AFP® ASSOCIATION FOR FINANCIAL PROFESSIONALS

2018 AFP®

LIQUIDITY SURVEY REPORT

Key Findings

Underwritten by

STATE STREET GLOBAL ADVISORS

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STATE STREET GLOBAL ADVISORS

Dear Corporate Practitioner/Financial Professional:

State Street Global Advisors is proud of our continuing partnership with the AFP to sponsor the 2018 Liquidity Survey. This year's survey marks the 13th annual examination of trends affecting financial professionals' cash management practices. The end of 2017 captured business leaders' optimism with a new presidential administration and the passing of the Tax Cuts and Jobs Act, yet overwhelmingly financial professionals employed a 'wait and see' approach to cash investments.

Escalating tariff war, changing regulatory environment and consequences of a protectionist trade policy are all wreaking havoc on commodity prices and causing concerns for U.S. economic growth. Yet throughout, cash balances remain high, acting as a buffer against these market uncertainties.

Regardless of which way the markets turn and what strategy and solutions you choose to reach your goals, we are here to help. Our 40+ years serving institutional investors in addressing their needs in the short term liquidity space underscores our commitment to thought leadership, collaboration and client-centric innovation.

I hope you find the 2018 Liquidity Survey helpful to your organization as we continue to grow as an industry. We look forward to working together with you for many years to come.

Sincerely,

Yeng Felipe Butler
Global Head of Cash Business

www.ssga.com/cash

Key Takeaways

Anticipated Changes as a Result of the 2017 Tax Cuts and Jobs Act

Five months after enactment of the Tax Cuts and Jobs Act of 2017 (TCJA), 40 percent of survey respondents continue to be uncertain about some of its provisions and anticipate no changes in spending at their companies. About one-fourth of companies plans to pay down debt while 24 percent plan to repatriate (or have already repatriated) their off-shore funds. Of those organizations anticipating repatriation as a result of the TCJA, repatriation has already occurred at 27 percent of organizations; 70 percent of companies expect such repatriation to happen within the next 12 months.

Objectives of Cash Investment Policy

Safety continues to be the primary short-term investment objective for 65 percent of organizations, slightly lower than the 67 percent in last year's survey. Thirty-one percent of survey respondents indicate their organizations' most important cash objective is liquidity—higher than the 30 percent reported in both 2017 and 2016, and the largest share of survey respondents citing liquidity as the primary investment objective since 2008 when AFP began tracking the importance of organizations' cash investment policies.

With safety and liquidity remaining the top two investment objectives for companies, yield continues to rank a distant third. This year's survey results reveal that four percent of survey respondents cite yield as the most important investment objective for their organizations.

Current Allocations

The typical organization currently maintains 49 percent of its short-term investment portfolio in bank deposits. This allocation is a four-percentage-point decrease from 2017 and the smallest share since 2011.

The overall majority of organizations continue to allocate a large share of their short-term investment balances—an average of 75 percent—in safe and liquid investment vehicles: bank deposits, money market funds and Treasury securities. Money market funds currently account for 19 percent of organizations' short-term investment portfolios, a smaller share than the 21 percent reported in 2017 but larger than the 17 percent reported in 2016. Government money market funds account for 13 percent of allocations, similar to the 14 percent reported last year.

Shifts in Investment Mix

A majority of treasury and finance professionals (59 percent) does not anticipate a change in the investment mix of their companies' short-term investments as a result of either the Tax Cuts and Jobs Act or any macroeconomic factors. Eleven percent project there will be a shift in investment mix and nearly one-third is unsure (31 percent).

The anticipated changes in investment mix are more likely to be in Prime/Diversified money market funds and Government/Treasury money market funds: 24 percent of survey respondents indicate they expect an increase in each of these. About 20 percent anticipate an increase in commercial paper and bank deposits.

SEC Ruling Money Market Reform

The SEC Reforms that took effect in October 2016 mandate that Prime money market funds now operate with a floating net asset value (NAV) and Government money market funds operate with a stable NAV. In light of these reforms, 50 percent of organizations do not have plans to resume investing in Prime money market funds. Twenty-three percent of treasury and finance professionals report that the NAV will have to prove that it does not move significantly before their organizations resume investing in Prime money market funds. Another 23 percent would resume investing in Prime money market funds if the spread between Prime and Compelling investment is significant.

Introduction

This year marks the 10th anniversary of the 2008 financial crisis. While much has remained the same in financial markets in the wake of the crisis, regulatory reforms affecting money market funds and banks, continue to have lasting impacts on organizations' operating cash portfolios.

In early 2017, a new presidential administration and new Congress suggested significant changes were on the way. During his campaign, President Trump promised a less-regulated and a more business-friendly environment. Business leaders were optimistic; they appeared to want to begin spending their companies' cash, raising employee compensation and loosening their hold on short-term investments—decisions they had been reticent to make for a while. As the year itself progressed, however, action on legislation and regulation that would have spurred those decisions lagged. Lack of cohesion among government policy makers resulted in an environment mired in uncertainty, and those decisions to deploy cash were put on hold.

In late 2017, the Tax Cuts and Jobs Act of 2017 (TCJA) was passed and signed into law. The TCJA was welcomed by corporate leaders; indeed, one of the Act's primary provisions lowered the corporate tax rate significantly. Again, many anticipated this would encourage organizations to spend on capital investment, increase wages and bonuses, and give the U.S. economy a boost. But soon after the TCJA was signed into law, the administration began floating ideas of imposing tariffs on goods from other countries and geopolitical tensions with North Korea became more intense—events that did little to loosen organizations' purse strings. Results from the most recent survey on liquidity by the Association for Financial Professionals® substantiate this: nearly 40 percent of survey respondents indicate they prefer to take a "wait and see" approach and anticipate no changes in their organizations' approach to cash and short-term investment as a result of the new tax law. While some repatriation of off-shore funds has occurred and will continue to do so, less than one-fourth of survey respondents reports repatriation of funds is on their agenda. (Since the survey data was gathered, the U.S. Government has imposed strict tariffs on products from other countries and made progress in negotiations with North Korea's leader in efforts to denuclearize the country.)

In addition, corporate treasury departments remain cautiously optimistic in their perception of Prime money market funds. Transition to Prime funds has probably peaked for operating cash. The floating net asset value (NAV) is a deal breaker for most organizations, and the threshold to consider moving back to Prime funds has not yet been reached despite yield differentials compelling enough with NAVs not floating much and balances not increasing significantly. Finance professionals also anticipate three interest-rate increases by the Federal Reserve in calendar year 2018 (at the time this report was being written). Practitioners are keeping investment vehicle maturities short—less than 30 days—and are probably planning to take full advantage when interest rates do increase.

To examine current and emerging trends in organizations' cash and short-term investment holdings, investment policies and strategies, the Association for Financial Professionals® (AFP) conducted its 13th annual *Liquidity Survey* in April 2018. The survey generated 637 responses which are the basis of this report. Results from this survey will provide treasury and finance professionals with critical benchmarks on short-term investment holdings and strategies.

AFP thanks State Street Global Advisors (SSGA) for underwriting the *2018 AFP Liquidity Survey*. The Research Department of AFP designed the survey questionnaire, analyzed the survey results and produced the report and is solely responsible for its content.

01 CASH AND SHORT-TERM INVESTMENTS/SECURITIES

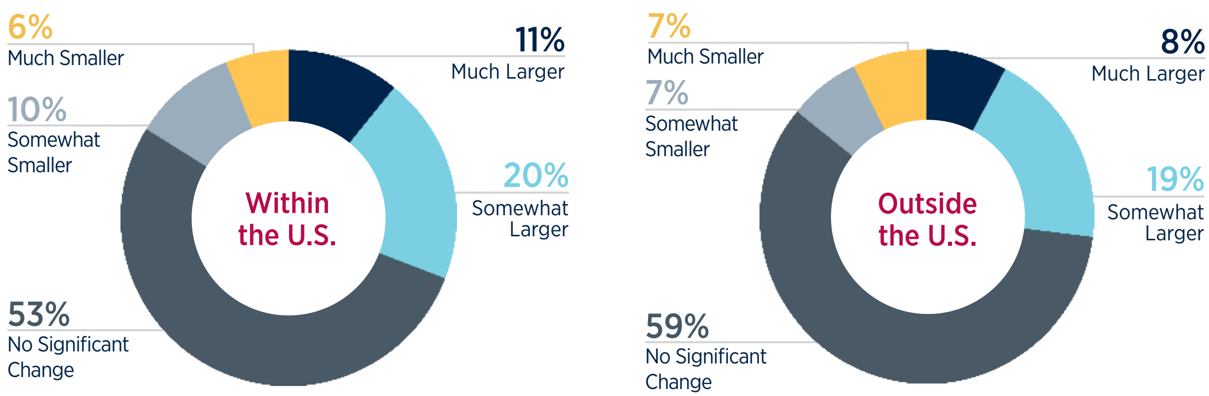
Cash and Short-Term Investments/Securities

In early 2017, there were glimpses of optimism among business leaders fueled by the promises of a new presidential administration: less regulation, lowering of the corporate tax rate and an overall business-friendly environment. Organizations were expected to loosen their purse-strings, thereby giving the economy a long-awaited boost. This optimism was, however, short-lived. Treasury and finance professionals have yet to regain complete confidence in the economy to alter their companies' cash management and short-term investment strategies. There has been no apparent change in organizations' spending, and despite the passage of tax reform legislation in late 2017, provisions of the new law were not enough to encourage organizations to begin deploying their cash and short-term holdings.

Thirty-one percent of corporate practitioners report an increase in their organizations' cash holdings within the U.S. in the past 12 months.[1] Fifty-three percent indicate no significant change and 16 percent report a decrease. These results are comparable to those in last year's survey in which 32 percent of treasury and finance professionals reported an increase in U.S. cash holdings and 51 percent indicated cash balances had not changed significantly.

Fifty-nine percent of respondents indicate that in the past 12 months their organizations' investments outside the U.S. were unchanged—similar to the 56 percent reported last year. Twenty-seven percent report an increase in cash and short-term balances, close to the 29 percent reported in last year's survey.

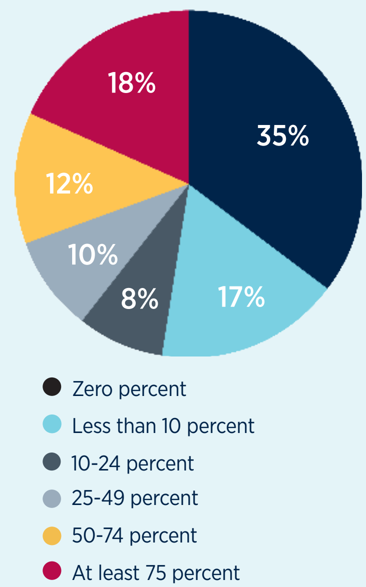
Change in Cash and Short-Term Balances Over the Past 12 Months: U.S. and Non-U.S. Cash Holdings
(Percentage Distribution of Organizations)



[1] From April 2017 to April 2018

Sixty-five percent of organizations hold some amount of cash outside of the U.S.—slightly more than the 60 percent reported last year. The share increases to 80 percent for publicly owned organizations; 38 percent of these companies hold at least half of their cash outside the U.S. Seventy percent of large organizations—those with at least $1 billion in annual revenue—hold cash outside the U.S. compared to 52 percent of organizations with annual revenue under $1 billion that do so. These findings suggest that larger and publicly owned companies are more likely to invest outside the U.S. than are smaller ones.

Percent of Organizations' Cash and Short-Term Investments Currently Outside the U.S.
(Percentage Distribution of Organizations)



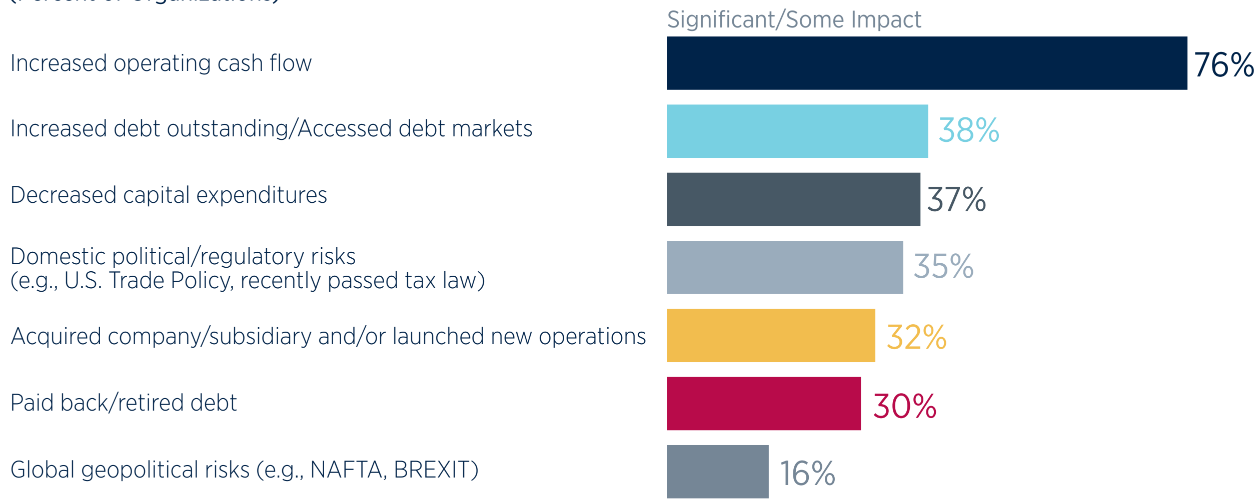
Drivers of Changes in Cash Holdings over the Past Twelve Months

Changes in cash holdings are impacted by various factors. Increased operating cash flow appears to have played a significant role in increasing cash holdings among organizations in the past 12 months: 76 percent of survey respondents report that it had either a significant impact or some impact on the increase in cash holdings at their organizations. Other drivers contributing to increased cash holdings at organizations include increased debt outstanding/accessed debt markets (cited by 38 percent of survey respondents) followed closely by decreased expenditures (37 percent) and domestic political/regulatory risks (35 percent).

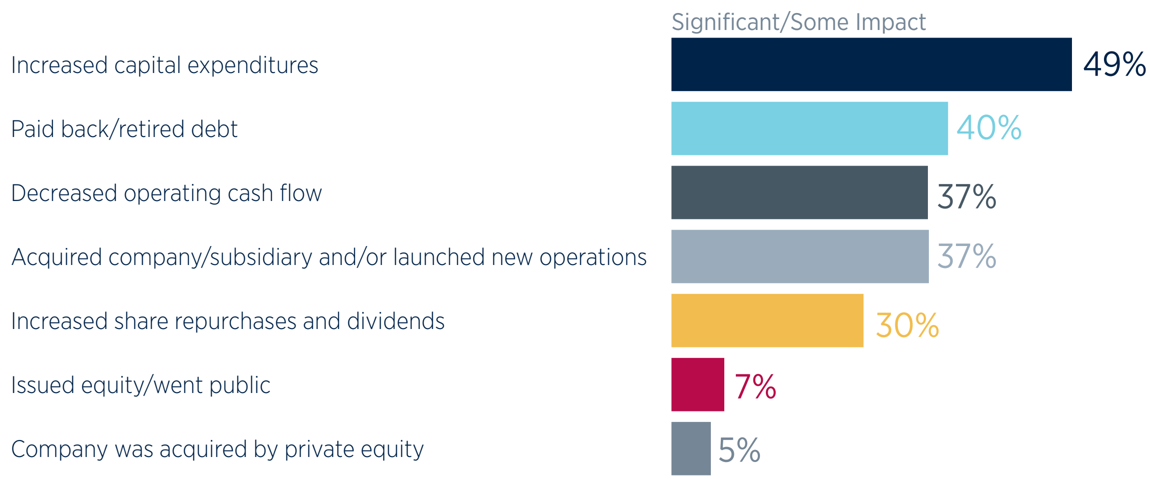
For those organizations that experienced decreased cash holdings compared to 12 months ago, the key reasons for reduced cash holdings include:

- Increased capital expenditures (cited by 49 percent of survey respondents)
- Paid back/retired debt (40 percent)
- Acquired company/subsidiary and/or launched new operations (37 percent)
- Decreased operating cash flow (37 percent)

Impact of Drivers on the Increase in Organizations' Cash Holdings in the Past 12 Months
(Percent of Organizations)



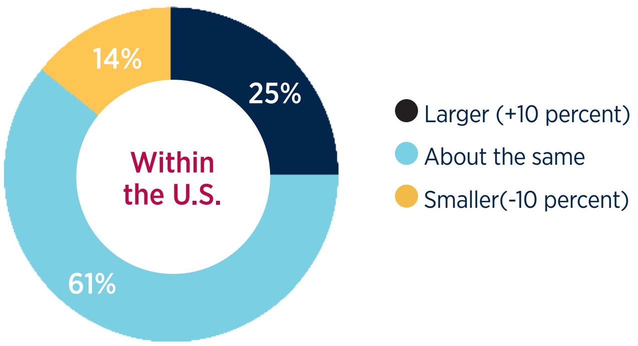
Impact of Drivers on the Decrease in Organizations' Cash Holdings in the Past 12 Months
(Percent of Organizations)



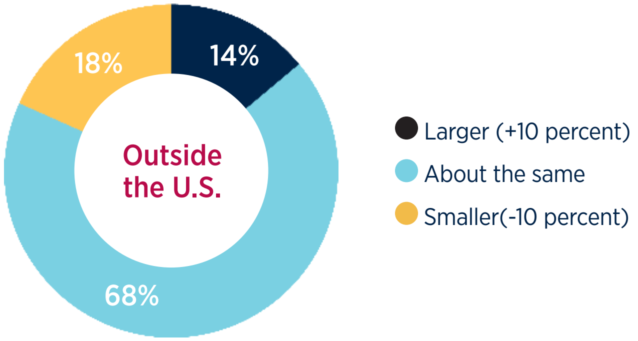
Expected Change in Cash Holdings in the Next Twelve Months

Over 60 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 12 months rather than decrease: 25 percent of respondents anticipate their organizations will grow cash balances within the U.S. and 14 percent expect their companies' cash balances to contract. In 2017, 59 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 currently anticipate their cash balances held outside the U.S. will be unchanged while 14 percent expect an increase.

Expected Change in Cash and Short-Term Investment Balances over the Next 12 Months (within the U.S.)
(Percentage Distribution of Organizations)



Expected Change in Cash and Short-Term Investment Balances over the Next 12 Months (outside the U.S.)
(Percentage Distribution of Organizations)

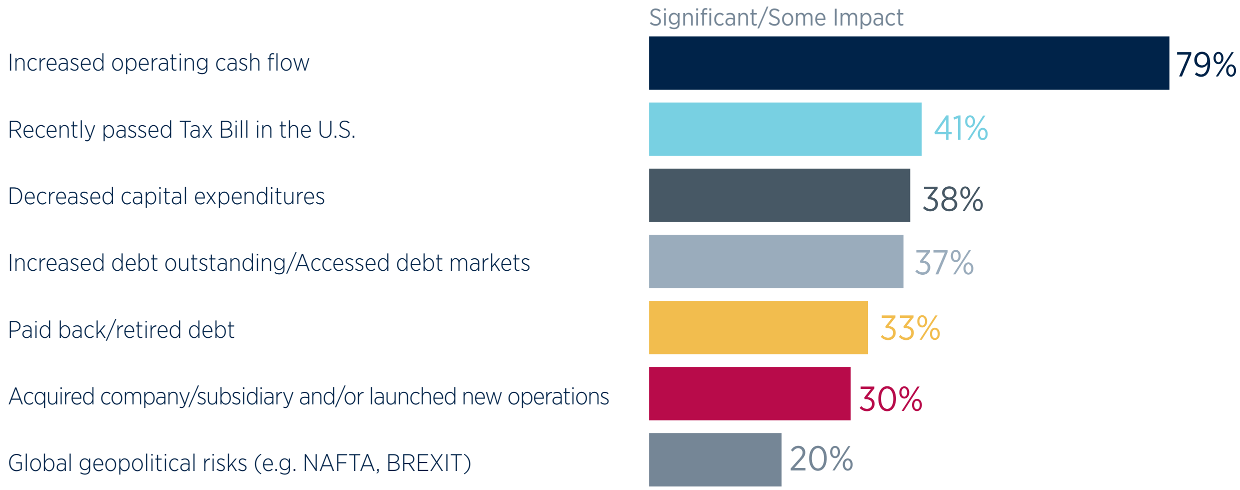


Anticipated Drivers for Change in Cash Holdings in the Next Twelve Months

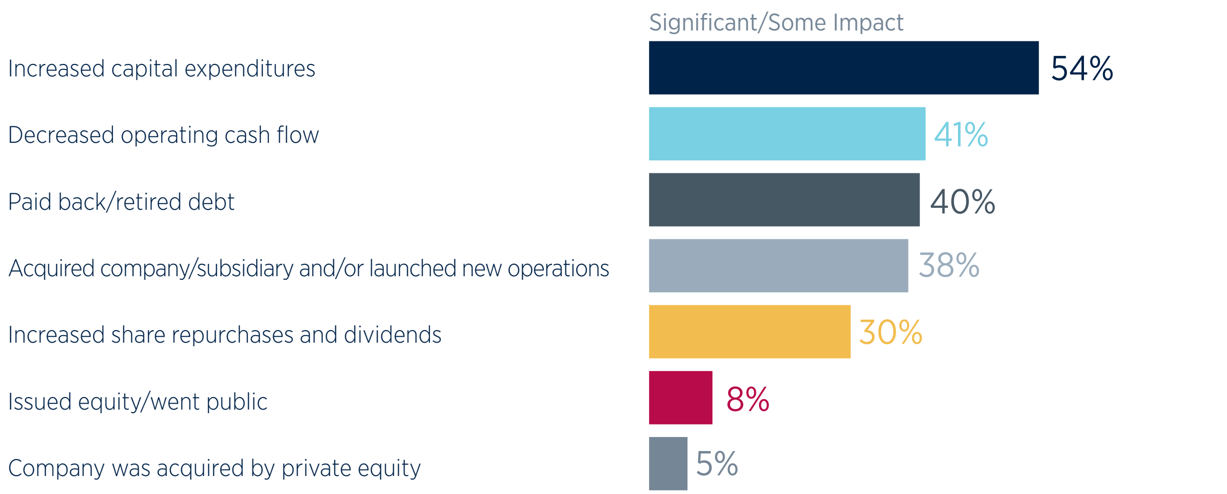
Among those corporate practitioners whose organizations will increase cash holdings in the next 12 months, 79 percent expect that those larger amounts of cash will be the direct result of increased operating cash flow. Forty-one percent expect their organizations' cash balances to grow as a result of the recently passed tax bill in the U.S. Thirty-eight percent of them expect their organizations' cash balances to increase as a result of decreased capital expenditures, followed closely by 37 percent who claim increased debt outstanding/accessed debt markets is a driver for a decrease in their holdings.

Fifty-four percent of treasury and finance professionals who expect their organizations to decrease cash holdings in the next 12 months indicate this result will be primarily because of increased capital expenditures. Another 41 percent attribute it to decreased operating cash flow and 40 percent report that retiring debt will have impacted their companies' cash holdings.

Anticipated Impact of Drivers on the Increase in Organizations' Cash Holdings in the Next 12 Months
(Percent of Organizations Anticipating an Increase in Cash Holdings in the Next 12 Months)



Anticipated Impact of Drivers on the Decrease in Organizations' Cash Holdings in the Next 12 Months
(Percent of Organizations Anticipating a Decrease in Cash Holdings in the Next 12 Months)

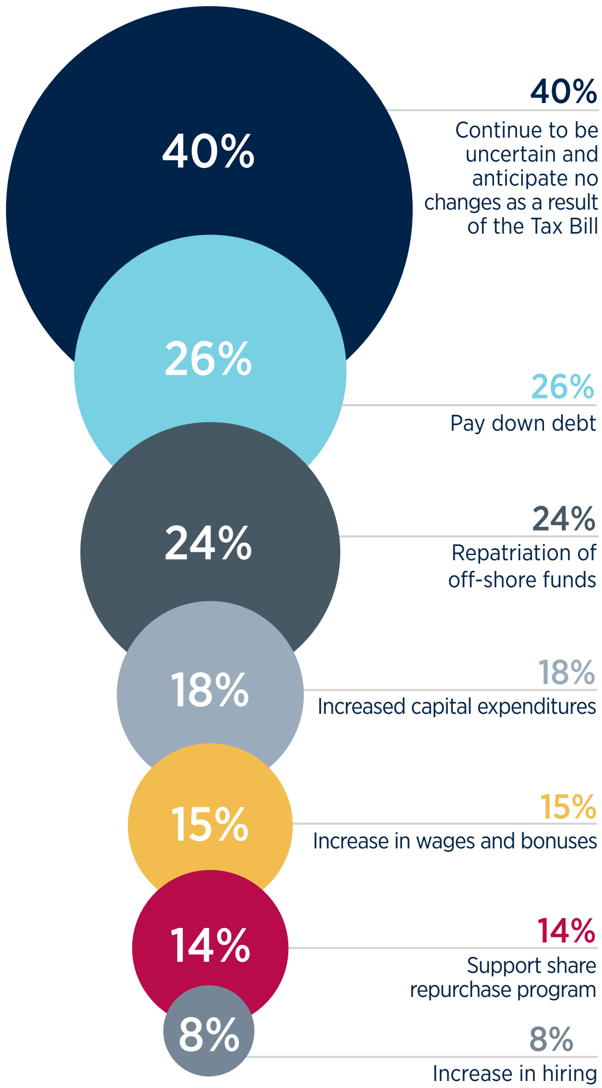


Anticipated Changes as a Result of the 2017 Tax Cuts and Jobs Act

Late last year, President Trump signed the Tax Cuts and Jobs Act of 2017 (TCJA) into law. Most analysts consider this a big win for the administration. The implications of this law are many, and the law's impacts will be felt among both corporations and individuals. U.S. corporations stand to benefit greatly. The TCJA reduces the corporate tax rate from 35 percent to 21 percent. Additionally, U.S. businesses will no longer have to pay corporate tax on revenue earned abroad, and repatriated corporate income will be taxed at between 8.0 and 15.5 percent instead of 35 percent. Supporters of the TCJA suggest that these tax cuts will encourage organizations to invest in their businesses and better compensate employees with higher wages and bonuses, giving the entire U.S. economy a boost.

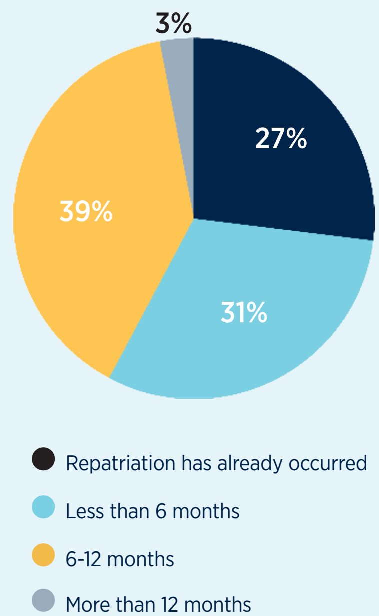
Note that this *2018 AFP Liquidity Survey* was conducted five months *after* the enactment of the TCJA. Still, 40 percent of survey respondents continue to be uncertain about some of the provisions of the TCJA and anticipate no changes in their companies' spending. Over half of smaller organizations with annual revenue less than $1 billion and those that are privately held are more apprehensive about the impact of the new tax law and anticipate minimal changes in their investment and spending strategies. In contrast, 32 percent of organizations with annual revenue of at least $1 billion and 27 percent of publicly owned ones are not planning any changes as a result of the new tax law.

Changes Anticipated as a Result of Enactment of the Tax Cuts and Jobs Act of 2017
(Percent of Organizations)



About one-fourth of companies plans to pay down debt while 24 percent plan to repatriate (or have already repatriated) their off-shore funds. Of those organizations anticipating repatriation as a result of the TCJA, repatriation has already occurred at 27 percent of organizations; 70 percent of companies project such repatriation to happen within the next 12 months.

Timing of Repatriation of Off-shore Funds
(Percentage Distribution of Organizations that Plan to Repatriate/Repatriated Off-shore Funds)



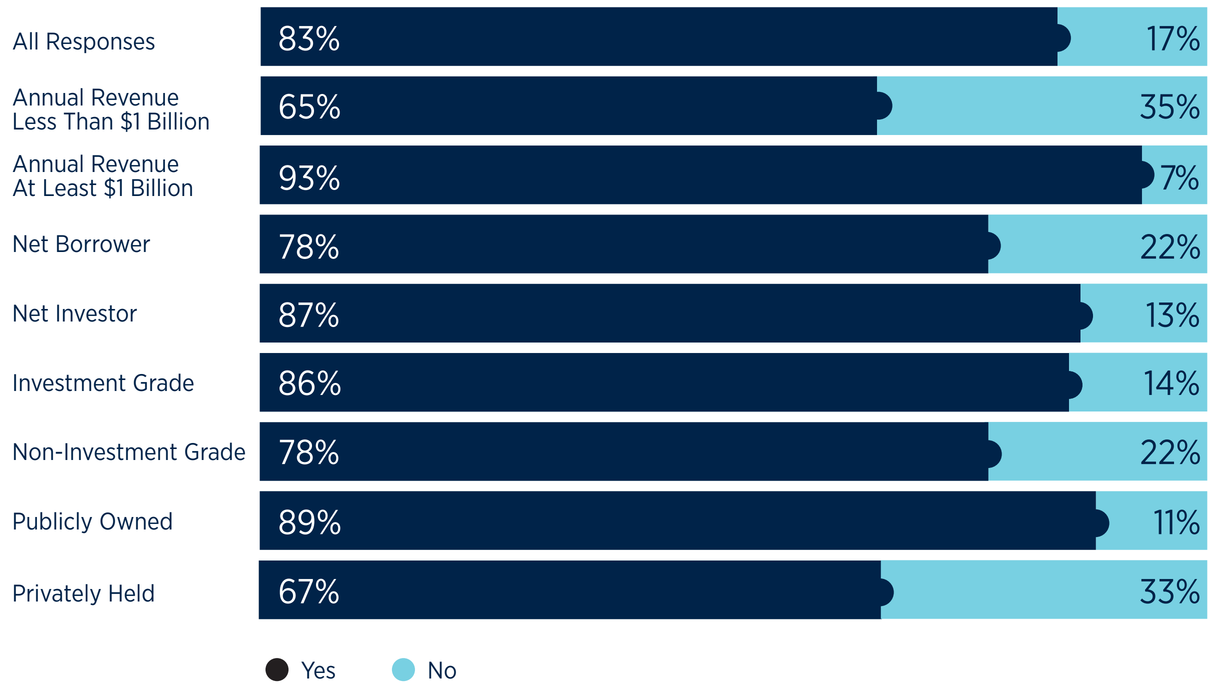
02 INVESTMENT POLICIES

Investment Policies

Written investment policies are used extensively at organizations as they set key parameters for managing cash and short-term investments. These documents typically outline the permitted vehicles in which organizations choose to invest and the percentage of an organizations' portfolio that may be allocated to those vehicles. These policies often also specify the maximum maturity and the minimum credit rating required for each investment vehicle. For many companies, a written investment policy may include not only a written investment strategy but also a tactical approach to investing cash. Policies typically address many issues: the purpose of an investment, who can invest, who approves changes, credit-quality standards, approved investments, risk parameters and escalation processes.

Eighty-three percent of organizations have a written investment policy that dictates their short-term investment strategy. This is eleven percentage points higher than the figure reported in last year's survey. A vast majority (93 percent) of larger organizations with annual revenue of at least $1 billion and those that are publicly owned (89 percent) have written investment policies. There is also a higher prevalence of written investment policies at companies which are net investors and investment-grade ones than at net borrowers and non-investment ones.

Prevalence of Written Cash Investment Policies
(Percent of Respondents)

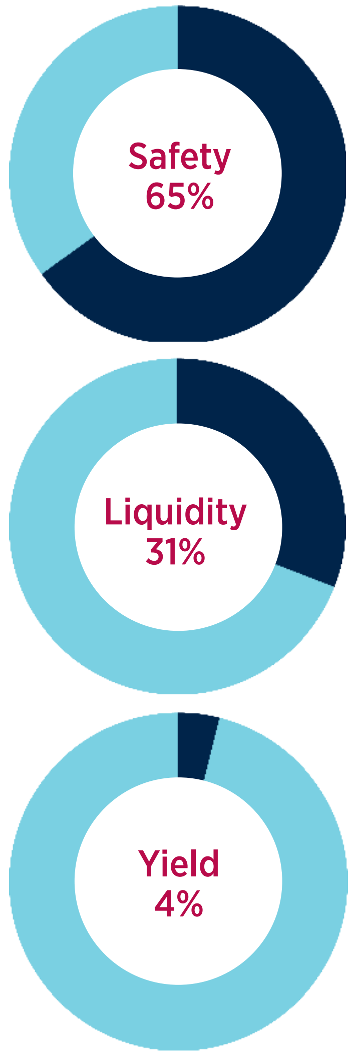


Objectives of Cash Investment Policy

Organizations strive to maintain a balance in their investment policy among safety, liquidity and a competitive rate of return (yield). Safety continues to be the most valued short-term investment objective for 65 percent of organizations, slightly lower than the 67 percent in last year's survey. Although the current economic environment appears to be strong with low unemployment numbers and the Federal Reserve planning to raise interest rates, treasury and finance professionals continue to prioritize safety over liquidity. Thirty-one percent of survey respondents indicate their organizations' most important cash objective is liquidity—higher than the 30 percent reported in both 2017 and 2016, and the largest share of survey respondents citing liquidity as the primary investment objective since 2008 when AFP began tracking the importance of organizations' cash investment policies. This may indicate that corporate practitioners are gaining confidence in the economy and could be willing to spend organizations' monies when needed.

Even as safety and liquidity remain the top two investment objectives for companies, yield continues to rank a distant third. This year's survey results reveal that four percent of survey respondents cite yield as the most important investment objective for their organizations.

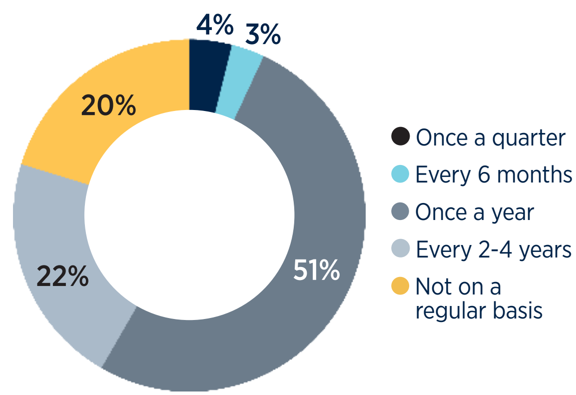
The Most Important Objective of Organization's Cash Investment Policy
(Percentage Distribution of Organizations with a Written Cash Investment Policy)



Review of Cash Investment Policy

Written investment policies are usually subject to periodic review. Such reviews are necessary to adjust for various factors such as the financial condition of a company, risk tolerance, Board and senior management preferences and overall market conditions. While not all organizations that maintain written cash investment policies review or update them regularly, a large majority of them do, highlighting the importance organizations place on monitoring investment policies. Eighty percent of organizations monitor their investment policies on a regular basis, higher than the 76 percent reported in 2017 and identical to the share reported in 2016. Half of all organizations review their policies at least once a year and seven percent review/update them more frequently—either every six months or every quarter.

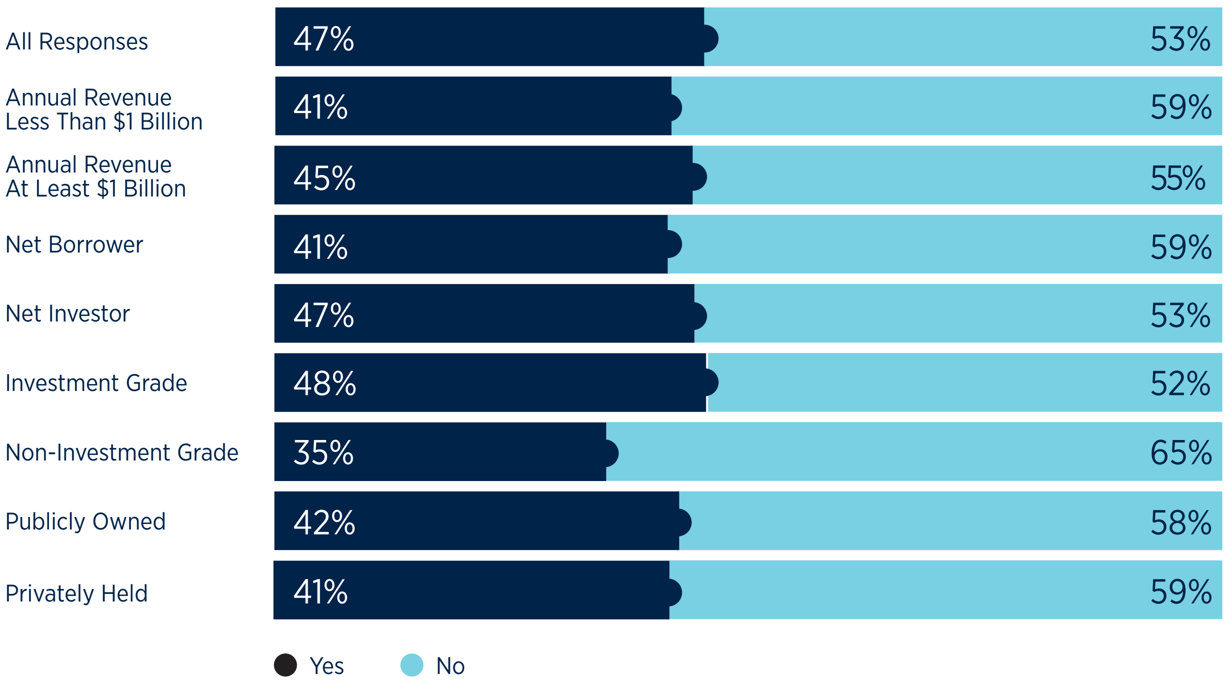
Frequency of Review/Update of Cash Investment Policy
(Percentage Distribution of Organizations with a Written Cash Investment Policy)



Review of Cash Investment Policy (continued)

At 47 percent of organizations, investment policies call out and/or separate cash holdings used for day-to-day liquidity from the rest of the company's cash and short-term investment holdings. This includes a policy stipulating the amount of cash holdings that are set aside for day-to-day liquidity versus other uses. This percentage is unchanged from last year.

Organizations with Investment Policies that Call Out/Separate Cash Holdings
(Percentage Distribution of Organizations with a Written Cash Investment Policy)



AFP Voices

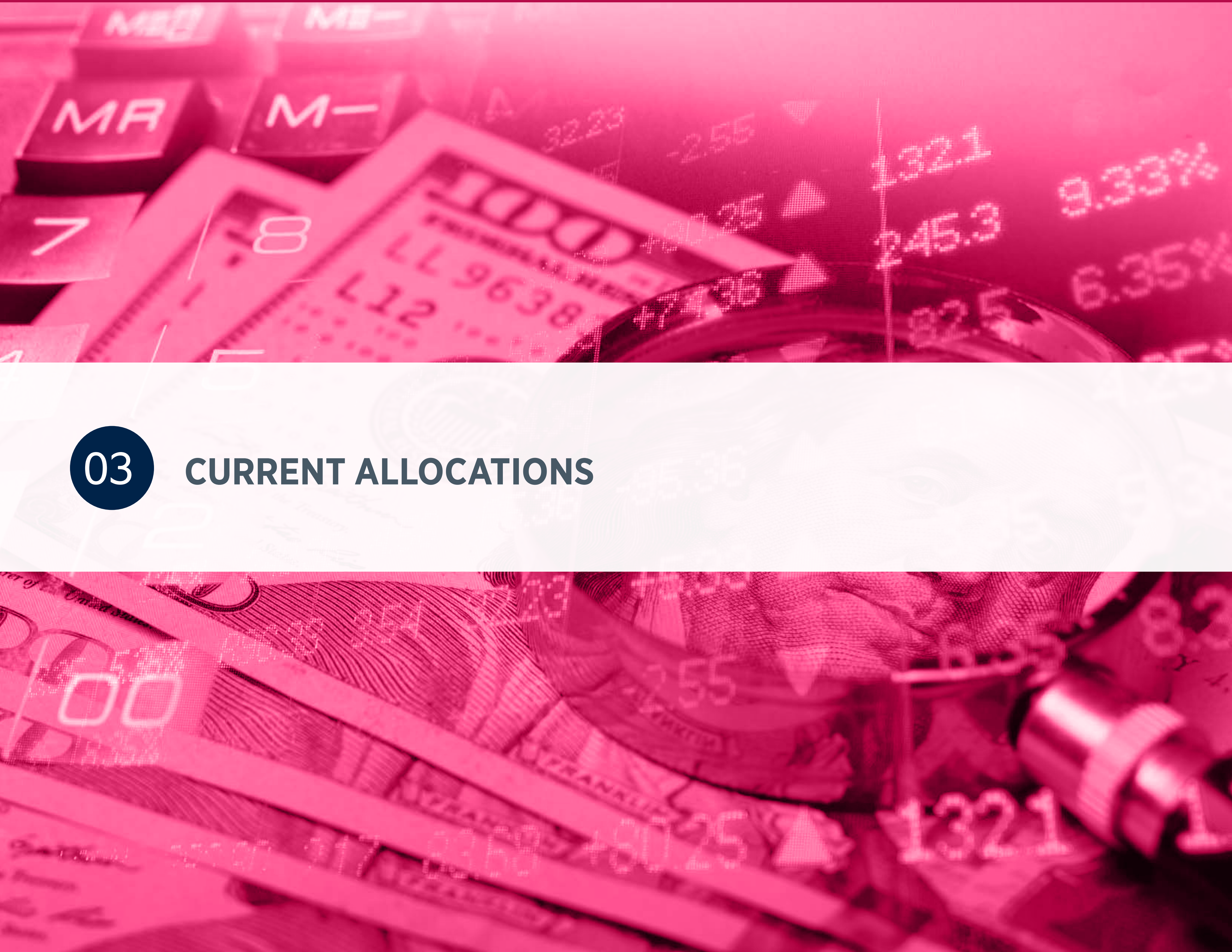
"Our cash investment policy is geared towards preservation of principal."

Rating Requirements for Money Funds

A majority of organizations' investment policies requires money market funds be rated. Thirty-six percent of organizations require at least one rating agency assign an AAA rating and 29 percent mandate that their money funds earn an AAA rating from at least two agencies.

Rating Requirements for Money Funds
(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
ONE AGENCY WITH AAA RATINGS	36%	38%	41%	48%	31%	32%	55%	46%	33%
AT LEAST TWO AGENCIES WITH AAA RATINGS	29%	20%	30%	22%	31%	30%	21%	28%	29%
DOES NOT REQUIRE RATINGS	16%	22%	12%	8%	21%	17%	10%	8%	18%
ONE AGENCY WITH LESS THAN AAA RATINGS	5%	4%	6%	9%	3%	5%	7%	7%	4%
AT LEAST TWO AGENCIES WITH LESS THAN AAA RATINGS	3%	3%	3%	3%	3%	4%	2%	4%	2%
OTHER	10%	12%	9%	10%	10%	11%	5%	7%	12%



03 CURRENT ALLOCATIONS

Current Allocations

The economy is performing well: unemployment is low and real gross domestic product (GDP) is hovering in the low-to-mid two-percent range as of the first quarter of 2018. Enactment of the Tax Cuts and Jobs Act and the lowering of the corporate tax rate lend themselves to a business-friendly environment. While the uncertainty surrounding tariffs and the threats of a trade war have prevented financial practitioners from taking any meaningful steps to deploy cash, they are, however, modestly optimistic, demonstrated by the fact that the typical organization currently maintains 49 percent of its short-term investment portfolio in bank deposits. This allocation is a four-percentage-point decrease from 2017 and the lowest share since 2011.

Companies maintain their investments in relatively few investment vehicles. Organizations invest in an average of 2.6 vehicles for their cash and short-term investments, higher than the average 2.3 and 2.4 reported in 2017 and 2016, respectively.

Corporate treasury departments remain cautious. Yet with anticipated interest-rate increases they are willing to move their allocations, albeit small, into commercial paper, Prime money funds and Eurodollar deposits as well. This reallocation demonstrates that while bank deposits continue to be the number-one holding, the overall interest-rate environment is causing some finance professionals to reallocate their organizations' holdings into other, higher yield, more opportunistic investments where the credit risk is indifferent.

The overall majority of organizations continues to allocate a large share of their short-term investment balances—an average of 75 percent—in safe and liquid investment vehicles: bank deposits, money market funds (MMFs) and Treasury securities. Money market funds currently account for 19 percent of organizations' short-term investment portfolios, a smaller share than the 21 percent reported in 2017 but larger than the 17 percent reported in 2016. The allocation to Government funds is 13 percent, similar to the 14 percent reported last year.

Percentage of Organizations' Short-Term Portfolios Allocated to Specific Investment Vehicles
(Mean Percentage Distribution of Cash and Short-Term Investment Holdings)

	Percentage of short-term investments in bank deposits, MMFs and Treasury Bills	Percentage of short-term investments in bank deposits
2018	75%	49%
2017	76%	53%
2016	77%	55%
2015	77%	56%
2014	75%	52%
2013	74%	50%
2012	74%	51%
2011	78%	42%
2010	74%	51%
2009	78%	37%

AFP Voices

"We are looking to moving into Prime and Government money market funds, as they are more responsive to the changes in the markets."

Percent of Organization's Short-Term Portfolios Allocated to Specific Investment Vehicles
(Mean Percentage Distribution of Cash and Short-Term Investment Holdings)

	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	2017 SURVEY ALL RESPONSES
BANK DEPOSITS (DDAS, TIME DEPOSITS, CDS, ETC.)	49%	53%	45%	57%	39%	43%	61%	50%	58%	53%
GOVT/TREASURY MONEY MARKET MUTUAL FUNDS	13%	9%	16%	14%	14%	15%	11%	16%	11%	14%
COMMERCIAL PAPER	6%	3%	7%	6%	7%	6%	5%	6%	4%	3%
PRIME/DIVERSIFIED MONEY MARKET MUTUAL FUNDS	6%	5%	6%	3%	9%	7%	3%	5%	6%	2%
TREASURY BILLS	5%	7%	4%	4%	6%	5%	6%	3%	6%	5%
EURODOLLAR DEPOSITS (U.S. DOLLAR DENOMINATED TIME DEPOSITS AT BANKS OUTSIDE THE UNITED STATES)	4%	5%	4%	5%	4%	5%	3%	6%	4%	3%
AGENCY SECURITIES	3%	3%	3%	1%	4%	3%	1%	2%	–	3%
SEPARATELY MANAGED ACCOUNTS	3%	3%	4%	3%	3%	3%	3%	2%	3%	4%
MUNI/TAX-EXEMPT MONEY MARKET FUNDS	2%	3%	2%	2%	2%	3%	1%	2%	2%	2%
REPURCHASE AGREEMENTS	1%	2%	1%	1%	2%	1%	1%	1%	–	2%
ASSET-BACKED SECURITIES	1%	1%	1%	–	2%	2%	–	1%	1%	1%
MUNICIPAL SECURITIES	1%	1%	1%	–	1%	1%	–	–	1%	1%
ENHANCED CASH/CONSERVATIVE INCOME/ULTRASHORT BOND FUNDS (E.G., CASH PLUS)	1%	–	1%	–	2%	1%	1%	–	–	1%
AUCTION RATE SECURITIES	–	–	–	–	–	–	–	–	–	–
VARIABLE RATE DEMAND NOTES	–	–	–	–	–	–	–	–	–	1%
OTHER	5%	5%	5%	4%	6%	5%	5%	5%	3%	6%
MEAN NUMBER OF INVESTMENT VEHICLES USED	2.6	2.4	2.7	2.1	3.1	2.9	2.0	2.4	2.2	2.3

Shifts in Investment Mix

A majority of treasury and finance professionals (59 percent) does not anticipate a change in the investment mix of their companies' short-term investments as a result of either the Tax Cuts and Jobs Act or any macroeconomic factors. Eleven percent project there will be a shift in their organizations' investment mix and nearly one-third is unsure (31 percent).

The anticipated changes in investment mix are more likely to be observed in Prime/Diversified money market funds and Government/Treasury money market funds, with 24 percent of survey respondents indicating they expect an increase in each of these types of funds. About 20 percent anticipate an increase in commercial paper and bank deposits.

Anticipated Changes in Investment Mix
(Percentage Distribution of Organizations that Anticipate Changes in Investment Mix)

	INCREASE	DECREASE	NO CHANGE
PRIME/DIVERSIFIED MONEY MARKET MUTUAL FUNDS	24%	6%	71%
GOVT/TREASURY MONEY MARKET MUTUAL FUNDS	24%	9%	67%
COMMERCIAL PAPER	21%	5%	74%
BANK DEPOSITS (DDAS, TIME DEPOSITS, CDS, ETC.)	20%	23%	57%
TREASURY BILLS	19%	4%	77%
ASSET-BACKED SECURITIES	14%	2%	84%
SEPARATELY MANAGED ACCOUNTS	14%	4%	82%
ENHANCED CASH/CONSERVATIVE INCOME/ULTRASHORT BOND FUNDS (E.G., CASH PLUS)	13%	4%	83%
EURODOLLAR DEPOSITS (U.S. DOLLAR DENOMINATED TIME DEPOSITS AT BANKS OUTSIDE THE UNITED STATES)	12%	9%	79%
AGENCY SECURITIES	10%	3%	88%
MUNI/TAX EXEMPT MONEY MARKET FUNDS	10%	3%	87%
REPURCHASE AGREEMENTS	8%	2%	90%
VARIABLE RATE DEMAND NOTES	8%	2%	90%
MUNICIPAL SECURITIES	6%	4%	91%
AUCTION RATE SECURITIES	5%	2%	93%
OTHER	6%	8%	87%

AFP Voices

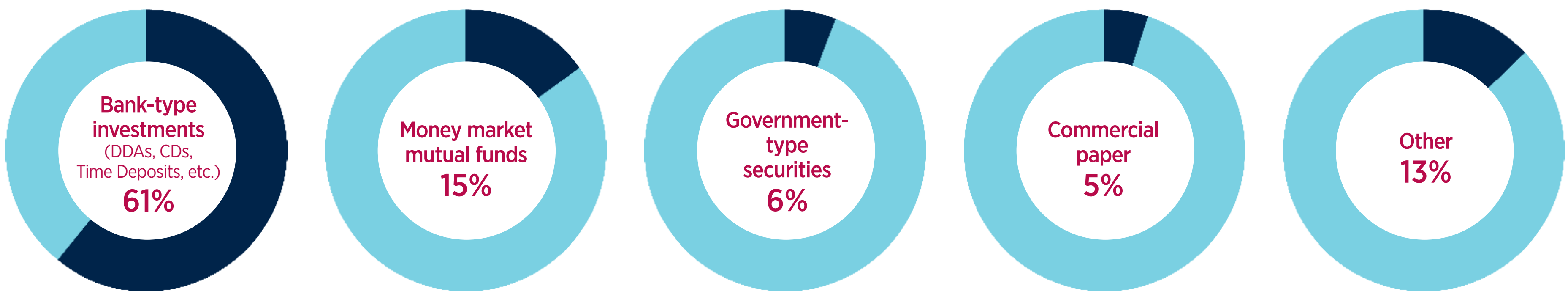
"As we keep looking at what the Government and Prime MMFs are paying out, we are shifting our mindset as how we want to allocate to those funds."

"With rates rising, we prefer to utilize MMFs."

Allocations Outside the U.S.

Those organizations with cash and short-term investment holdings outside of the U.S. manage their cash holdings similarly as they do their domestic ones. Sixty-one percent of non-U.S. cash holdings are maintained in bank-type investments (including certificates of deposits, time deposits, etc.). This is a 10-percentage-point decrease from the percentage reported in last year's survey. Another 21 percent are held in MMFs and government-type securities—higher than the 16 percent that reported investing in these vehicles last year. There does appear to be a shift away from banks and towards MMFs.

Percent of Organizations' Short-Term Portfolios Currently Allocated to Specific Investment Vehicles Outside the U.S.
(Mean Percentage Distribution of Cash and Short-Term Investment Holdings Among Organizations with Cash Outside the U.S.)



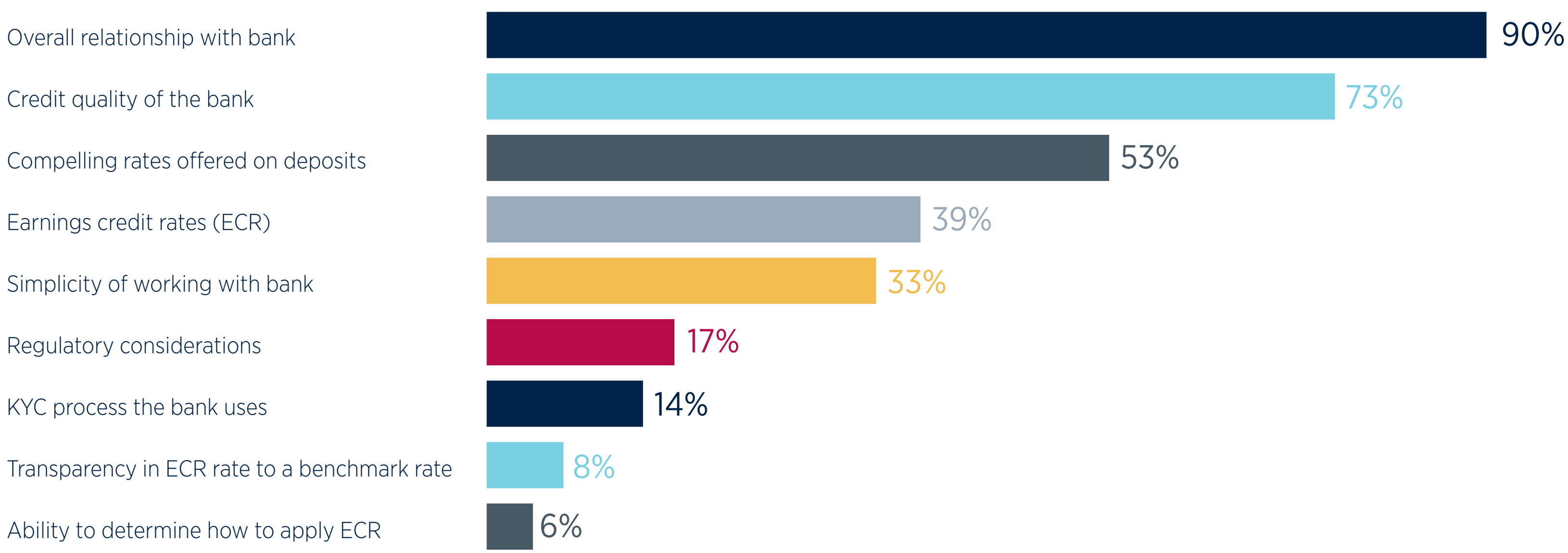
Banks as Major Depositories for Cash and Short-term Investment Holdings

As the survey results suggest, banks are still major depositories for companies' cash and short-term investment holdings, but they are not as dominant as they have been in the past few years. Survey results reveal a decrease in cash and short-term investments being held at banks for U.S. and non-U.S. cash holdings compared to last year's figures (53 percent for cash held within the U.S. and 71 percent for balances held outside the U.S. in 2017).

Treasury and finance professionals consider a number of factors when deciding where to place their organizations' cash and short-term investments. A vast majority considers the overall relationship with their banks a determinant (cited by 90 percent of survey respondents) while 73 percent indicate that the credit quality of a bank is a deciding factor.

Organizations rely on various bank instruments for their cash and short-term investments. The most commonly used bank products are time deposits and structured bank deposit products. Time deposits are still the most-often cited bank product: 48 percent of treasury and finance professionals report their organizations use time deposits, although this is lower than the 54 percent and 57 percent reported in 2017 and 2016, respectively. Structured bank deposit products are being held by 44 percent of organizations, similar to the 43 percent reported last year and significantly higher than the 23 percent in 2016. The share of organizations using non-interest-bearing accounts continues to decline, with 38 percent of respondents reporting using these instruments in 2017 compared to the 39 percent and 42 percent reported in 2016 and 2015, respectively.

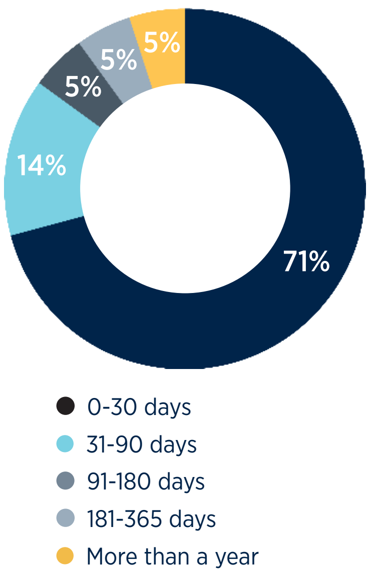
Major Determinants for Which Banks to Use When Investing in Bank Deposits
(Percent of Respondents)



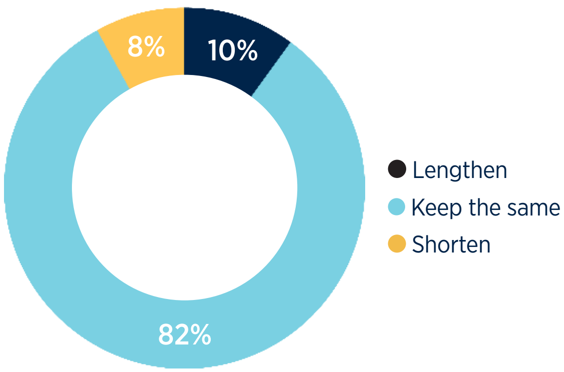
Maturity

Organizations continue to place most of their short-term investment portfolios into instruments with very short maturities. On average, 71 percent of all short-term investment holdings are in vehicles with maturities of one month or less—two percentage points higher than the figure reported in 2017. Another 14 percent of short-term investments are held in vehicles with maturities between 31 and 90 days. Larger organizations with annual revenue of at least $1 billion manage their cash in investment with shorter maturity terms than do smaller organizations with annual revenue less than $1 billion.

Organizations' Short-Term Investment Portfolio in Terms of Maturity
(Percentage Distribution of Organizations)

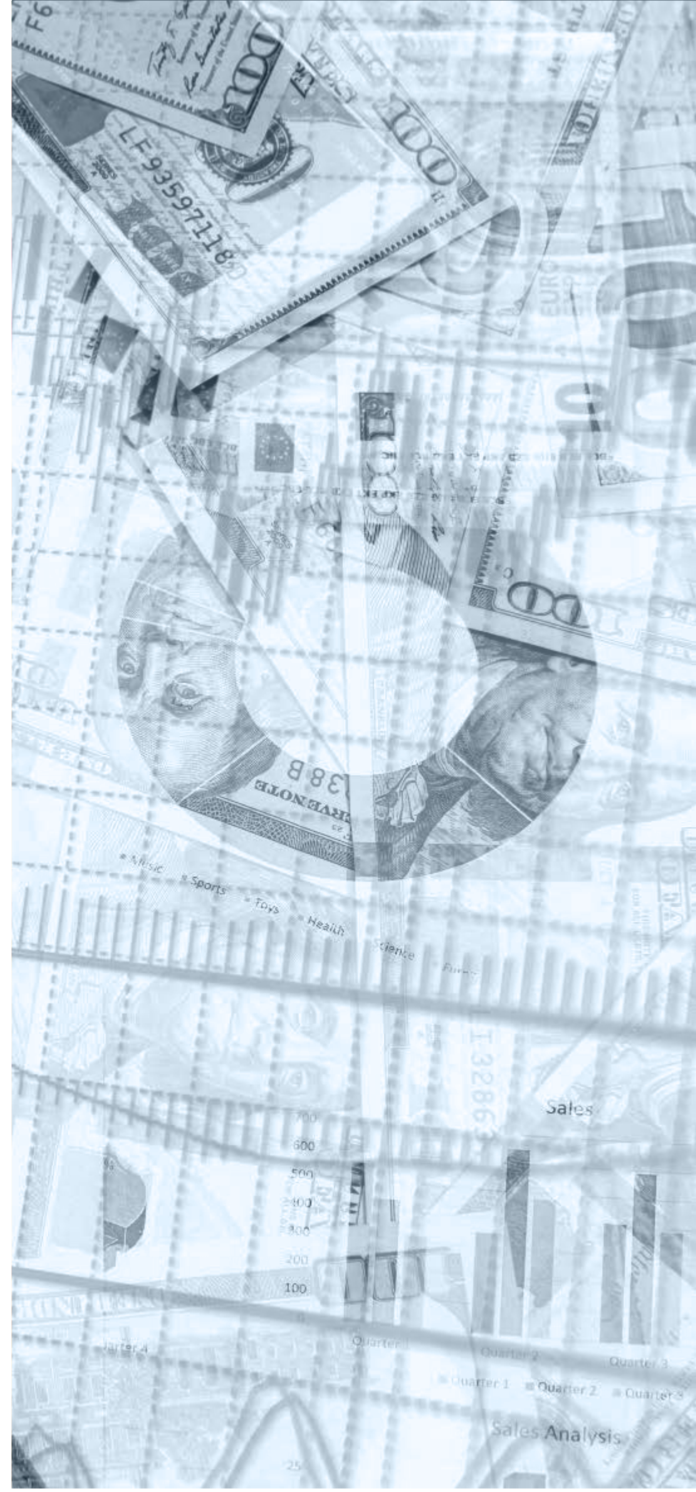


Expectation for Change in Average Maturity of Holdings over the Next 12 Months
(Percentage Distribution of Organizations)



Over 80 percent of treasury and finance professionals anticipate their organizations will maintain the current profile of maturity over the next 12 months. Only 10 percent expect to lengthen the average maturity, and the remaining eight percent of organizations plan to further shorten it over the next year.

Treasury and finance professionals list various reasons why they expect their organizations to lengthen, shorten or maintain current maturity horizons. The most-often cited reason for lengthening maturity is the increasing policy rate by the central banks. Those organizations choosing to shorten average maturity do so primarily to meet operational cash flow needs for their businesses, followed by central banks increasing policy rates. The large majority (82 percent) of organizations maintaining the average maturity of their holdings is doing so primarily because of their businesses' requirements for short-term cash.



04 PRIMARY DRIVERS IN SELECTION OF MONEY MARKET FUNDS

Primary Drivers in Selection of Money Market Fund

There are various drivers that play a role in the selection of money market funds. The three factors that play the most important role are Fixed or Floating NAV, Investment Manager for separately managed accounts and Yield. Sixty-four percent of treasury and finance professionals cite Fixed or Floating NAV as a primary driver, while 38 percent cite investment manager for separately managed accounts and 35 percent cite yield as the most important driver when selecting a MMF.

Resources

Banks play a key role in supporting organizations in their cash and short-term investment strategies by providing them with critical information on economic indicators and trends. In the past few years, it has been challenging to accurately predict the economic environment, and organizations are more likely to look to their banking partners for sound advice. This year's survey results substantiate this claim; **88 percent of finance professionals identify banks as resources their organizations use** to access cash and short-term investment holding information.

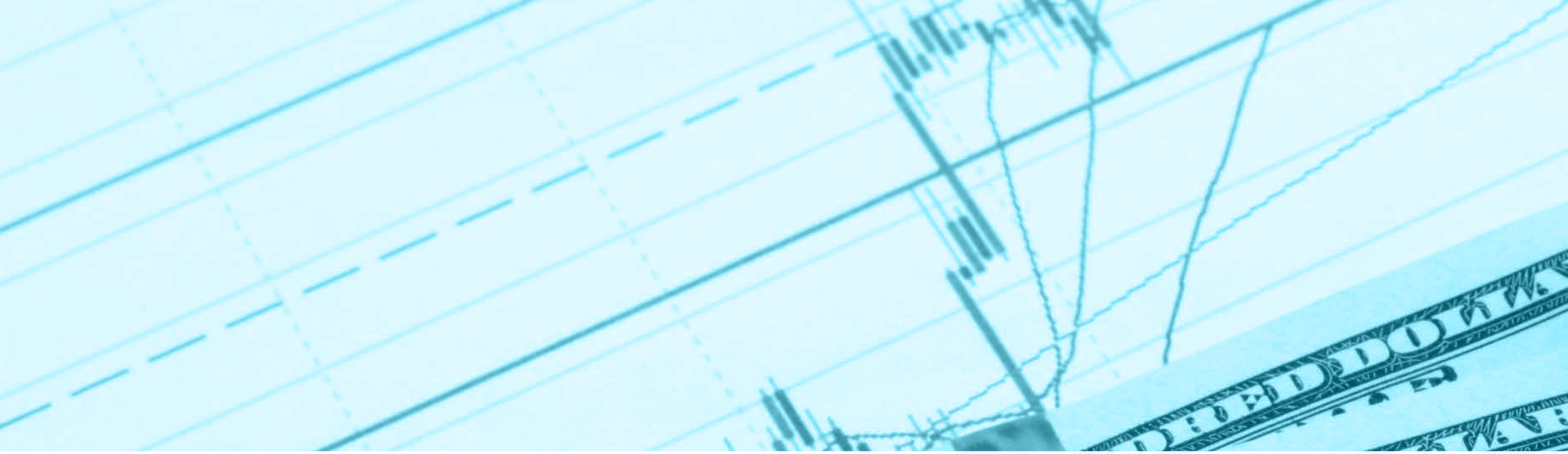
Other resources used by treasury and finance professionals include:

- Investment research from brokers/investment banks (cited by 42 percent of respondents)
- Credit rating agencies (32 percent)
- Money market fund portals (30 percent)

Over half the survey respondents (52 percent) would prefer to receive information from the above sources via email or website, and 43 percent would like to receive this information from a combination of in-person meetings and electronically.

Importance of Primary Drivers in Selection of Money Market Fund
(Percent of Respondents, ranking driver most important)

1	Fixed or Floating NAV	64%
2	Investment manager for separately managed accounts	38%
3	Yield	35%
4	Fund ratings	31%
5	Fund sponsor as part of our overall bank relationship mix and support	31%
6	Ease of transaction process	29%
7	Counterparty risk of underlying instruments	28%
8	Gates and Fees	26%
9	Accounting treatment for the fund	22%
10	Diversification of underlying instruments	21%



05

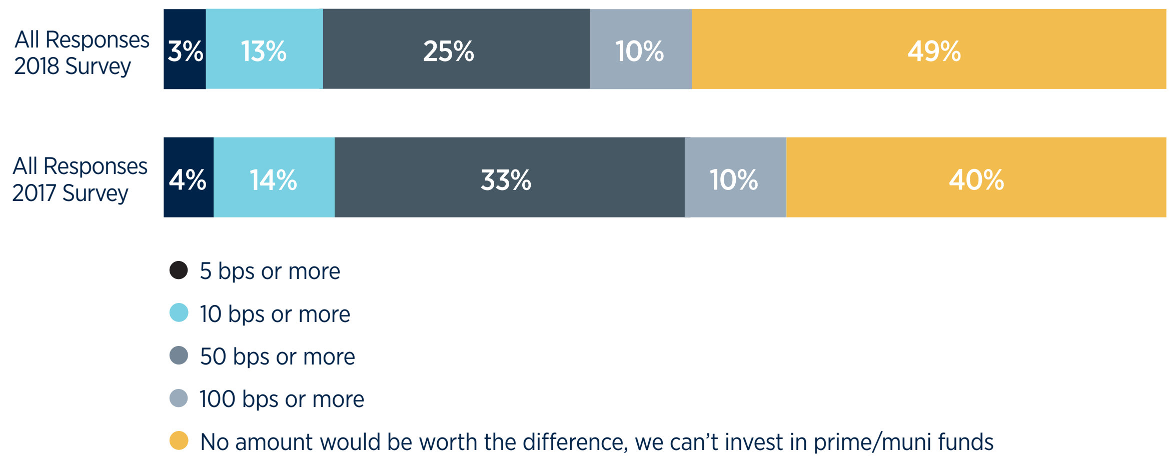
SEC MONEY MARKET REFORMS

SEC Money Market Reform

The SEC Reforms that took effect in October 2016 mandate that Prime money market funds now operate with a floating NAV and Government money market funds operate with a stable NAV. In light of these reforms, 50 percent of organizations do not have plans to resume investing in Prime money market funds. Twenty-three percent of treasury and finance professionals report that the NAV will have to prove that it does not move much before their organizations resume investing in Prime money market funds; another 23 percent would resume investing in Prime money market funds if the spread between Prime and Compelling investments is significant.

Nearly half of survey respondents (49 percent) indicates that no amount of spread between Government and Prime money market funds would incentivize their organizations to invest in Prime/Municipal funds. This is nine percentage points higher than the share who that held the same view last year, and 19 percentage points higher than the figure reported in 2016.

Spread Between Government and Prime Funds Necessary to Incentivize Organizations to Stay Invested in or Return to Investing in Prime Funds
(Percentage Distribution of Organizations)



Lead Drivers to Resume Investment in Prime Funds
(Percent of Organizations that Discontinued Investing in Prime Funds)

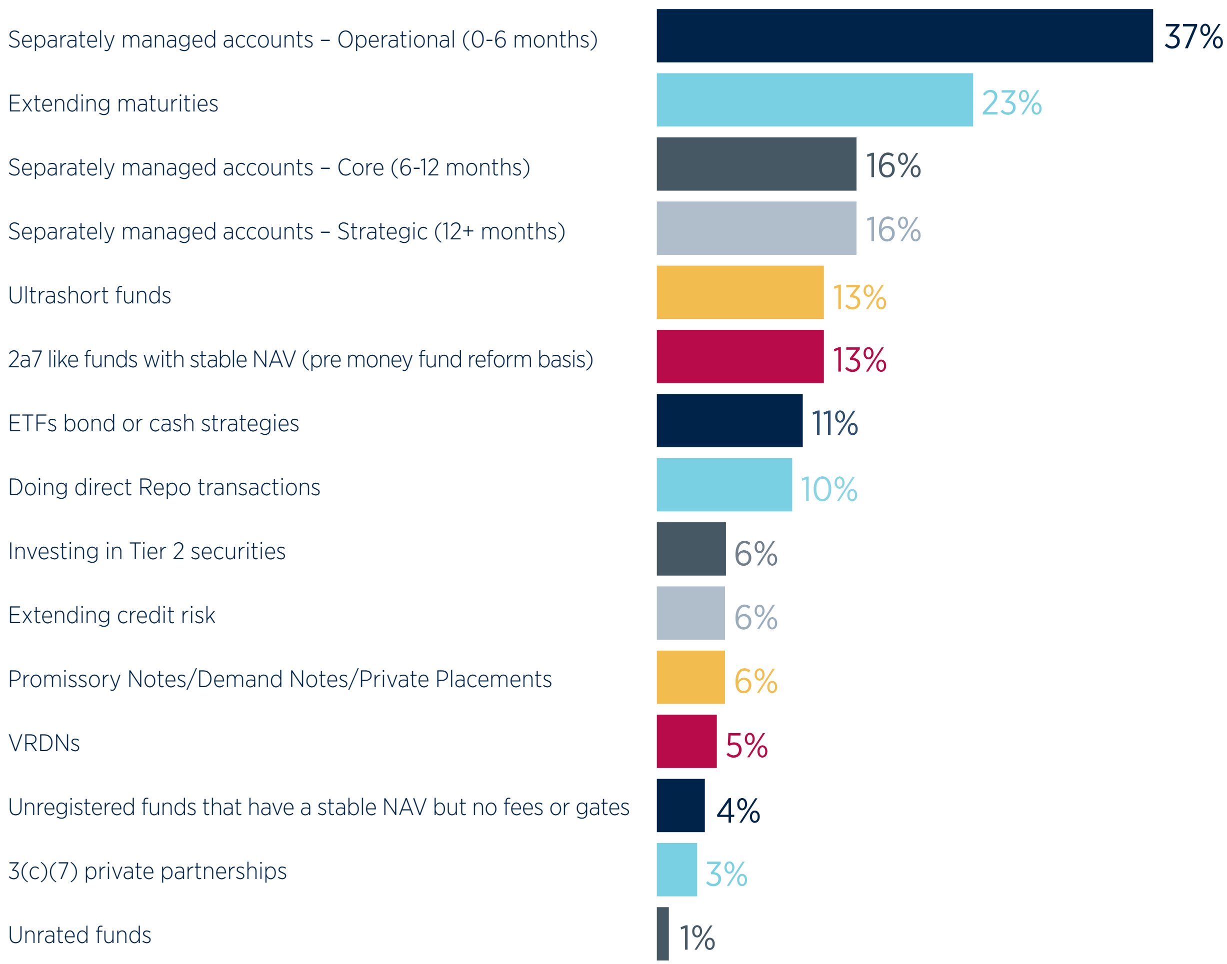
	ALL RESPONSES	ANNUAL REVENUE LESS THAN $1 BILLION	ANNUAL REVENUE AT LEAST $1 BILLION	NET BORROWER	NET INVESTOR	INVESTMENT GRADE	NON-INVESTMENT GRADE	PUBLICLY OWNED	PRIVATELY HELD
MY ORGANIZATION HAS NO PLANS TO INVEST IN PRIME MMFS	50%	54%	49%	55%	46%	50%	52%	49%	54%
THE NAV WILL HAVE TO PROVE THAT IT DOESN'T MOVE MUCH	23%	14%	28%	21%	24%	23%	20%	23%	23%
IF THE SPREAD BETWEEN PRIME AND COMPELLING INVESTMENTS IS SIGNIFICANT	23%	24%	22%	20%	27%	25%	19%	23%	23%
GATES AND FEES WOULD NEED TO BE REMOVED	19%	8%	24%	17%	21%	19%	17%	19%	17%
IF OUR INVESTMENT POLICY WAS ALTERED TO ACCOMMODATE ONLY STABLE NAV OPTIONS	12%	11%	12%	9%	14%	14%	7%	13%	12%
BALANCES IN PRIME FUNDS WILL NEED TO GROW FIRST	11%	12%	11%	11%	12%	11%	13%	11%	9%

06 ALTERNATE INVESTMENT OPTIONS

Alternative Investment Options Organizations Consider to Complement Current Investment Selection

Treasury and finance professionals indicate they might consider alternatives in their investment selection as options to complement current investment solutions. Thirty-seven percent are considering separately managed accounts operational (0-6 months) and 23 percent are considering extending maturities. Separately managed accounts, core and strategic, are each cited by 16 percent of survey respondents.

Alternative Investment Options Organizations Are Considering to Complement Current Investment Selection
(Percent of Organizations)



07 AWARENESS OF RULES THAT WILL IMPACT EUROPEAN MMFs

Awareness of Rules that Will Impact European MMFs

In 2008, the G20 group of countries agreed to reforms for money market funds. The European Commission proposed legislation in 2013. The culmination of this is new regulations on money market funds (MMFs) in Europe. The regulations will take effect in January 2019.

The Institutional Money Market Funds Association (IMMFA)[2] reports that tighter provisions will apply to all MMFs that are established, marketed or managed in the European Union. The revisions are somewhat similar to those in the U.S., with slight variations. There will be three types of money market funds:

- Public debt constant NAV funds
  (similar to Government/Treasury money market funds in the U.S.)
- Low volatility NAV funds
  (stringent liquidity provisions similar to U.S. Prime money market funds)
- Variable NAV funds
  (similar to U.S. Prime money market funds)

[2] https://www.immfa.org/about-mmfs/mmf-reform-overview.html

Awareness of Rule Changes that will Impact European MMFs
(Percentage Distribution of Organizations that Invest Outside the U.S. in European MMFs)

Public debt and low volatility funds will have amortized cost accounting applied, and mandatory gates and fees should the fund liquidity fall below 10 percent on a weekly basis. Variable NAV funds will have market or model accounting applied. Discretionary gates and fees as determined by Collective Investment in Transferable Securities (UCITS) provisions on fund redemptions will apply to all funds, and there will be further liquidity requirements for Constant Net Asset Value funds. ***It's important that companies talk to their fund providers to understand changes to their fund lineup.***

Nearly 40 percent of treasury and finance professionals are unaware of the changes in the rules that will impact European MMFs. Thirty-five percent are aware of these changes and planning for them. The remaining 26 percent, while aware of these changes, have no plans in place to deal with the new rules.

Survey respondents have varied responses about when they will make changes if they plan to shift their European investment choices: 39 percent plan to do so just one month prior to reform, 36 percent will take a step to change three months prior to reform and 25 percent plan to do so six months prior to reform.

Conclusion

Treasury and finance professionals continue to provide a layer of stability for their organizations' cash liquidity needs. Safety remains paramount, and domestic bank products continue to reign but their dominance is expected to decline over the next 12 months with Eurodollar bank deposits offsetting the decrease. Treasury and finance professionals also are inclined to invest their organizations' cash and short-term investments in vehicles other than bank products, with commercial paper, Government money market funds, Treasury securities and Prime funds being the likely alternatives.

Cash balances are growing faster within the U.S. than outside the U.S. The rationale behind growing cash balances is primarily to improve operating cash flow—a trend that is expected to continue over the next 12 months. At the same time, companies that decreased their cash flow over the past 12 months did so for specific reasons: increased capital expenditures, paying back/retiring debt, acquisitions and increased share repurchases. With cash balances increasing, organizations do not expect their investment allocations to vary going forward.

Twenty-five percent of respondents to the *2018 AFP Liquidity Survey* anticipate their organizations' balances within the U.S. will increase over the next 12 months and 14 percent expect balances to decrease; the remaining 61 percent believe those balances will be unchanged. Companies anticipate paying down debt, spending more on capital expenditures and making acquisitions. Some of the uptick in cash balances will likely result from interest-rate increases on balances held.

Since banks are playing a key role in organizations' cash management, treasury and finance professionals are choosing their organizations' banks carefully. An organization's relationship with its banks is the primary determinant companies consider when choosing banking partners, followed by the credit quality of a bank. The value placed in banks is highlighted by the large percentage of organizations that rely on their banks to obtain operating cash and short-term investment holding information.

Cash is proving to be a buffer against uncertainty—especially with an escalating tariff war, a changing regulatory environment and the unintended consequences of a protectionist trade policy that is wreaking havoc on commodity prices and causing some concerns about future U.S. economic growth. More importantly, uncertainty in the U.S. regulatory and trade environment has many concerned about future business prospects; and consequently, cash balances will likely remain high.

Will we see a difference in how cash and short-term investments are being managed a year from now? That is a difficult question to answer. If financial leaders feel confident about the economic environment they might begin to manage their cash and short-term investments differently and feel comfortable taking some risks. With the Federal Reserve considering three more interest-rate increases in 2018, organizations might want to focus more on yield and loosen their hold on safety of their investments.

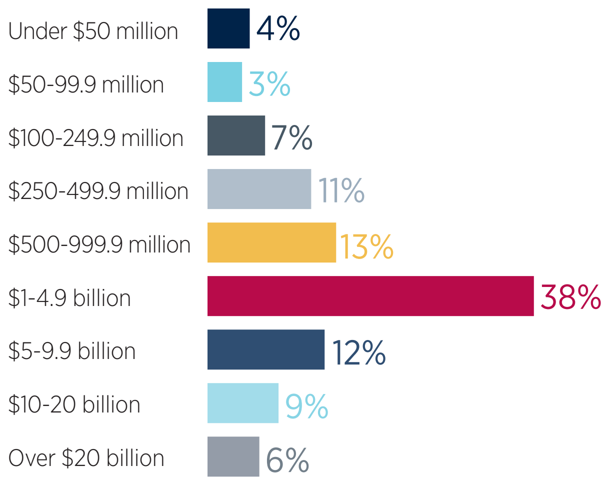
08 ABOUT SURVEY PARTICIPANTS

About the Survey Participants

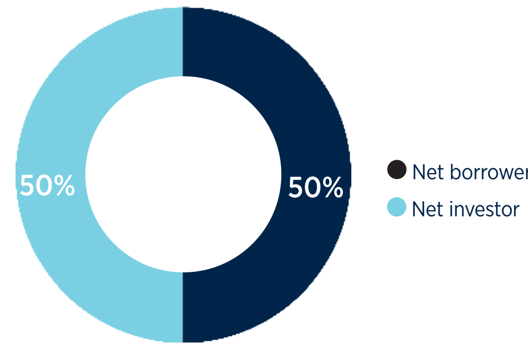
In April 2018, the Association for Financial Professionals® (AFP) conducted a survey on current and emerging trends in organizations' cash and short-term investment holdings, investment policies and strategies. AFP received 403 responses from its corporate practitioner members and an additional 234 responses were received from corporate practitioners who are not AFP members. The combined 637 responses are the basis of this report.

AFP thanks State Street Global Advisors for once again underwriting the annual *AFP Liquidity Survey*. 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 tables summarize the characteristics of the survey respondents where organization-level demographics are provided.

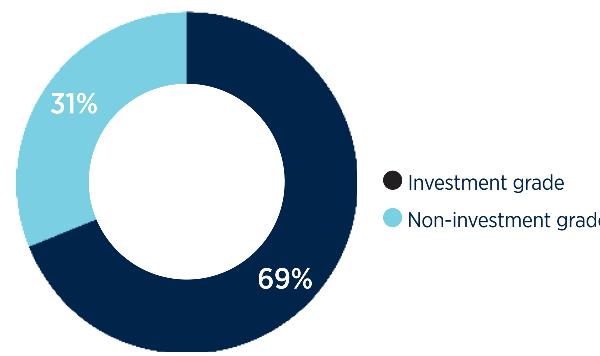
Annual Revenue (U.S. dollar)
(Percentage Distribution of Organizations)



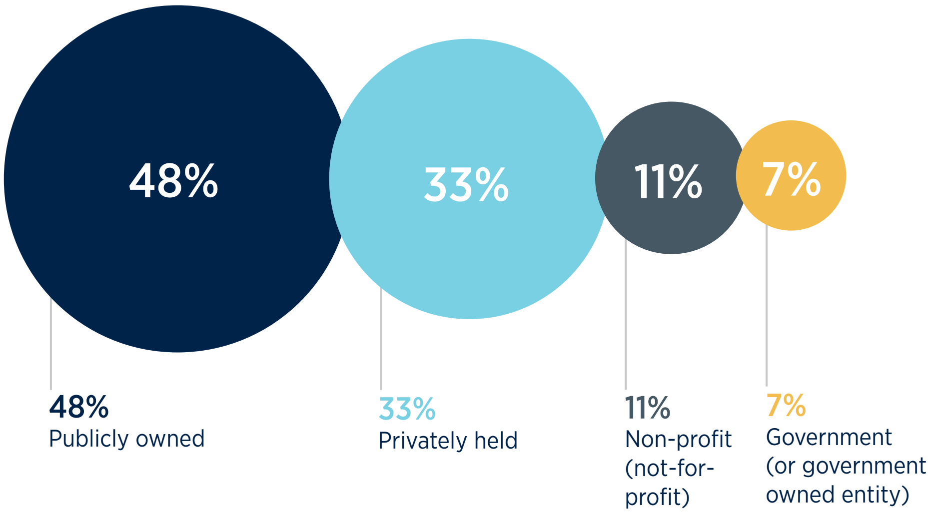
Net Borrower or Net Investor
(Percentage Distribution of Organizations)



Organizations' Credit Ratings
(Percentage Distribution of Organizations)



Ownership Type
(Percentage Distribution of Organizations)



Industry
(Percentage Distribution of Organizations)

	ALL
Manufacturing	20%
Banking/Financial Services	10%
Health Care and Social Assistance	8%
Insurance	6%
Retail Trade	6%
Software/Technology	5%
Construction	4%
Energy	4%
Government	4%
Wholesale Distribution	4%
Utilities	4%
Education	3%
Hospitality/Travel/Food Services	3%
Non-profit (including education)	3%
Real Estate/Rental/Leasing	3%
Telecommunications/Media	3%
Transportation and Warehousing	3%
Agricultural, Forestry, Fishing & Hunting	1%
Administrative Support/Business Services/Consulting	1%
Mining	1%
Petroleum	1%
Professional/Scientific/Technical Services	1%

ASSOCIATION FOR FINANCIAL PROFESSIONALS

AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. AFP Research 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. Studies report on a variety of topics, including AFP's annual compensation survey, are available online at www.AFPonline.org/research.

About AFP®

The Association for Financial Professionals (AFP) is the professional society committed to advancing the success of its members and their organizations. AFP established and administers the Certified Treasury Professional and Certified Corporate FP&A Professional credentials, which set standards of excellence in finance. Each year, AFP hosts the largest networking conference worldwide for over 6,500 corporate finance professionals.

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