Caution is king

Executive summary

- The survey has once again taken the pulse of treasurers around the world. This year's findings suggest that risk aversion remains high and nervousness continues to stalk financial markets. Yet treasurers are continuing to innovate and are deploying a full range of tools to carry out their cash management duties as effectively as possible.

The J.P. Morgan Global Cash Management Survey has been providing a barometer of corporate cash management trends since 1999. The survey – and this year's is the 11th edition – was once again compiled with the valuable help of the ACT, and is also endorsed by the EACT and the Association of Corporate Treasurers Singapore.

The survey was conducted by online questionnaire between July and September and attracted an impressive response rate: a record 334 treasurers from across Europe, the US and Asia provided feedback. This internationally diverse range of respondents helps to make the survey a truly global indicator of cash management trends.

As always, the survey strives to capture the views of treasurers from organisations of all sizes, from small-caps to leading multinationals. This year, around one in six respondent companies had a market capitalisation of less than $500m, while 23% were valued at more than $5bn. Respondents also represented companies and organisations across many different sectors and industries.

DELVING DEEPER INTO CASH MANAGEMENT The wide geographical spread and broad industry coverage mean this survey is set to be one of the most comprehensive and informative to date. It also promises to provide a valuable insight into the cash management strategies and policies of corporate treasurers as their organisations start to emerge from the global banking crisis.

The full survey report is still being compiled and will be available in early 2010, but the initial findings suggest that corporate treasurers are placing unprecedented scrutiny on the financial strength of the institutions that they invest with. This trend towards greater scrutiny and quality has been reflected across all areas of corporate cash management, including banking relationships, the treasury function, surplus cash management, investment policy and surplus cash investment criteria.

BANKING RELATIONSHIPS The survey suggests that treasurers have once again increased their primary banking relationships, with 32% of respondents saying they have increased the number of primary banking relationships, compared with 22% that have reduced the number.

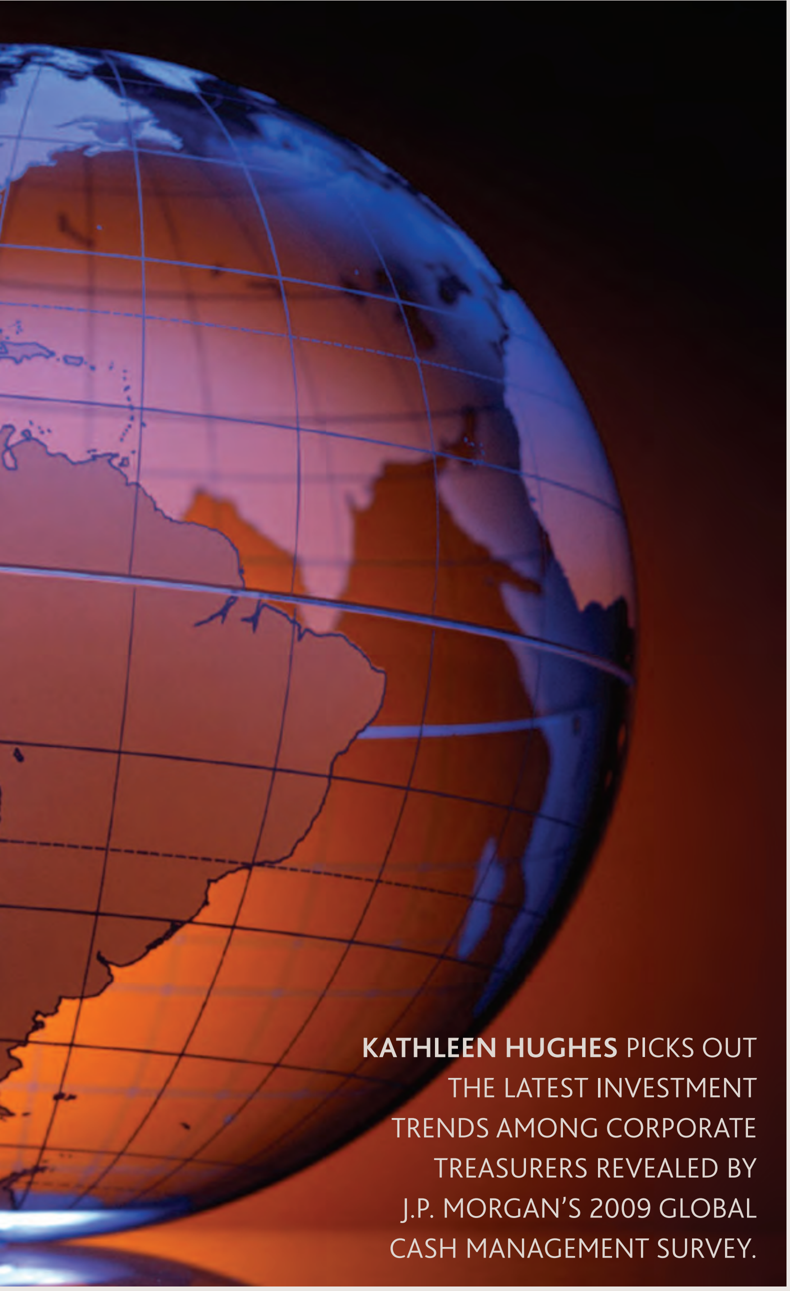
This increase reflects ongoing nervousness caused by the global financial crisis, which has left treasurers looking to diversify banking relationships to reduce counterparty or operational risk.

The desire to reduce risk is also reflected in the criteria treasurers use to select their banks. A bank's financial strength is now almost as important as the quality of its customer service and support.

Treasurers continue to use their banks for a full range of services, with treasury cash management services, credit facilities and foreign exchange services topping the list. However, the number of outsourcing services used has fallen since the last survey, suggesting treasury departments are moving some functions back in-house, perhaps under pressure from corporate cost-cutting or because of a drop in trust in the banks following the financial crisis.

TREASURY FUNCTION The survey finds that the role of treasurer is becoming more strategic, with increasing importance placed on finding a secure home for surplus corporate cash as well as achieving a competitive yield on it.

The added importance of the treasury role reflects the continued move towards greater global cash management structures, with 66% of respondents currently using either a global structure or global



KATHLEEN HUGHES PICKS OUT THE LATEST INVESTMENT TRENDS AMONG CORPORATE TREASURERS REVEALED BY J.P. MORGAN'S 2009 GLOBAL CASH MANAGEMENT SURVEY.

oversight. In the future this proportion is expected to rise to 81%.

Another important change in attitude identified by this year's survey is the growing importance of cashflow forecasting. In fact, cashflow forecasting is now the most important area for global treasury departments, overtaking cash management, which was the most important in 2008.

The difficult economic environment has placed cashflow constraints on many companies, with almost half of respondents saying they have less surplus cash this year than in 2008. As a result, it is more important than ever for treasurers to be able to accurately forecast future cashflows to avoid potential liquidity issues.

SURPLUS CASH MANAGEMENT North American-based treasurers continue to allocate far more of their surplus cash to money market funds than their counterparts in Europe and Asia. US treasury departments also allocate less to bank deposits than their Asian and European counterparts, although bank deposits continue to enjoy the largest allocation overall despite the impact of the global financial crisis on confidence.

Overall allocations to bank deposits appear to have remained fairly stable compared with 2008; in 2009 treasurers allocated 54% to bank deposits compared with 55% in 2008. Money market funds had a 27% allocation in this year's survey – down from the 32% allocation given in 2008 to pooled funds, although this year's survey did include a 4% allocation to segregated accounts and a 4% allocation to professional asset management that wasn't captured in

Figure 1: Market capitalisation of survey respondents

All market capitalisations have been fairly represented in this year's survey

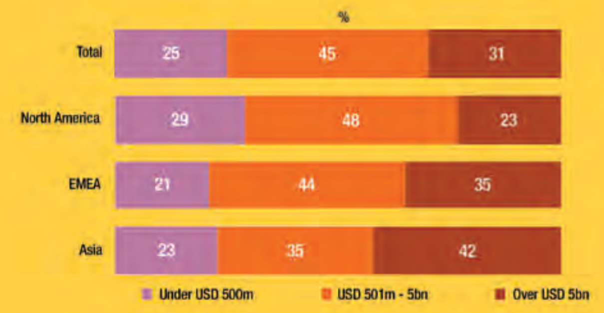


Figure 2: Growth of banking relationships

The number of banking relationships has once again increased over the last year, suggesting that corporates are looking to diversify risk

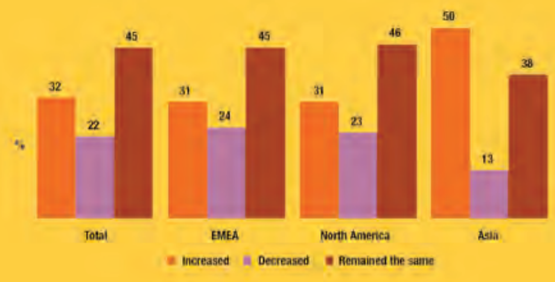


Figure 3: Favourite cash management structures

Global or global with regional autonomy are the favoured structures for cash management and are predicted to grow in the future

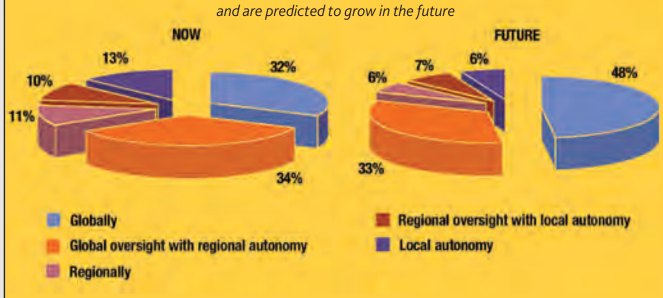
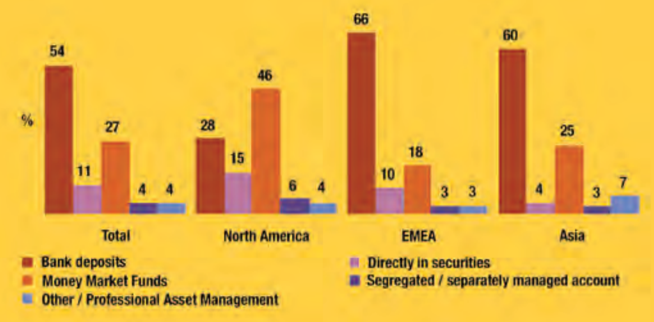


Figure 4: How corporates invest their cash

North American treasurers are far more likely to use money market funds, but least likely to use bank deposits



LONGER-TERM CONCERNS CONTINUE TO GET MENTIONED, WITH FUNDING RULE CHANGES, REGULATORY CHANGES, M&A ACTIVITY AND PENSION RISK ALL KEY WORRIES AS WE HEAD TOWARDS 2010.

2008. The allocation to direct securities, at 11%, remained broadly the same as last year, when it stood at 13%.

For those treasurers who do allocate to money market funds, the primary selection criteria have changed. Treasurers are now more concerned with finding funds that offer daily liquidity rather than a high yield (which was last year's top priority); the reputation of the provider was ranked third in terms of importance.

Given the emphasis on risk reduction coming across earlier in the survey a provider's reputation might be expected to have a higher priority. However, the focus on daily liquidity is consistent with the cashflow constraints and liquidity concerns highlighted by the survey.

INVESTMENT POLICY For the first time in 2009 we asked respondents detailed questions about their investment policy: whether they have one, how often it is updated and whether they use advisers to help set it.

Encouragingly given the increased importance of due diligence in the wake of the global financial crisis, about half of respondents said they would use an outside source (their asset manager, an investment adviser or another external adviser) to help them update or create an investment policy.

Furthermore, it seems that the majority of treasurers (63%) review their investment policy at least annually, although a significant minority (37%) only review or amend their policy if the need arises.

SURPLUS CASH INVESTMENT CRITERIA Continuing the trend seen last year, there has been a further reduction in the proportion of treasurers permitted by investment guidelines to invest directly in money market instruments, down to 45% from 55% in 2008. This again reflects the very tough money market environment and the desire of investors to reduce portfolio risk.

There has also been a sharp drop this year in the percentage of treasurers permitted to invest in pooled investments; the figure fell from 69% last year to 51% in 2009. The cause of this drop in the proportion of treasurers permitted to invest in pooled investments is not clear and does not reflect our experience at J.P. Morgan Asset Management where demand for money market funds has been very strong over the last year.

However, the drop may reflect a perception that money market funds are more risky than bank deposits, which are still permitted in the investment guidelines of 97% of the survey's respondents.

The large number of respondents from continental Europe may also have had an impact on the results here, as some European cash funds (not stable NAV money market funds) have experienced volatility over the last year. European treasurers may have tightened their investment guidelines to exclude these riskier cash funds, but investments in money market funds with a stable net asset value remain strong.

This risk aversion is also reflected in a rise in the minimum credit ratings required for pooled investments, with more than half of respondents who use pooled funds now demanding a AAA rating as a minimum; this is up from just under 50% last year and 35% in 2007. We have similarly seen a slight move up the credit scale in direct investments and bank deposits.

Given the continued desire for higher credit ratings it is good to see that treasurers have this year moderated their return expectations for cash investments. Most respondents now expect returns in line with Libor rather than Libor+ for both bank deposits and direct investments (a reversal from last year).

Furthermore, while as many pooled fund investors are looking for Libor+ returns as are looking for Libor (27% of survey respondents for both), there has been a clear reduction in yield expectations from last year, when 40% of pooled fund investors said they expected a Libor+ return.

WHAT DOES THE FUTURE HOLD? At the end of the survey we asked respondents to comment on the key concerns they have about their treasury departments in the future. Perhaps unsurprisingly, liquidity concerns have moved to the top of the list of concerns this year, reflecting the severe dislocation of credit markets and the high-profile banking failures that have been experienced since the 2008 survey was compiled. Similarly, counterparty risk was cited as the second biggest future concern.

However, longer-term concerns continue to get mentioned by a significant number of treasurers, with funding rule changes, regulatory changes, M&A activity and pension risk all key worries as we head towards 2010.

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This article offers a sneak preview of some of the survey's key findings. For more detail on all the results from this year's survey please visit: **www.jpmgloballiquidity.com**
The final report will be available from early 2010.