



2019 AFP®

# LIQUIDITY SURVEY

## Bank relationships determine where companies put their cash

### AFP RESEARCH

**B**ank relationships are core to businesses' operating cash investment mix, according to the 2019 Association for Financial Professionals Liquidity Survey, underwritten by State Street Global Advisors.

In a survey of nearly 500 corporate treasury and finance professionals conducted in March, 93 percent of respondents consider the overall relationship with their banks to be a determinant when deciding where to place their organizations' cash and short-term investments. The continued dominance of banking relationships highlights the key recurring investment themes of safety, liquidity and yield.

Fully 68 percent of respondents indicate that the credit quality of a bank also is a deciding factor when determining where to invest. Organizations that are privately held, non-investment grade and net debtors are more reliant on their banks than are other companies.

"Banks are financial professionals' key partners and that relationship is a major determinant in deciding where to place operating cash," said AFP president and chief executive officer, Jim Kaitz. "However, our research does show that bank deposits have gradually declined year over year. It will be interesting to see if practitioners will continue to emphasize bank relationships in an uncertain interest-rate environment."

## Large cash balances remain

Sixty-one percent of treasury and finance professionals report that their organizations will maintain current levels of cash balances within the U.S. over the next 12 months. A larger share of survey respondents indicates their organizations are likely to see cash balances increase over the next year rather than decrease; 20 percent of respondents anticipate their organizations will grow cash balances within the U.S. and 19 percent expect their companies' U.S. cash balances will contract.

In comparison, in 2018, 61 percent of survey respondents reported cash balances at their organizations would remain unchanged over the ensuing 12 months while 25 percent anticipated an increase. Two-thirds of organizations anticipate their cash balances being held outside the U.S. will be unchanged while 16 percent expect an increase.

“We continue to see high cash balances acting as a buffer in the face of market uncertainty,” said Barry F.X. Smith, COO of State Street Global Advisors Global Institutional Group. “Cash management is increasingly being used by investment professionals as part of a broader corporate strategy.”

## Real-time liquidity?

Looking forward, as real-time payments take shape, treasury departments will need to consider sourcing liquidity in real time. Fully 39 percent of survey respondents expect the money market industry to provide liquidity 24/7 while 19 percent do not.

Nearly three-fourths of financial professionals participating in the survey (74 percent) indicate they would consider real-time money market fund options as a fit within their organizations' investment policy and 59 percent would consider real-time investment sweep. Real-time earnings credit rate would be suitable for 35 percent of organizations.

## Expectations that the Money Market Industry Would Provide 24/7 Liquidity

(Percentage Distribution of Organizations)

	ALL RESPONSES	ANNUAL REVENUE LESS THAN \$1 BILLION	ANNUAL REVENUE AT LEAST \$1 BILLION	NET BORROWER	NET INVESTOR	INVESTMENT GRADE	NON-INVESTMENT GRADE	PUBLICLY OWNED	PRIVATELY HELD
YES	39%	53%	45%	46%	51%	48%	48%	46%	53%
NO	19%	20%	26%	23%	23%	22%	23%	23%	22%
UNSURE	42%	27%	30%	31%	26%	30%	29%	31%	24%

## Vehicles Under Consideration Assuming the Options fit with Investment Policy

(Percent of Organizations)

	ALL RESPONSES	ANNUAL REVENUE LESS THAN \$1 BILLION	ANNUAL REVENUE AT LEAST \$1 BILLION	NET BORROWER	NET INVESTOR	INVESTMENT GRADE	NON-INVESTMENT GRADE	PUBLICLY OWNED
REAL TIME MONEY MARKET FUND	74%	73%	74%	73%	74%	75%	73%	67%
REAL TIME INVESTMENT SWEEP	59%	55%	62%	59%	60%	63%	52%	61%
REAL TIME EARNINGS CREDIT RATE	35%	38%	33%	36%	34%	35%	36%	35%
REAL TIME INVESTMENT OPTIONS "TO FOLLOW THE SUN"	16%	13%	19%	21%	11%	11%	27%	28%

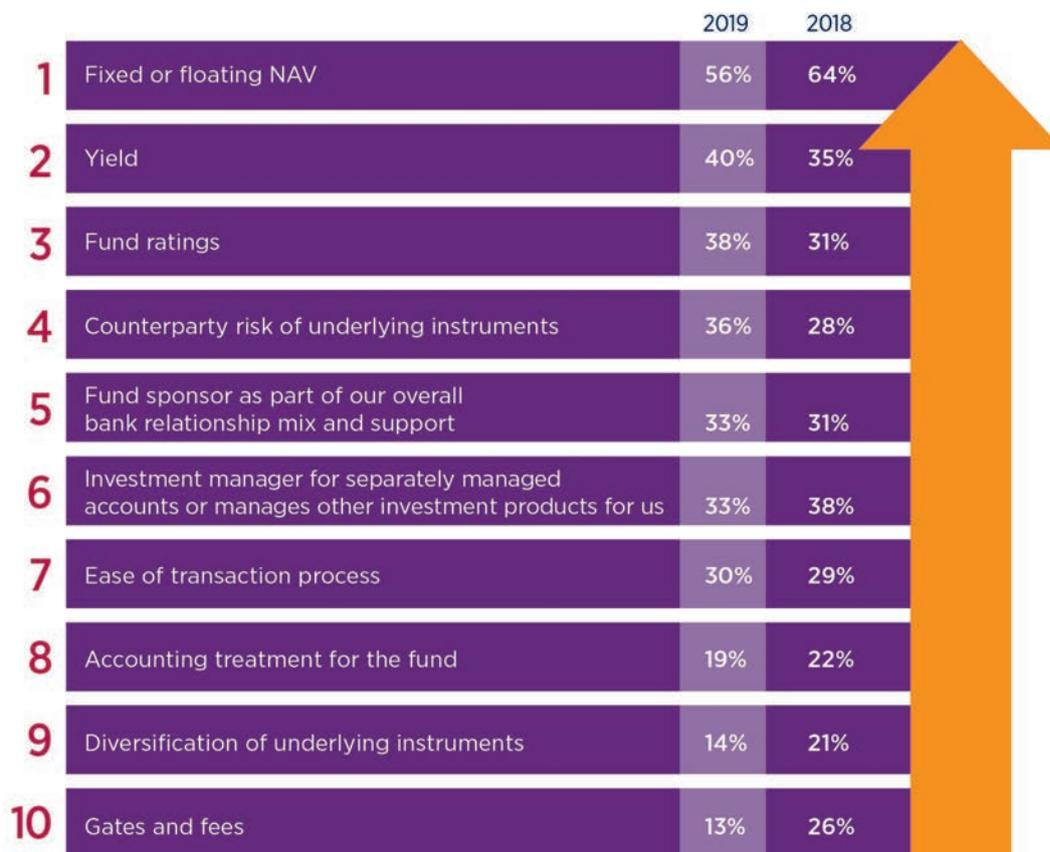
## LIQUIDITY MANAGEMENT continued

### Retreat to yield

The 2019 AFP Liquidity Survey also revealed a shift toward yield for money market funds. Although a fixed or floating net asset value (NAV) was still the most popular reason for choosing a money fund at 56 percent, yield ranked second (40 percent), followed by fund ratings (38 percent). This is a shift from last year when yield was ranked third after the “relationship value from the investment manager.” It appears that the valuation of money market funds and bank deposits are not equally measured when interest rates have risen, everything else being equal.

### Importance of Primary Drivers in Selection of Money Market Fund

(Ranked on a Scale from 1-10, where 1 is Most Important and 10 Least Important)

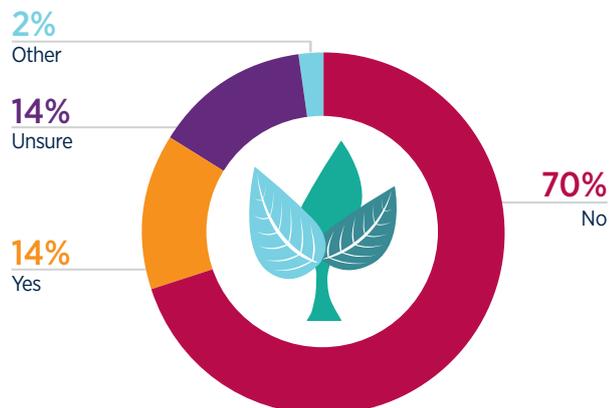


### ESG investment parameters off to a slow start

Only 14 percent of survey respondents consider ESG investment parameters when managing operating cash. Meanwhile, 70 percent do not consider ESG at all and 14 percent are unsure. Net investors (19 percent) and larger organizations with annual revenue of at least \$1 billion (17 percent) are more likely to consider ESG as a parameter than are other organizations.

### ESG (environmental, social and governance) Investment Parameters in Operating Cash

(Percentage Distribution of Organizations)

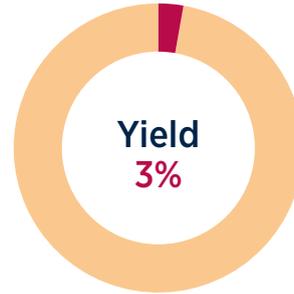


## Safety first

Despite a strong U.S. economy, treasury and finance professionals continue to be apprehensive about drawing down on their organizations' short-term cash and investments. Safety remains the most important short-term investment objective for treasurers when it comes to their organizations' cash liquidity needs; 64 percent of respondents cite safety as their most valued short-term investment objective.

## Objectives of Cash Investment Policy

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



It is encouraging to note that the share of survey participants highlighting liquidity as a priority—33 percent—is the highest percentage since AFP began conducting its liquidity survey. This group of practitioners is more inclined than they have been in the past to invest their organizations' cash and short-term investments in vehicles other than bank products, with government/Treasury money market mutual funds, Treasury bills, commercial paper and prime funds being the likely alternatives.

Full results are available at: [www.AFPonline.org/liquidity](http://www.AFPonline.org/liquidity)



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