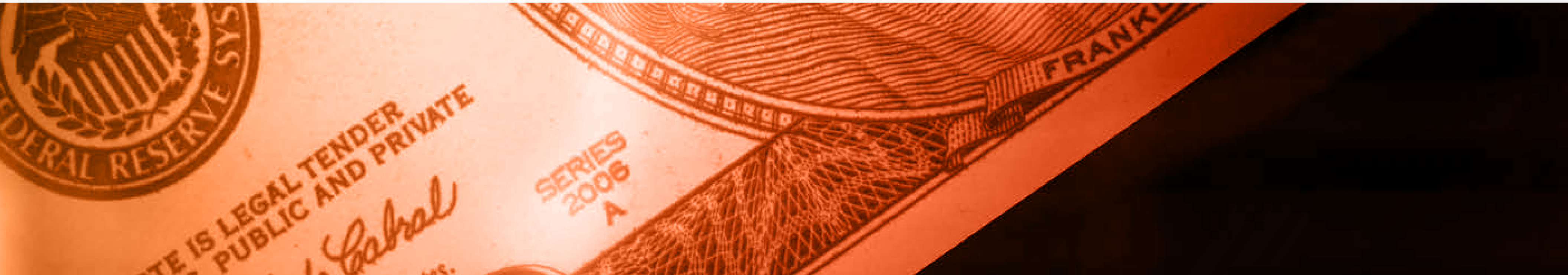
ASSOCIATION FOR FINANCIAL PROFESSIONALS

2023 AFP®
LIQUIDITY SURVEY REPORT
KEY HIGHLIGHTS

Underwritten by

Invesco



2023 AFP®

LIQUIDITY SURVEY REPORT

KEY HIGHLIGHTS

This summary report includes highlights from the comprehensive *2023 AFP® Liquidity Report*. The comprehensive report comprising all findings and detailed analysis is exclusively available to AFP members.

Learn more about AFP membership.

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Invesco

Dear Corporate Practitioner/Financial Professional,

Invesco is very proud to partner once again with the Association for Financial Professionals® (AFP) to sponsor the *2023 AFP Liquidity Survey Report*, the 18th annual exploration of current and emerging corporate cash management trends.

This marks our fourth year underwriting this informative research, and liquidity investors once again continued to face a remarkable – and quickly changing – investment landscape, from aggressive monetary tightening by central banks around the globe to sharply higher stock and bond market volatility to the collapse of several high-profile banks.

This year's survey identifies a number of interesting, high-level themes:

- Corporate liquidity reserves remain near record highs, taking advantage of rapidly rising yields and principal safety in the uncertain market environment.
- Cash allocations have been shifting from bank deposits to money market funds in response to the 2023 banking crisis.
- Caution remains a dominant theme, as companies continue to navigate inflationary pressures, slowing global economies and elevated uncertainties around macro risks.

We hope you find this year's *AFP Liquidity Survey Report* insights useful as you plan your cash investment strategies during these changing times. We look forward to continuing to partner with investors as we navigate the opportunities and challenges of today's liquidity markets together.

Sincerely,

Laurie Brignac

Chief Investment Officer and Head of Global Liquidity, Invesco

TOPICS COVERED IN THE COMPREHENSIVE 2023 AFP LIQUIDITY SURVEY REPORT

CASH AND SHORT-TERM INVESTMENT SECURITIES

- Change in Cash and Short-Term Balances over the Past 12 Months: U.S. and Non-U.S. Cash Holdings
- Drivers of Changes in Cash Holdings over the Past 12 Months

INVESTMENT POLICIES

- Prevalence of Written Cash Investment Policies
- Objectives of Cash Investment Policy
- Percentage or Dollar Limits on Short-term Investment Holdings by Asset Managers or Funds
- Rating Requirements for Money Funds
- Investment Policy Changes
- Investment Vehicles Approved within Investment Policies

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- Shifts in Investment Mix
- Organizations' Short-Term Portfolio Currently Allocated to Specific Investment Vehicles Outside the U.S.

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- Environmental, Social and Governance (ESG) Investment Parameters in Operating Cash

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- Significant Determinants for Which Banks to Use When Investing in Bank Deposits
- Instruments Used When Investing in Bank Deposits

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- Primary Rationale for Investing in U.S. Domestic Prime/Floating NAV (FNAV) Funds
- Primary Drivers in Selection of Money Market Funds
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- Real-Time Payments Operating in a 24/7 Environment—Real-Time Treasury
- Investment Vehicles of Choice Based on Investment Policy Parameters
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LIBOR TRANSITION

- Preparing Portfolios for LIBOR Transition

INTRODUCTION

The global economy has faced numerous challenges in the past year. The Omicron variant of COVID-19 continued to pose a threat in the early months of 2022. Although that crisis began to subside in the second quarter, there were heightened tensions due to Russia's unrelenting attacks in Ukraine, resulting in Western leaders imposing sanctions against Russia. The war led to a shortage of gas – which in turn led to an increase in energy costs.

Supply-chain disruptions were a major concern worldwide, hindering the smooth movement of goods from ships to shelves. U.S. consumers faced limited supplies of goods, and rising prices led to the highest inflation rate since 1982 which impacted almost all sectors of the economy. The cost of gas and other essentials skyrocketed, exacerbating the situation. In addition, the job market was tight; recruiters struggled to fill positions as competition for qualified workers was very fierce. Employees took advantage of the situation, resigning and moving to new jobs in search of higher pay, more attractive benefits and better work-life balance. As a result, wages began to increase, adding to inflationary pressures. To tame the rising inflation, the Federal Reserve increased its federal funds target interest rate 10 times from March 2022 through May 2023, raising the rate from 0.25% to 5%. For many consumers this was the first time during their working years that they had witnessed the Fed Funds rate rise above 4%. The Fed's action created unease, with concerns that it could trigger an economic downturn and ultimately a recession.

At the time this survey was in the field, a potential banking crisis was emerging in the wake of the collapse of Silicon Valley Bank and Signature Bank in March 2023. Various factors led up to these bank failures including a decline in the value of the banks' investments and large withdrawals by their depositors. The Federal Government intervened to contain the crisis and was partly successful in preventing a run on the banks. Nearly two months after the initial bank crisis, First Republic also began facing challenges and ultimately failed; it was seized by the FDIC, then sold to JPMorgan Chase. Regional banks have been the most severely impacted by the banking crisis, and some of these banks remain concerned that they may not be out of the woods yet. Bank collapses have not been limited to U.S.-based banks. Credit-Suisse First Boston (CSFB) faced severe head winds, culminating in its largest backers declining to invest further with them. The Swiss Central Bank stepped in to help CSFB and engineered a merger with UBS – the largest bank in Switzerland. As of the writing of this report, there continues to be some uncertainty and concern looming over the global banking system.

To understand current and emerging trends in organizations' cash and short-term investment holdings, investment policies and strategies in the current economic environment, the Association for Financial Professionals® (AFP) conducted its 18th annual *AFP Liquidity Survey Report* in March 2023. The survey generated 222 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 Invesco for underwriting the *2023 AFP® Liquidity Survey Report* for the fourth consecutive year. The Research Department of AFP designed the survey questionnaire, analyzed the survey results and produced the report and is solely responsible for its content.

KEY FINDINGS

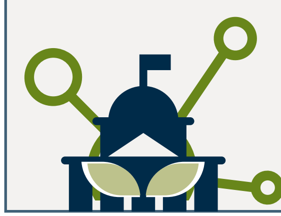
Cash and short-term allocation to bank deposits is **47 percent, an 8-percentage point decline from the 55 percent reported last year.** The current share in bank deposits is one of the lowest recorded in five years. **This decline is being driven by the bank failures that occurred in March 2023.** In response to the banking crisis, organizations began moving their cash and short-term investments from banks into Government/Treasury money market funds (increasing by four percentage points from a year ago), Treasury bills (increasing by two percentage points) and Agencies (increasing by two percentage points). Patterns of cash allocated outside the U.S. are similar as seen in the U.S., i.e., shifting of cash and short-term investments from bank deposits to money funds.

Organizations continue to consider the overall relationship with their banks a primary determinant when choosing where to maintain deposits (cited by 83 percent of survey respondents). However, that result is lower than the 93 percent who reported the same last year. The 10-percentage-point decline this year is perhaps a reflection of the banking failures and treasurers choosing to be more cautious in their approach to relationships with banking partners. This shift is offset by the importance placed on earnings credit rates, earnings credit transparency and application of earnings credits.

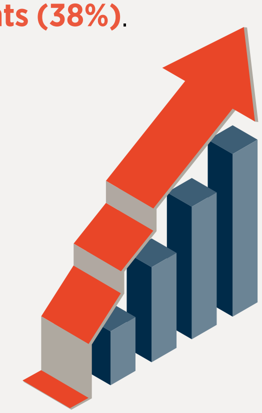
Despite a tumultuous environment, the three primary investment objectives reported by treasury professionals remain consistent with those of 2022: **safety (cited by 63 percent of respondents), liquidity (33 percent) and yield (4 percent**).

Thirty-eight percent of treasury professionals report that their organizations plan to continue increasing their cash allocations to Government/Treasury money market funds into the next year, while only 8 percent indicate their companies plan to decrease allocations to these funds. Twenty-seven percent of respondents report that their organizations plan to increase allocations in bank deposits, while 25 percent indicate their firms are looking to decrease their deposits in banks.

Environmental, social and governance (ESG) parameters are influencing almost half of organizations' investment policy revisions; **with 27% adding ESG parameters/mandates and 21% adding ESG Money Funds in their investment policy.**



When choosing a U.S. domestic Prime/Floating NAV Fund, yield **(cited by 50% of respondents)** continues to be the primary selection criteria. However, this figure is down from the 68% reported in 2022. In turn, the share of respondents who select a fund based on the ease of transaction process **rose 17 percentage points (38%)**.



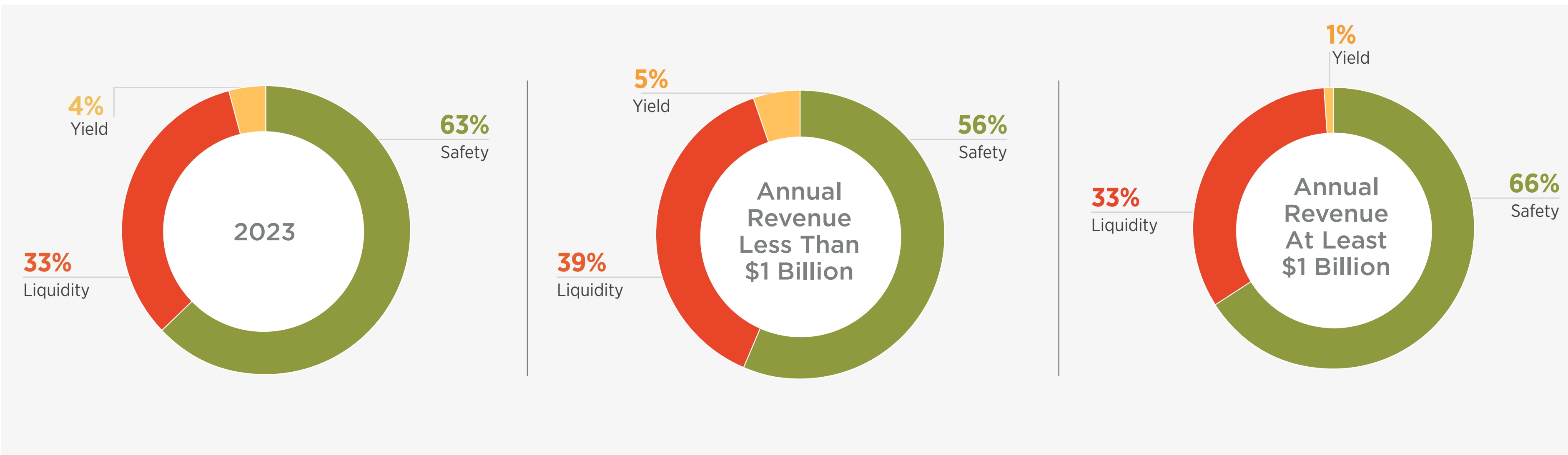
OBJECTIVES OF CASH INVESTMENT POLICY

Organizations are continuously working to balance their desire for safety and liquidity against a competitive rate of return. Safety continues to be the most-valued short-term investment objective for 63 percent of organizations – unchanged from last year's survey. It is not surprising that organizations are continuing to choose safety over liquidity given the current economic environment, inflationary pressures, numerous interest-rate increases by the Federal Reserve, a potential banking crisis and geopolitical concerns.

Thirty-three percent of survey respondents indicate that their organizations' most important objective is liquidity – slightly lower than the 34 percent reported in 2022, but one percent higher than the 32 percent reported in 2021. In 2020 this figure was 34 percent, in 2019 it was 33 percent, and in 2018 it was 31 percent. Liquidity is a far greater priority for those organizations which are privately held (51 percent) than for other organizations.

Yield continues to be the least important objective of an organization's cash investment policy. The share of organizations ranking yield as most important has increased by one percentage point – from three percent in 2022 to four percent in 2023. The result is still lower than the 6 percent reported in 2021, but equal to the four percent reported in 2020.

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



CHANGES UNDER CONSIDERATION FOR INVESTMENT POLICIES

(Percent of Organizations)

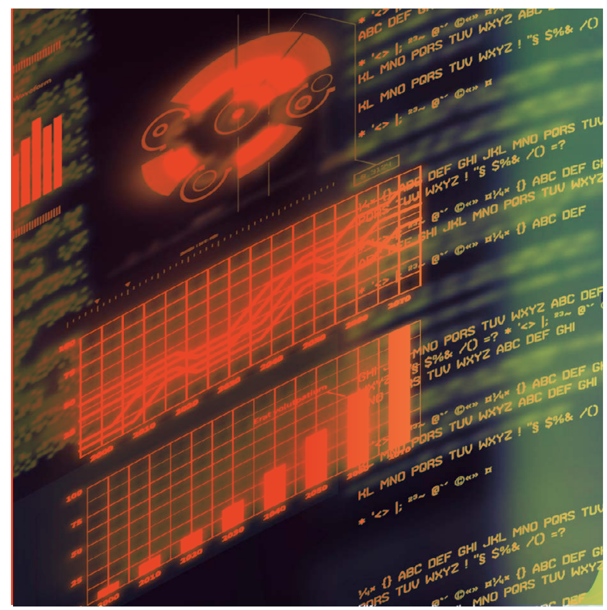
	ALL	ANNUAL REVENUE LESS THAN $1 BILLION	ANNUAL REVENUE AT LEAST $1 BILLION	NET BORROWER	NET INVESTOR	INVESTMENT GRADE	NON-INVESTMENT GRADE	PUBLICLY OWNED	PRIVATELY HELD
Adding other ESG parameters/mandates	27%	9%	31%	33%	25%	31%	21%	37%	12%
Adding ESG policy changes towards money funds	21%	4%	29%	17%	25%	24%	21%	19%	28%
Restricting category of investments by geography	18%	17%	23%	17%	20%	18%	17%	16%	20%
Restricting category of investments by industry (e.g., gas/oil, fossil fuels)	16%	13%	15%	17%	16%	16%	17%	21%	16%
Include private equity/Sponsor changes/Credit agreement limits (within bank agreement)	11%	13%	6%	7%	9%	13%	_	2%	24%
Adding cryptocurrency provisions	6%	9%	4%	10%	4%	5%	7%	5%	4%
Adding unrated short duration funds	3%	9%	2%	_	5%	4%	3%	2%	_
Changes are not being considered	31%	43%	33%	37%	29%	27%	41%	30%	24%

A vast majority of organizations (92 percent) approve bank deposits within their investment policies. Other investment vehicles approved by nearly half of organizations include:

- Treasury bills (cited by 83 percent of respondents)
- Government/Treasury money market mutual funds (76 percent)
- Commercial paper (63 percent)
- Agency securities (49 percent)

None of the organizations surveyed have approved unregistered funds that have a stable NAV but no fees or gates or cryptocurrencies/wallets to be used as investment vehicles within their investment policies. The investment policy provides treasury leaders with overall parameters from which to select their investments. Typically, they can allocate their investments at their discretion. Organizations will not necessarily invest in a type of security, even if permitted to do so due to other limiting factors in the policy.

Their actions are driven by many different factors under the premise of safety, liquidity and yield (in that order). Investment policies often include allocation percentages, concentration percentages and allocations to credit ratings, and organizations are taking a fresh review of these in light of the recent bank failures.



CURRENT ALLOCATIONS

Companies maintain their investments in relatively few vehicles. Organizations invest in an average of 2.7 vehicles for their cash and short-term investments — more than the 2.5 reported in 2022 and 2021.

Most organizations continue to allocate a large share of their short-term investment balances — an average of 79 percent — in safe and liquid investment vehicles: bank deposits, money market funds (MMFs) and Treasury securities. This is just two percentage points lower than the 81 percent reported in 2022, the highest figure on record since AFP began tracking the data.

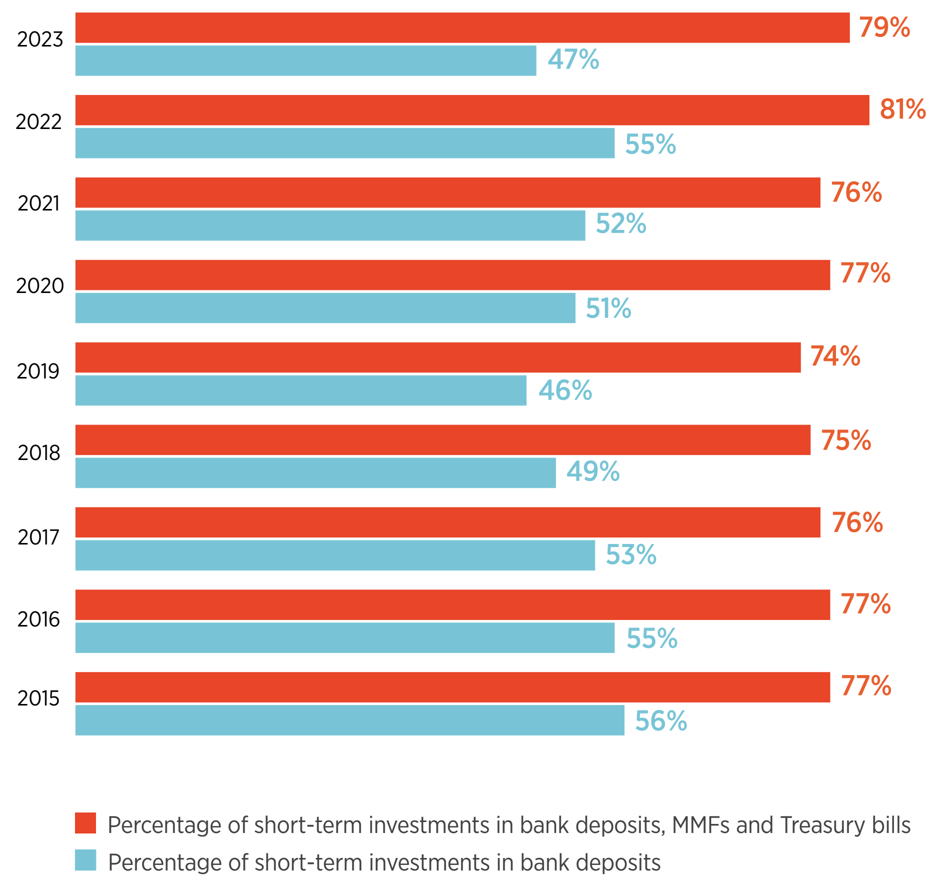
The typical organization currently maintains 47 percent of its short-term investments in bank deposits. This allocation is 8 percentage points lower than the 55 percent reported last year, lower than the 52 percent reported in 2021 and the 51 percent in 2020. This year's allocation is similar to percentages reported in 2019 (46 percent) and 2018 (49 percent).

The larger shares of short-term investments allocated to bank deposits in the past three years were likely pandemic (COVID-19) driven. During the pandemic, companies were focused on liquidity planning and cash flow from operations. While one can interpret this shift in the past year as a result of the economy having gained more stable footing after the liquidity crisis during the pandemic, it may also be due to bank failures in the first quarter of 2023; organizations are more focused on concentration risk of their deposits. Organizations are trying to avoid any challenges they may face if their deposits are not accessible — and so may have started diversifying their investments.

The allocations in Government/Treasury money market mutual funds increased by four percentage points to 18 percent in the past year; the allocation is higher for larger, publicly held companies and net investor companies than for other organizations. Investment allocations to Treasury bills also increased — by two percentage points — and this allocation is more common for companies with annual revenue less than $1 billion and those that are net investors and investment grade than for other organizations.

These shifts in investment vehicles signal that organizations continue to be cautious and are leaning towards allocating their investments in those vehicles which offer stability and safety in the current uncertain economic environment. Allocations to agency securities increased two percentage points to four percent since last year. The change in bank deposits is largely due to the obligations of the U.S. Government and its agencies, a flight to quality and the objective to diversify their deposits away from their banks.

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



CURRENT ALLOCATIONS

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

	2023	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	2022
Bank deposits (DDAs, Time Deposits, CDs, etc.)	47%	45%	48%	59%	37%	41%	57%	46%	59%	55%
Govt/Treasury money market mutual funds	18%	15%	21%	17%	19%	18%	17%	22%	13%	14%
Treasury bills	9%	13%	8%	6%	13%	11%	4%	6%	8%	7%
Prime/Diversified money market mutual funds	5%	5%	2%	2%	4%	4%	3%	2%	4%	5%
Agency securities	4%	4%	4%	4%	3%	5%	2%	3%	–	2%
Commercial paper	3%	2%	5%	2%	5%	5%	1%	4%	2%	3%
Eurodollar deposits (U.S. dollar-denominated time deposits at banks outside the U.S.)	2%	3%	1%	2%	2%	2%	3%	3%	2%	3%
Municipal securities	2%	3%	1%	1%	3%	3%	–	2%	1%	1%
Separately managed accounts **	2%	3%	1%	–	3%	1%	5%	2%	3%	3%
Repurchase agreements	1%	1%	–	–	1%	1%	–	1%	–	1%
Asset-backed securities	1%	2%	1%	–	2%	2%	–	2%	1%	2%
SSA Securities (Sovereigns, Supranationals and Agencies)	1%	2%	–	–	1%	1%	–	1%	1%	1%
Enhanced cash/Conservative income/Ultrashort Bond funds (e.g., cash plus)	1%	–	1%	2%	–	1%	–	–	–	1%
Variable rate demand notes	–	–	–	–	–	–	–	–	–	1%
Muni/Tax Exempt money market funds	–	–	1%	–	1%	1%	–	–	1%	1%
ETF bond or cash strategies	–	–	1%	–	1%	1%	–	–	1%	*
2a7-like funds with stable NAV (pre-money fund reform basis)	–	–	1%	–	1%	1%	–	–	–	*
Other	4%	4%	4%	3%	4%	3%	6%	6%	2%	2%
MEAN NUMBER OF VEHICLES USED	2.7	2.4	2.8	2.0	3.3	3.3	2.0	2.9	2.2	2.5

*Not asked in 2022
** Of those organizations that invest in separately managed accounts, two-thirds manage these accounts with the assistance of an account manager.

SHIFTS IN INVESTMENT MIX

The anticipated changes in investment mix are more likely to be observed in Government/Treasury money market funds; 38 percent of respondents anticipate an increase and only 8 percent expect a decrease. Other investments likely to be impacted by shifts in an organization's investment mix are Treasury bills and bank deposits. As stated earlier, the increase in the investment mix towards Government/Treasury money funds and Treasury bills signals a flight to quality from organizations' bank exposures. But in addition, as money funds' durations shrink, there is additional yield to capture as rates are expected to increase and the shorter maturities will capture the rise in rates more quickly. The 25 percent anticipated decrease in bank deposits reflects the decreasing confidence in banks post-banking crisis. One of the advantages money funds have over bank deposits is transparency and reporting – money funds absorb rate increases while bank deposits are subject to earnings credit rates or interest rates. Bank deposits did not move in step with Fed Funds rate increases over the last year as did money funds, thus explaining the shift to money funds. Additionally, the transparency in reporting that money funds offer is another reason for the move to money funds.

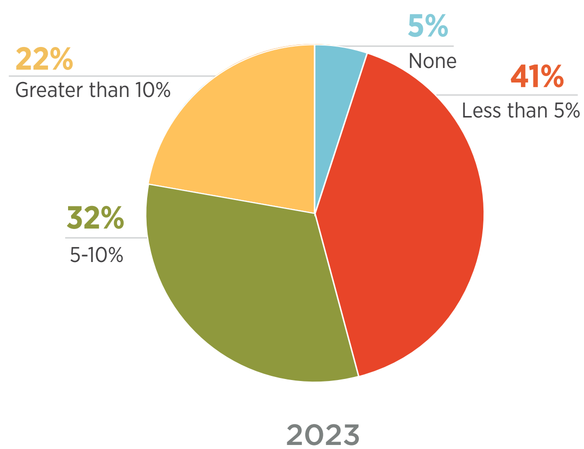
Potential Changes in Investment Mix in Next Year
(Percentage Distribution of Organizations)

	INCREASE	DECREASE	NO CHANGE
Govt/Treasury money market mutual funds	38%	8%	54%
Treasury bills	30%	10%	60%
Bank deposits (DDAs, Time Deposits, CDs, etc.)	28%	25%	46%
Prime/Diversified money market mutual funds	22%	5%	73%
Agency securities	20%	6%	75%
Commercial paper	19%	7%	74%
Repurchase agreements	11%	6%	83%
Separately managed accounts	10%	3%	87%
Enhanced cash/Conservative income/Ultrashort Bond funds (e.g., cash plus)	9%	1%	90%
Asset-backed securities	8%	10%	81%
Eurodollar deposits (U.S. dollar-denominated time deposits at banks outside the United States)	8%	2%	90%
ETF bond or cash strategies	8%	3%	89%
Muni/Tax-exempt money market funds	7%	3%	90%
Cryptocurrencies/Wallets	6%	2%	92%
2a7-like funds with stable NAV (pre-money fund reform basis)	6%	4%	90%
Unregistered funds that have a stable NAV but no fees or gates	5%	2%	93%
Municipal securities	5%	6%	89%
Variable rate demand notes	4%	4%	91%
SSA Securities (Sovereigns, Supranationals and Agencies)	3%	3%	93%
Auction rate securities	2%	2%	95%
Unrated/Private funds	1%	6%	93%
3(C)(7) private partnerships	3%	3%	93%
Other	6%	4%	90%

PERCENTAGE OF OPERATING CASH IN ESG INVESTMENTS

Of those companies considering ESG parameters, only 5 percent do not have any of their operating cash in ESG investments, while 41 percent have less than 5 percent and 32 percent have between 5 and 10 percent of operating cash in their short-term investments. This is a significant difference from the survey results last year: 48 percent of organizations did not have any of their operating cash in ESG Investments. The percentage of organizations that have over 10 percent of their operating cash in ESG investments increased from 6 percent in 2022 to 22 percent this year.

Percentage of Operating Cash in ESG Investments
(Percentage Distribution of Organizations with ESG Investments in Operating Cash)



ESG Investments

Of those organizations investing in ESG investments, ESG money funds (including D&I Categorized funds) are most popular, with 57 percent of organizations choosing to invest in them. In this year's survey, AFP expanded the minority-owned answer choices to allow for a more nuanced reporting of ESG investment options. This year, women-owned (WBE or WOSB) broker providers are the second-most cited choice for investors, selected by 35 percent of organizations. Separately managed accounts and minority-owned (MBE) broker providers each attracted 26 percent of organizations.

Some respondents mention the use of Qualified Opportunity Funds, designed to invest in real estate opportunity zones, as ESG investment options which help with development of economically distressed areas while providing investors with certain tax benefits.[1]

ESG Investment Parameters in Operating Cash
(Percent of Organizations)

	ALL	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
ESG Money Funds	57%	33%	69%	75%	47%	61%	25%	44%	64%
Women-owned (WBE or WOSB) broker providers[2]	35%	33%	38%	_	47%	33%	50%	44%	36%
Separately Managed Accounts	26%	33%	15%	_	29%	17%	50%	33%	9%
Minority-owned (MBE) broker providers[3]	26%	33%	23%	50%	24%	33%	_	44%	18%
Veteran owned (SDVOSB) broker providers[4]	22%	11%	31%	25%	24%	28%	_	33%	18%
Individual securities	17%	22%	15%	_	24%	17%	25%	11%	18%
Other Pooled Funds	13%	_	23%	25%	12%	17%	_	33%	_
Disadvantaged Business Enterprise (DBE) owned broker providers[5]	13%	11%	15%	25%	12%	17%	_	22%	9%
Other	9%	22%	_	25%	6%	11%	_	11%	9%

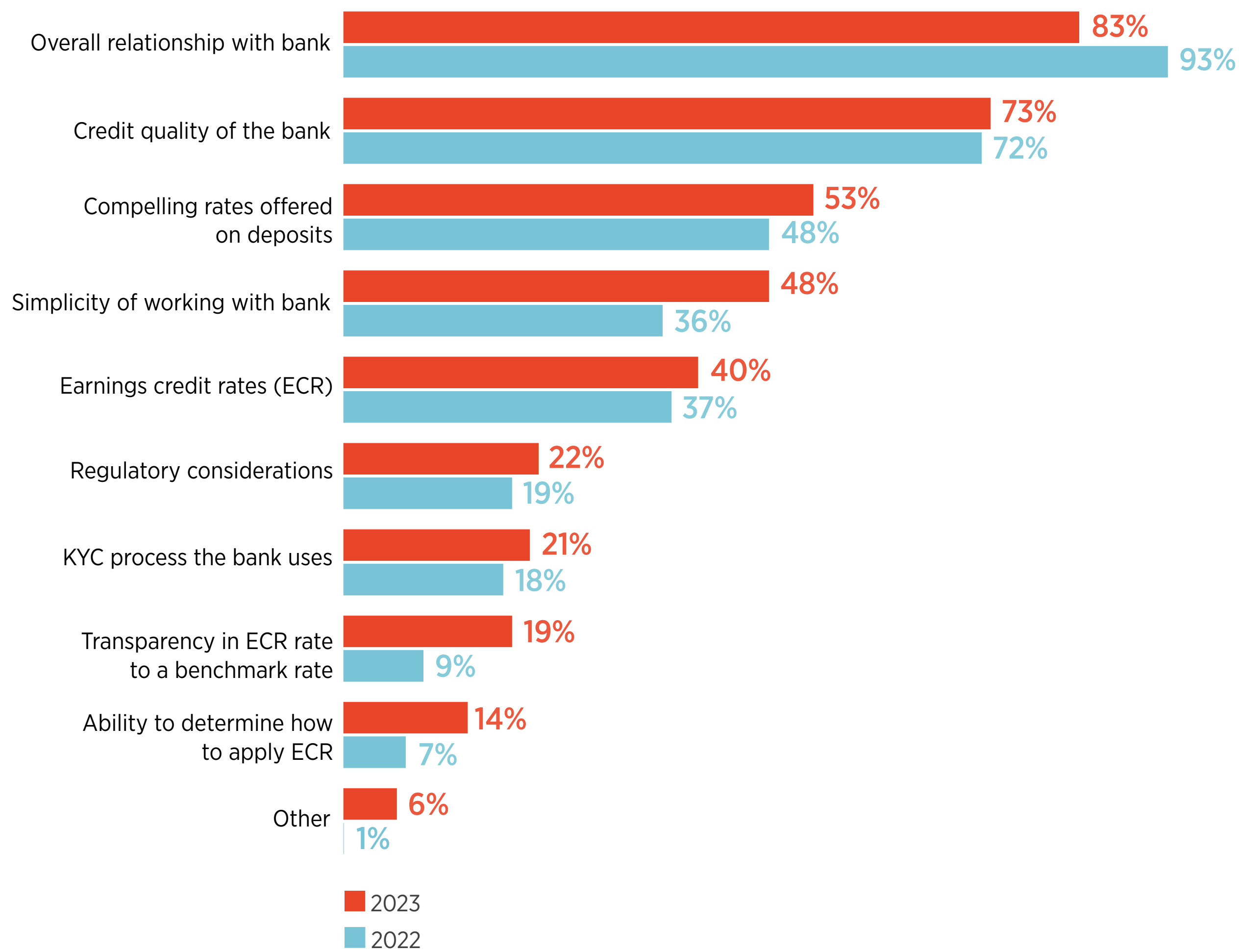
[1] https://opportunityzones.hud.gov/investors/qof
[2] Woman owned Definition, Law Insider
[3] Minority Broker-Dealer Definition, Law Insider
[4] Service-disabled veteran definition, Law Insider
[5] https://www.mwbe-enterprises.com/disadvantaged-business-enterprise-dbe-certification-2/

SIGNIFICANT DETERMINANTS FOR WHICH BANKS TO USE WHEN INVESTING IN BANK DEPOSITS

Banks continue to be major depositories for companies' U.S.-based cash and short-term investment holdings. As stated earlier, this year's survey results reveal a decrease in the percentage of cash and short-term investments being held currently at banks: 47 percent versus 55 percent reported in 2022.

Treasurers consider several factors when deciding where to place their organizations' cash and short-term investments. A majority considers the overall relationship with their banks a determinant, cited by 83 percent of survey respondents — lower than the 93 percent reported last year, but still the most-often considered factor by practitioners when selecting banks for their deposits. The lower percentage this year is perhaps a reflection of recent bank failures and treasury leaders being more cautious in their approach to banking relationships. Seventy-three percent of financial professionals indicate that the credit quality of a bank is a deciding factor, similar to the 72 percent reported last year. Fifty-three percent of organizations consider compelling rates offered on deposits a determinant (confirming the same theme as safety, liquidity and yield). The simplicity of working with one's banking partner is considered important by 48 percent of respondents, higher than the 36 percent who held this view last year. Additionally, practitioners are considering earnings credit rate (ECR) when selecting their banking partners. The largest changes in significant determinants this year compared to last year revolve around yield: i.e. ECR, transparency of the rate and applying ECR across the relationship.

Significant Determinants for Bank Selection when Investing in Bank Deposits
(Percent of Organizations)



RESOURCES

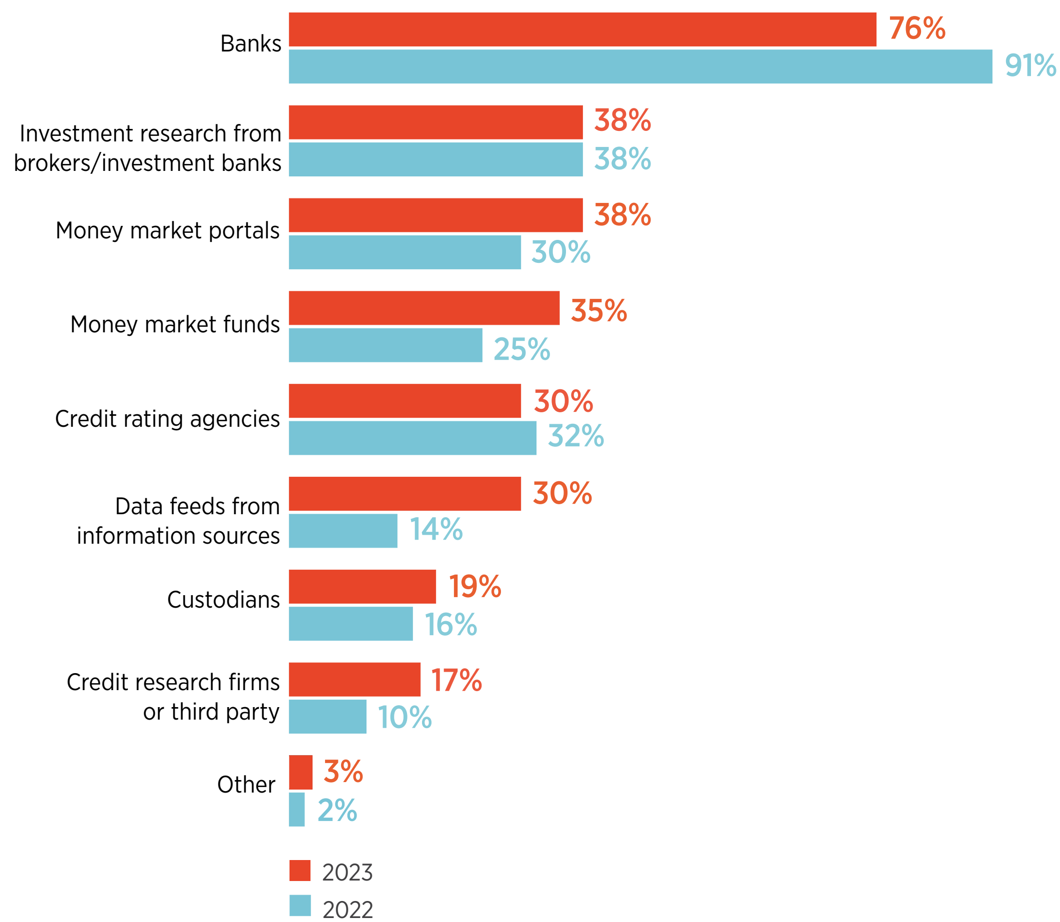
Banks play a key role in supporting organizations in their cash and short-term investment strategies by providing them with critical information on economic indicators and trends. Treasury practitioners face various challenges in an unsettled economic environment. Unable to accurately predict the economic environment, organizations are more likely to seek out their banking partners for guidance and advice. In this year's survey, 76 percent of respondents identify banks as resources their organizations use to access cash and short-term investment holding information. While this response is the most-often cited, the share is significantly lower than the 91 percent in 2022.

Other resources used by treasury and finance professionals include:

- Investment research from brokers/investment banks (cited by 38 percent of respondents)
- Credit rating agencies (32 percent)
- Money market portals (38 percent)
- Money market funds (35 percent)

Money flows and information flows go hand in hand. As organizations shifted from bank deposits and moved into Government money market funds, they tended to rely more on the new funds flows as a source for information. Information flows from money market portals and money market funds increased compared to last year, but the reliance on banks declined significantly — in fact, one of the largest declines in recent years. Validating and capturing diverse information sources is potentially a primary reason behind these changes for organizations.

Resources Utilized to Obtain Operating Cash and Short-Term Investment Holdings Information
(Percent of Organizations)



PRIMARY RATIONALE FOR INVESTING IN U.S. DOMESTIC PRIME/FLOATING NAV (FNAV) FUNDS

The primary rationale for investing in U.S. domestic Prime/Floating NAV funds is yield (cited by 50 percent of respondents) followed by ease of transaction process (38 percent). Other primary criteria noted by respondents are fund ratings/credit quality (26 percent), spread over Government money market funds (24 percent) and diversification of underlying instruments (24 percent). The percentage of respondents selecting yield as a rationale for investing in U.S. domestic/Prime/Floating NAV funds is 18 percentage points lower than the 68 percent reported in 2022, while the percentage of those indicating ease of transaction process as a primary rationale for investing in money market funds (MMFs) is 17 percentage points higher than the 21 percent reported in 2022. While yield is still the most important factor in selection of a prime fund, the ease of the transaction process ranks second this year and considered more important than the funds rating/credit quality. Interestingly, the overall allocation of prime funds did not change compared to last year, while ease of transaction process and fund ratings/credit quality of the fund shifted positions.

Rationale for Investing in U.S. Domestic Prime/FNAV Funds
(Percent of Organizations)

	2023	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	2022
Yield	50%	53%	47%	50%	50%	50%	50%	56%	38%	68%
Ease of transaction process	38%	29%	47%	20%	45%	33%	50%	31%	38%	21%
Fund ratings/credit quality	26%	24%	33%	20%	32%	21%	50%	25%	25%	30%
Spread over Government money market funds	24%	24%	27%	20%	27%	25%	25%	31%	_	_
Diversification of underlying instruments	24%	29%	20%	20%	27%	29%	13%	31%	_	21%
Comfortable with accounting treatment for the fund	24%	29%	20%	50%	14%	17%	50%	25%	25%	_
Not concerned with redemption fees or gates	18%	18%	20%	30%	14%	17%	25%	25%	_	10%
FNAV funds don't float all that much	15%	12%	20%	10%	18%	17%	13%	19%	_	15%
Fund sponsor as part of our overall bank relationship mix and support	12%	6%	20%	10%	14%	17%	_	25%	_	17%
Counterparty risk of underlying instruments	12%	12%	13%	10%	14%	8%	25%	13%	13%	11%
Environmental, social and governance (ESG) reasons	6%	12%	_	10%	5%	8%	_	13%	_	5%
Other	9%	6%	13%	10%	9%	13%	_	_	25%	7%

PRIMARY DRIVERS IN SELECTION OF MONEY MARKET FUND

Various drivers play a role in the selection of money market funds. The three factors that play the most important role are yield, fund ratings and stable NAV. Sixty-one percent of treasury and finance professionals cite yield as a primary driver (among the top three drivers), while 62 percent cite fund ratings and 59 percent cite stable NAV as having a significant role when selecting a mutual fund.

While safety, liquidity and yield rank first, second and third as guiding investment objectives overall, organizations evaluate money funds a little differently: yield, safety and liquidity. These funds utilized are predominantly Government/money market funds. Safety and security are well understood by many — obligations of the U.S. government with a stable NAV; many see yield as the key differentiator. This still does not stop some treasury practitioners from making sure the underlying investments are all within a fund's scope. It is always prudent to do due diligence on any underlying investment holdings to make sure they confirm within an organization's investment policy as well. In response to the banking failures in March — and all else being equal — companies sought to mitigate their counterparty risk from banks and shift to government money market funds.

Importance of Primary Drivers in Selection of Money Market Funds
(Ranked on scale of 1-14, where 1 is most important and 14 the least important)

1. Yield
2. Fund ratings
3. Stable NAV
4. Counterparty risk of underlying instruments
5. Gates and Fees
6. Diversification of underlying instruments
7. Asset size of the fund
8. Fund sponsor as part of our overall bank relationship mix and support
9. Ease of transaction process/portal access
10. Floating NAV
11. Weighted Average Life
12. Automated sweep options
13. Accounting treatment for the fund
14. Environmental, Social and Governance (ESG)

Other primary drivers considered important include:

- Security and term of the offered investment credit
- Investment size
- Investment policy from state statute

PREPARING PORTFOLIOS FOR LIBOR TRANSITION

As the financial world moves away from LIBOR and towards the use of the Secured Overnight Financing Rate (SOFR) as the overnight interest rate for U.S. dollar-denominated loans, a sizable minority of practitioners is still preparing the operating cash and investment portfolios for the transition. The deadline for the official transition is June 30, 2023. Twenty-nine percent of respondents report that their organizations have plans to prepare operating cash and investment portfolios for the LIBOR cessation on June 30, 2023, slightly higher than the 26 percent that reported the same last year. Sixteen percent of organizations are in the process of researching the effects of the transition, while 15 percent have no plans for preparation — significantly smaller than the 38 percent that reported in 2022 they had no plans to address the LIBOR transition. Thirty-six percent of organizations have no risk or exposure to LIBOR. Of those organizations without exposure to LIBOR, those with annual revenue less than $1 billion account for the smallest segment, with 14 percent indicating that they have no exposure.

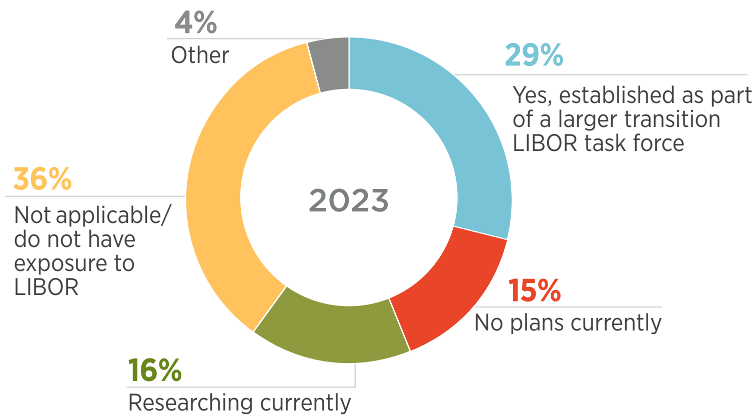
The share of organizations (45 percent) that either have plans to prepare operating cash and investment portfolios for the LIBOR sunset or are researching the process is 14 percentage points lower than last year's figure of 59 percent — not surprising given the June 30, 2023 end date.

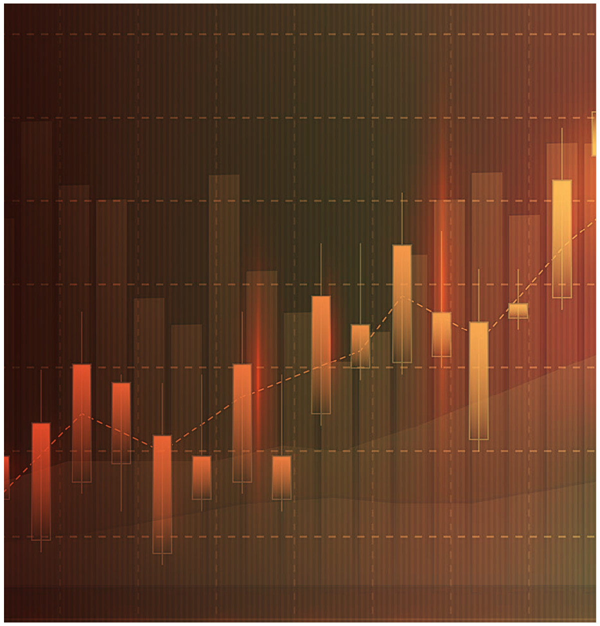
A greater share of larger companies (annual revenue of at least $1 billion) and those that are publicly owned have plans in place to prepare for the LIBOR transition compared to the share of smaller companies with annual revenue less than $1 billion and those that are privately held.

The end date of LIBOR was three months away when this survey was conducted, and a greater number of financial professionals have been positioning themselves for this change over the past year. A large majority, 58 percent, reports that their issuers have already moved to SOFR and/or an alternate index. For organizations still preparing their portfolios, they are doing so in the following ways:

- Reviewing provisions for Floating Rate Note resets and fallback language (cited by 15 percent of respondents)
- Surveying investment managers and issuers regarding their plans (13 percent of respondents)
- Establishing investment maturity prior to June 30, 2023 (11 percent)

Plans to Prepare Operating Cash and Investment Portfolios for LIBOR Transition
(Percentage Distribution of Organizations)

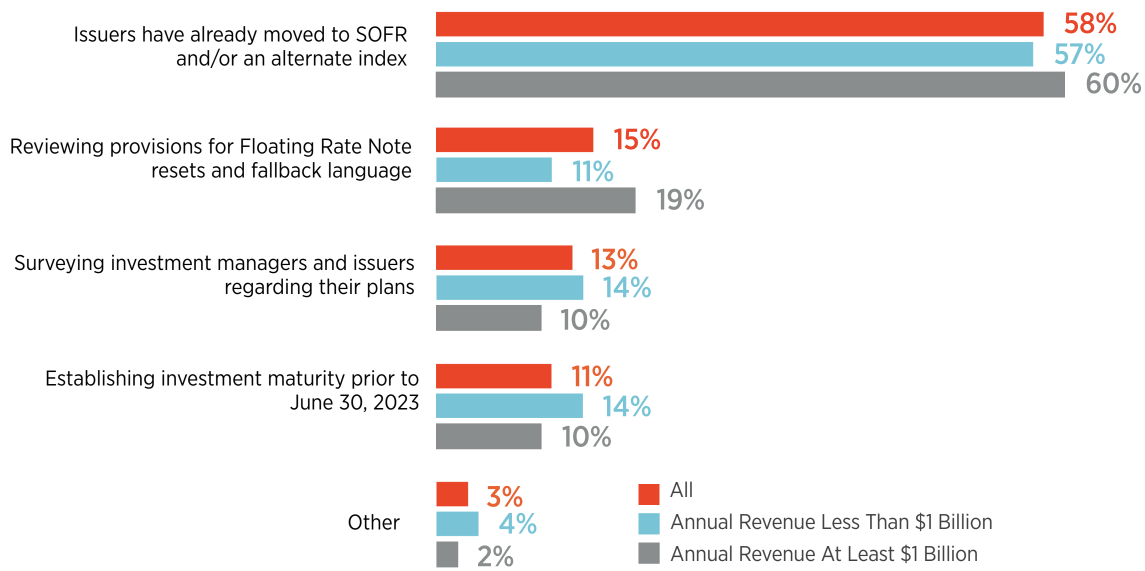


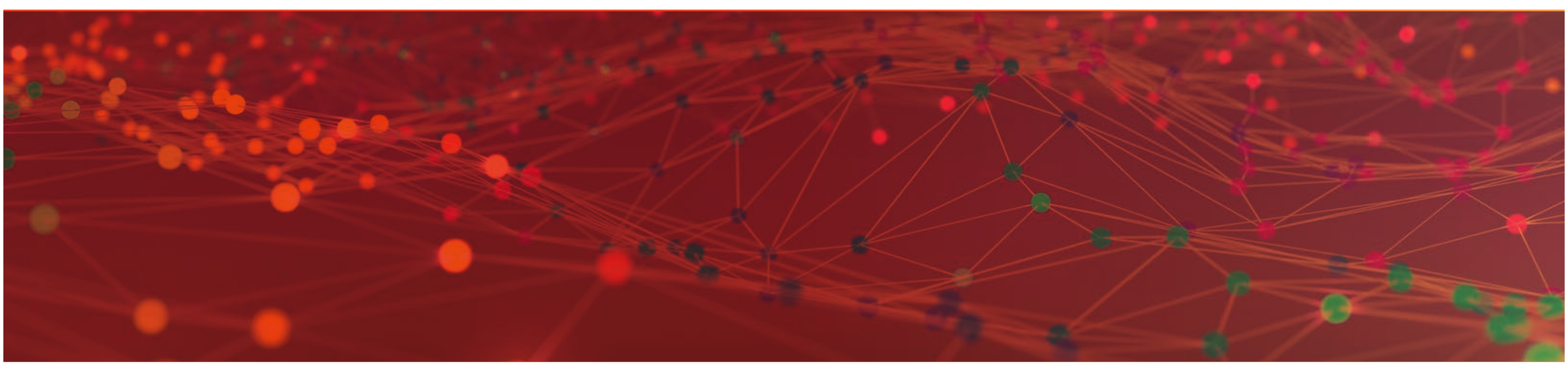


PREPARING PORTFOLIOS FOR LIBOR TRANSITION

The large majority of the investments listed above in the investment allocation section are not subject to LIBOR. However, treasury professionals may want to confirm that is the case and do their due diligence to make sure they do not have transition risk. Publicly held companies and those with less than $1 billion in annual revenue are most likely to have included a review as part of a larger LIBOR transition task force, while privately held companies are currently researching solutions. Fifty-eight percent of issuers have already moved to SOFR, and for publicly held organizations the figure increases to 69 percent.

Methods of Preparing Portfolios for the End of LIBOR
(Percentage Distribution of Organizations Currently Preparing Portfolios)





CONCLUSION

The past couple of years have been tumultuous for organizations — through the pandemic, weathering supply-chain disruptions and coping with the various impacts from the war in Ukraine. Treasury leaders have been dealing with liquidity challenges, and despite the anticipated increase in investment post-pandemic, organizations seem to be holding on tightly to their cash and short-term investments. Increases in the federal funds target rate by the Federal Reserve in its efforts to temper inflation, as well as uncertainty in the economy and geopolitical risks, have led organizations to maintain their focus on cash and short-term investments. The increase in cash holdings has been driven by increased operating cash flow, access to debt markets and supply-chain finance, while the decrease in cash holdings has been influenced by inflationary impacts, increased capital/expenditures and paid back/retired debt.

The typical organization currently maintains less than half of its short-term investments in bank deposits. Current allocations in banks are lower than those reported in recent years. This year's decline in bank deposit allocation could be due to various reasons but primarily driven by the three bank failures in the Spring of 2023. The increase in allocations in Government/Treasury money market mutual funds and Treasury bills increased this year, reflecting treasury practitioners' focus on safety as they sought to mitigate any counterparty risk.

Organizations may be showing signs of diversifying their cash and short-term investment allocations, and so relationships with banking partners remain crucial. 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. Treasury practitioners have faced various challenges in an unsettled economic environment. Unable to accurately predict the economic environment, organizations are more likely to seek out their banking partners for guidance and advice.

Looking ahead, treasury practitioners will need to prepare their organizations for any possible outcomes in an uncertain economic landscape and amid concerns of an anticipated downturn possibly leading to a recession. The momentum of economic recovery remains tepid. Therefore, being prepared for what might come next needs to be on the radar of financial professionals.

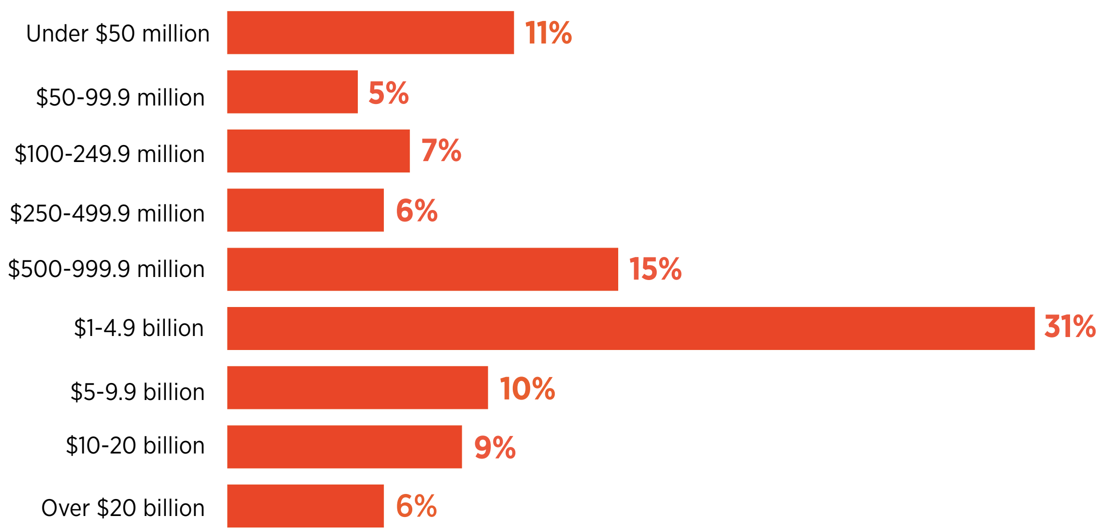
DEMOGRAPHICS

ABOUT THE SURVEY PARTICIPANTS

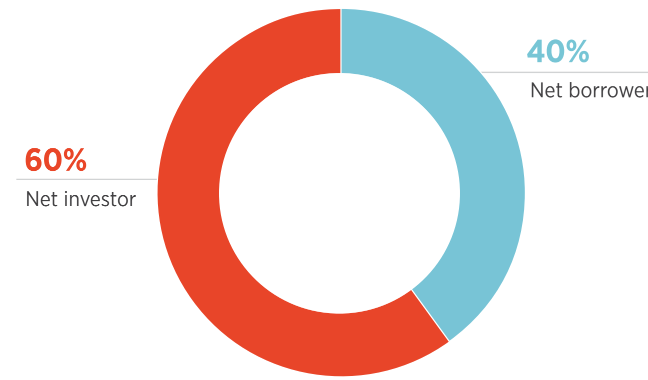
In March 2023, the Association for Financial Professionals® (AFP) conducted its 18th annual *AFP Liquidity Survey Report* that focused on current and emerging trends in organizations' cash and short-term investment holdings, investment policies and strategies. AFP received 222 responses from its corporate practitioner members and prospects with titles that include: Treasurer, Assistant Treasurer, Manager of Treasury, Director of Treasury, Cash Manager, Senior Treasury Analyst, Treasury Analyst, and Vice President and Treasurer.

AFP thanks Invesco for underwriting the *2023 AFP Liquidity Survey Report*. The survey questionnaire and the report were produced by the Research Department of the Association for Financial Professionals which is solely responsible for the content of the report. The following tables summarize the characteristics of the survey respondents where organization-level demographics are provided.

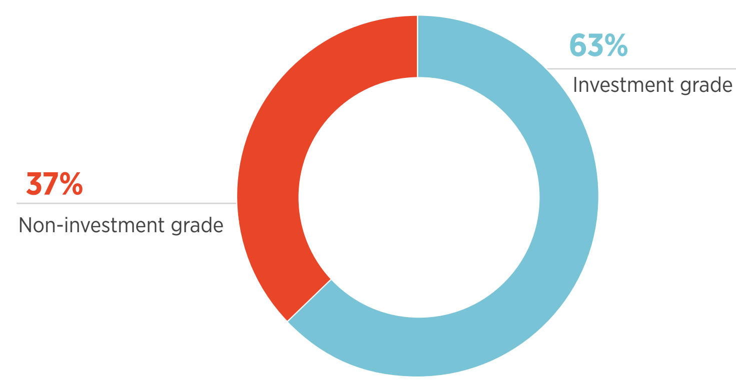
Annual Revenues (USD)
(Percentage Distribution of Organizations)



Net Borrower or Net Investor
(Percentage Distribution of Organizations)

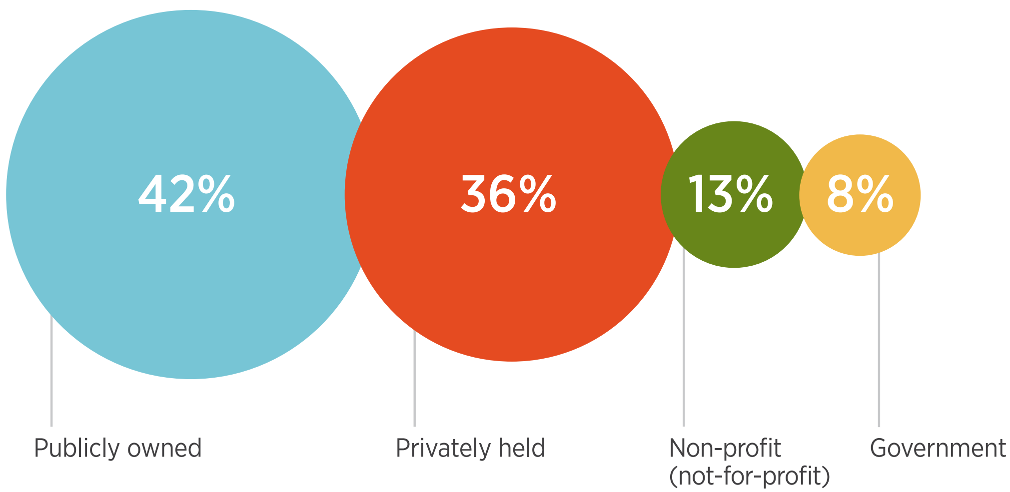


Organizations' Credit Ratings
(Percentage Distribution of Organizations)



ABOUT THE SURVEY PARTICIPANTS

Ownership Type
(Percentage Distribution of Organizations)



Industry (Percentage Distribution of Organizations)	
Agricultural, Forestry, Fishing & Hunting	1%
Administrative Support/Business services/ Consulting	2%
Banking/Financial Services	15%
Construction	3%
E-Commerce	1%
Education (K-12, public or private institution)	2%
University or other Higher Education	2%
Energy	4%
Government	7%
Health Care and Social Assistance	7%
Hospitality/Travel/Food Services	2%
Insurance	7%
Manufacturing	13%
Mining	1%
Non-profit	3%
Petroleum	1%
Professional/Scientific/Technical Services	2%
Real Estate/Rental/Leasing	3%
Retail Trade	6%
Wholesale Distribution	1%
Software/Technology	6%
Telecommunications/Media	2%
Transportation and Warehousing	3%
Utilities	4%

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About AFP®

Headquartered outside of Washington, D.C. and located regionally in Singapore, the Association for Financial Professionals (AFP) is the professional society committed to advancing the success of treasury and finance 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 treasury and finance. Each year, AFP hosts the largest networking conference worldwide for more than 7,000 corporate financial professionals.

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