THE RESULTS OF THE ACT AND JPMORGAN FLEMING INTERNATIONAL CASH MANAGEMENT SURVEY ARE IN AND THE RESPONSES NOTED. **MARK STOCKLEY** REVEALS THE FINDINGS.

WHAT TREASURERS REALLY THINK

Global money markets have been particularly volatile during 2003, with fears of war and terrorism combining to depress economic activity and drive short-term interest rates lower early in the year, before improving economic conditions saw yields rise again through the summer and autumn. In these conditions, with interest rates down at historical lows and geopolitical uncertainty continuing to cause concern, treasurers have continued to focus on yield and credit quality when it comes to the management of their cash holdings.

This is a key finding from JPMorgan Fleming's fifth annual International Cash Management Survey, which was recently undertaken in conjunction with the Association of Corporate Treasurers (ACT). The the 2003 results, just like the previous four surveys, aim to achieve a better understanding of the current dynamics of the cash management industry, have now been interpreted. I am sure you will agree that, once again, they make for some very interesting reading.

MORE RESPONSES, GREATER GEOGRAPHICAL SPREAD. We received nearly 350 responses to the survey this year, up from the 240 in 2002. A higher proportion of respondents also came from the US and Asia than in previous years, providing a wider geographical cross-section of results. Nearly a quarter of our responses, for example, were from US-based treasurers, with a further 10% from Asia. However, the majority of respondents (some 55%) continue to come from the UK, with the remainder coming from continental Europe.

Because this year's survey contains nearly 50% more responses and a greater geographical spread than in 2002, the results have provided a particularly useful insight into current attitudes among global corporate treasurers.

Once again, the survey encompassed a number of different themes within cash management, from the use of third-party providers, through timing of investments and credit considerations, to customer service issues and internet usage. In many cases, this year's survey followed the same questioning format as previous years so that meaningful comparisons could be drawn between the surveys as well as enabling us to identify trends in the market. However, there were some new questions in this year's survey, which were designed to provide better insights into how corporate treasurers operate and, crucially, how they expect to manage cash in the future.

THE RESULTS. Yield and security were two recurring themes to emerge from this year's results. Indeed, yield was particularly important in the low interest rate environment, with long-term performance chosen by 75% of respondents as the most important factor when selecting an asset manager. Fees were the second most important factor, indicating that treasurers are focused on reducing costs to further boost potential returns.

The emphasis on yield was seen again when treasurers were asked to rank the services that add most value to their department. While cash management was seen as adding the most value, the results also reveal an increased use of cashflow forecasting, which is an excellent way to improve the efficiency of cash investment and potentially further boost returns.

As far as actually managing cash holdings is concerned, most treasury departments manage cash either globally or use global oversight with regional autonomy. In the future, however, the bias is expected to shift towards global cash management, with the number of respondents saying they expect to manage their cash globally in 2005 rising from 33% to 43%, while the number still expecting to use global oversight with regional autonomy in two years' time falls from 32% to 23% (see *Figure 1*).

FIGURE 1

BASIS ON WHICH TREASURY FUNCTION IS MANAGED

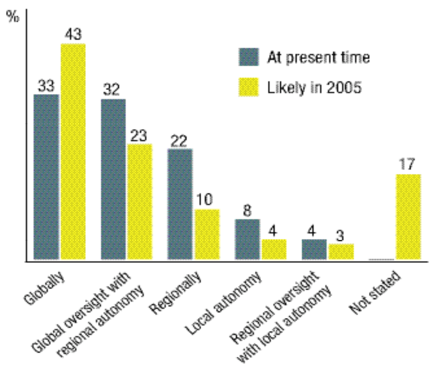


FIGURE 2

EXPECTED TARGET RETURNS FROM SHORT-DATED INVESTMENT

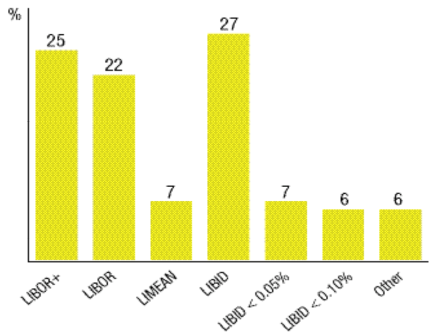
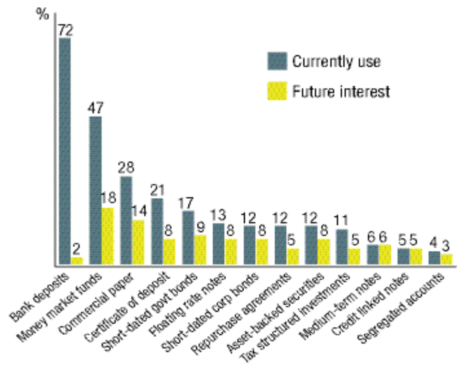


FIGURE 3

INVESTMENT INSTRUMENTS



This result reveals a continued move by treasurers towards greater centralisation of the management of their cash holdings, with some consolidation planned at the regional level to focus on global accounts in the future. Again, this trend is possibly a result of treasurers' heightened focus on reducing costs in the current low yield environment.

Furthermore, the survey also shows that treasurers now expect higher yields from their short-term cash investments compared with previous years, with nearly half of the respondents saying that they expect to receive Libor or Libor+. In the 2001 and 2002 surveys, the majority of investors were happy with a Libid or Libid < 0.1% return. Again, the increased expectations for yield suggest investors are becoming more focused and demanding, given the low-yield environment.

However, the survey also suggests that investors are willing to take bigger credit risks to achieve the higher yields they desire, with a large increase seen in the number of treasurers saying that they can invest in un-rated assets, particularly when using money market funds (MMFs). This movement up the risk/reward spectrum may simply reflect the bigger sample size this year among US and Asian treasurers, or it could be because some money market fund investors do not yet have detailed investment policies in place with a stipulation for minimum credit ratings. It should be noted, however, that the increased usage of unrated assets does correlate with recent evidence of growth in demand for unrated MMFs.

POPULAR VEHICLES. Indeed, MMFs as a whole continue to grow in popularity, indicating that the upward trend towards their use, particularly among European treasurers, remains. There was also a notable increase in 2003 in the use of direct investments, particularly certificates of deposit and commercial paper. This change possibly reflects the attractiveness of these instruments in the current low interest rate environment, again as a result of the search for better yields. It may also reflect the higher number of respondents this year from the US, where direct investments tend to be more popular than in Europe. However, bank deposits are still the most widely-used instrument.

Despite the apparent increased usage of unrated funds, security was deemed the most important factor by treasurers using MMFs when selecting a provider, with most treasurers selecting a AAA credit rating as their main investment criteria. This was an encouraging result, as security of capital should be the main consideration when making cash investments. Just behind security in terms of importance was the provider's relationship with the bank, while the possession of a strong credit department was also ranked highly. These factors may explain why the top 10 providers of global MMFs are primarily international banking organisations.

Fees were a relatively low consideration in the selection of money market fund providers, with preservation of capital still the overriding factor. More surprising, perhaps, is that the importance of internet trading capabilities and 24-hour client service were rated very lowly. Treasurers may have come to expect these services as par for the course, although, as many providers still do not offer them, it could also suggest that treasurers recognise their lack of availability and do not consider them highly at this stage.

The survey did reveal, however, further growth in internet usage, with treasurers growing gradually more comfortable with using the internet for execution, as well as a source of market information. However, many still do not see online dealing and portal services as important, which suggests that security remains a concern. Despite this, nearly half of the respondents said integrated online services were very important to them and we would expect their popularity to grow as these services become more user-friendly and flexible.

A BENCHMARK FOR THE INDUSTRY. This year's survey has once again provided a valuable insight into the current cash management market, as well as identifying industry trends that have begun to emerge. We would like to thank all ACT members who participated in the survey. Given the continued evolution of the cash management business, we hope the survey will again prove to be a benchmark for the industry.

The complete survey can be found on the ACT website www.treasurers.org and the JPMorgan Fleming Asset Management website www.jpmorganfleming.com/liquidity.

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