



Treasury Managers Rethink Strategies in Fluid, Short-Term Investment Arena

Now that risk is once again being priced into financial markets, savvy corporate treasury managers need to continuously rethink their liquidity management strategies.

Since the onset of the global financial crisis, the world of short-term investing has basically been turned upside down. The markets for many of the instruments that companies traditionally used for short-term investments — such as auction rate securities and asset-backed commercial paper — have essentially dried up.

Meanwhile, with the reduction of the Federal Reserve's benchmark interest rate to a record low range, returns on most remaining viable instruments are meager.

Amidst heightened credit concerns and the growing need for cash, the question on the minds of all treasury managers these days is: Where can I safely invest my company's money? Unfortunately, there are few good answers. Many companies have fled to what they perceive to be the highest quality investment option, U.S. Treasury securities. Another popular choice in recent months has been custom bank time deposits from highly rated financial institutions. And some companies are just leaving their money in Demand Deposit Accounts (DDAs) and earning credits to offset bank fees. Beyond that, there appears to be a dearth of attractive alternatives.

Another common question vexing treasury managers: How long should I invest my company's funds? Clearly, most firms have decided that, these days, shorter maturities are better. Deutsche Bank capital markets specialists report a considerable shift into shorter duration instruments in recent months, with fewer companies willing to park cash for lengthy periods of time.

And, finally, possibly the most confounding question of them all: How long is this state of affairs going to last? No one has a reassuring answer to that one either. Most experts suggest that the situation is fluid and not likely to improve in the foreseeable future.

So, in a topsy-turvy environment like this, what can a treasurer do to better manage the company's liquidity?

Position Your Company for Success

Here are some measures we suggest:

- *Get more actively engaged in liquidity management.* This doesn't necessarily mean taking investment activities in-house. However, whether you manage investments in-house or outsource that function, you need to keep a watchful eye on your company's cash and investment activities on a daily basis.

The days of cruising along on "automatic pilot" in this arena because "that's the way we've done it for the last 15 years" are over. Treasury managers need to be constantly monitoring market developments and questioning the company's investment instruments and practices. For some treasury managers, that could mean looking to outsource providers with greater resources and expertise for help.

- *Regularly re-evaluate your investment policy.* Safety of principal and access to liquidity are critical short-term investment policy objectives, and never more so than today. In order to address new market developments, corporations need to regularly re-evaluate what instruments and durations their investment policies deem to be acceptable.
- *Consider conducting some of your own credit analysis.* Clearly, blindly following rating agency analysis is no longer prudent. Today, many companies are doing their own due diligence and analyzing the creditworthiness of potential investments using in-house resources.
- *Reconsider your account structures.* You want to validate that you have the right structures in place to facilitate intercompany borrowings and to take advantage of long positions across groups of accounts. Some popular structures include zero balancing, target balancing accounts and notional pooling.
- *Rationalize your banking relationships.* You don't want to have multiple banking relationships where you cannot take advantage of a consolidated cash position. Additionally, fewer banking relationships give you better control over cash and visibility into your account structures. This, in turn, can help you ensure that all eligible funds are being invested.

Assistance in Trying Times

Deutsche Bank can help you improve the management of your company's working capital. Whether it's helping you establish automated sweep investments, monitor market developments or revisit your investment policy, we can provide the assistance you need.

If you haven't done so recently, contact your Global Transaction Banking salesperson and ask to have one of our global liquidity management specialists review your account structures. We can help ensure that you are extracting the most value possible from your company's cash.