drawn on credit facilities that are still available to build cash.

Other organizations already have made moves to reduce cash expenses. Seventy percent of organizations that have taken any action as a result of difficult credit conditions have reduced capital spending. The percentage of organizations that have reduced capital spending has nearly doubled from the 37 percent that reported having reduced spending in the September survey. Sixty-nine percent have frozen or reduced hiring—this is a dramatic change from the September 2009 survey results which showed that only 26 percent of organizations had reduced or frozen hiring over the previous month. In addition, 58 percent of organizations have considered or actually implemented job reductions as a result of the reduced access to credit.

Should credit conditions not improve in the coming three to six months, a number of organizations expect to focus their defensive actions on further reducing both capital spending and labor costs. Two-thirds of organizations that anticipate taking additional defensive actions as a result of the credit crisis expect to reduce capital spending. Fifty-six percent of organizations expect to freeze or reduce hiring while 63 percent will consider further staff reductions should credit access not improve.

**Actions That Organizations Have Taken (or Expect to Take)
as a Result of Reduced Access to Short-Term Credit**
(Percentage of Organizations Reporting Have Taken or Expect to Take Action)

	Actions Taken Since September 2008	Expected Actions Should Credit Access Not Improve Over Next 3-6 Months
Reduced capital spending	70%	67%
Frozen or reduced hiring	69	56
Considered staff reductions/layoffs	58	63
Moved all or most of short-term investments to bank deposits and U.S. Treasuries	44	16
Shortened the duration of short-term investment portfolio	34	15
Tightened credit standards for trading partners	30	33
Reduced current or planned inventory levels	29	36
Considered closing locations (e.g., stores, factories, offices)	27	28
Delayed payments to vendors	19	30
Drawn on credit facilities that were still available to build cash	17	20
Delayed/discontinued share repurchases	15	14
Reduced/eliminated shareholder dividend payments	10	14
Filed for bankruptcy protection	*	2

The majority of financial professionals anticipate that the credit turmoil will ease by the end of the current calendar year if it has not already. Seventy-four percent of financial professionals think either “the worst is over” or believe the credit markets will start recovering by the end of 2009. Conversely, 26 percent believe the credit markets will *not* recover until 2010 at the earliest. Respondents from larger organizations are more optimistic than those from smaller ones. Eighty percent of survey participants from organizations with annual revenues of over \$1 billion believe either the worst is over or that the credit markets will begin recovering by the end of this year. Only 68 percent of respondents from organizations with annual revenues of under \$1 billion believe the same.

Organizations’ Expectations of Credit Turmoil
(Percent Distribution)

	All Responses	Annual Revenues Under \$1 billion	Annual Revenues Over \$1 billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
Believe the worst is over	29%	25%	34%	32%	27%	29%	30%
Believe the credit markets will begin to recover by Q4 2009	45	43	46	41	48	44	43
Believe the credit markets will not recover until at least 2010	26	32	20	27	25	27	27

Conclusions

The impact of the deep recession in both the U.S. and most of the rest of the world and the dramatic tightening of credit have led organizations to significantly increase their cash and short-term investment holdings. In the six-month period between November 2008 and May 2009, 42 percent of organizations increased their cash and short-term investment holdings, while 28 percent decreased their balances. In addition, while 44 percent of organizations do not expect these balances to change significantly over the next 12 months, 29 percent do expect to increase their short-term holdings over the next year. Just 27 percent expect that they will decrease their cash and short-term investment balances.

Organizations are adjusting their investment strategies to the turbulent economic and financial market conditions. The majority of them have continued to decrease their holdings in a number of investment vehicles over the past year, and have moved their short-term investments into bank deposits, money market mutual funds and U.S. Treasury securities. Nearly 80 percent of all short-term investment and cash balances are held in these three investment vehicles. For organizations that have less access to credit and/or are relatively small organizations, bank deposits make up nearly half of all cash and short-term investment balances. This flight to quality is consistent with the primary cash investment policy objective of most organizations: safety of principal.

The state of the economy and the tightening of credit access have had a major impact on short-term investment decisions. Despite the historic interventions by the U.S. government and the Federal Reserve, nearly seven out of eight organizations report that their access to credit has not improved since the beginning of 2009. In fact, 27 percent of survey respondents report that their credit access has deteriorated during this time period. Given the lack of credit access and the feeling among most organizations that credit access will not improve over the next year, it is likely that U.S. businesses will maintain their conservative investment strategies for some time.

About the Survey

In May 2009, the Association for Financial Professionals conducted a 25-question survey on strategies associated with the management of short-term investments. AFP sent surveys to over 3,000 corporate practitioner members and received 312 responses. After adjusting for mis-delivered email, the response rate was 10 percent. An additional 48 responses were received from corporate practitioners who are not AFP members. The combined 360 responses are the basis of this report. The survey was underwritten by The Bank of New York Mellon. The survey questionnaire and report were produced by the Research Department of the Association for Financial Professionals, which is solely responsible for the content of the 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	20%
Insurance	11
Energy (including utilities)	10
Financial services	8
Non-profit (including education)	8
Retail (including wholesale/distribution)	8
Business services/Consulting	6
Software/Technology	6
Government	5
Health services	5
Transportation	4
Construction	3
Hospitality/Travel	2
Real estate	2
Telecommunications/Media	2

Annual Revenues
(Percentage Distribution)

Under \$50 million	11%
\$50-99.9 million	5
\$100-249.9 million	11
\$250-499.9 million	11
\$500-999.9 million	14
\$1-4.9 billion	30
\$5-9.9 billion	8
\$10-20 billion	4
Over \$20 billion	6

Ownership Type
(Percent Distribution)

Publicly owned	39%
Privately held	42
Non-profit (not-for-profit)	13
Government (or government-owned entity)	6

Net Borrower or Net Investor
(Percentage Distribution)

Net Investor	56%
Net borrower	44

Organization's Credit Ratings
(Percentage Distribution)

Investment grade	58%
Non-investment grade	42

AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Managing Director, Research and Strategic Analysis, Kevin A. Roth, PhD, who is joined by four 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. AFP Research also produces *AFP EconWatch*, a weekly economic newsletter. Study reports on a variety of topics, including AFP's annual compensation survey, and *AFP EconWatch*, 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 16,000 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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