



INSIGHTS FROM CASH MANAGEMENT, US

# TreasuryPulse

## Are You Making the Most of Higher Corporate Cash Balances?

Cash balances were up at US businesses in 2006 and should remain so this year, but companies aren't taking full advantage of all opportunities to generate returns on those balances, a recent survey suggests.

In the liquidity survey conducted by the Association for Financial Professionals (AFP) in mid 2006, 40% of organizations reported holding a larger US cash and short-term equivalent balance than six months earlier. Additionally, more than a quarter of respondents expected to add to cash balances through mid 2007, while nearly half said they expected to maintain their current level of cash balances through mid 2007.

While 80% of respondents reported having a written cash investment policy, most organizations are far less diversified than their policies allow, the survey reveals.

While the typical company is allowed by policy to invest short-term cash in about eight different types of investment vehicles, on average respondents were using only about three of their available choices. Companies reported that they place nearly two-thirds of their cash and short-term equivalents in money market mutual funds (29%), bank deposits (23%) and commercial paper (13%).

### Room to Diversify

To improve return on short-term investments, the study suggests that companies might want to consider further diversification using other investment instruments such as: repurchase agreements, agency securities, Eurodollar deposits, asset-backed securities, auction rate securities and variable rate demand notes. Other options that only a small minority of respondents now permit, the study notes, are cash plus funds, enhanced cash total return instruments and ultra-short total return vehicles.

Organizations using cash plus funds, for instance, typically expect better than an 8-basis point advantage compared to money market funds, AFP says. "In return for potentially higher yields, many of those that are using cash plus funds are willing to accept longer time frames to redeem their holdings, and limits on the size of their redemptions on a single day," the study results note.

### **Use of Electronic Trading Portals**

The survey also highlighted some practices that companies are utilizing in an effort to improve the efficiency and performance of their investment activities. For example, nearly a quarter of organizations reported using an electronic, multi-family trading portal to execute at least some of their short-term investment transactions. About one-third of large organizations use a multi-family trading portal, compared to about 15% of smaller organizations.

Electronic trading portals are designed to make conducting investment transactions easier. They minimize paperwork and simplify the process of comparing investment choices. Additionally, trading portals can lower the costs associated with managing and administering investments.

Those that use such portals move an average of 69% of their money market mutual fund holdings through them, the study reveals.

### **Outside Investment Managers**

About a quarter of survey respondents are using an outside investment manager to invest and manage their short-term investment portfolios. Approximately one-third of organizations that are net investors use an outside investment manager, compared to about one-fifth that are net borrowers.

"Organizations may choose to use an investment manager because of a desire to generate higher returns from their portfolio, because the organization lacks internally the knowledge necessary for successful investing, or to better manage the organization's credit risks," AFP explains.

In selecting an outside investment manager, respondents focused most on level of expertise (66%), past performance in the form of historic returns vs. benchmark (44%) and maintaining their relationship with their primary bank (38%).

The AFP 2006 Liquidity Survey results were based on responses from 342 treasury and finance professionals from a broad range of public and private companies with annual revenues ranging from \$50 million to \$20 billion.

To learn more about how you can improve your company's short-term investment performance, while adhering to investment policy, contact your Deutsche Bank Cash Management Representative.