A year of twists and turns

JPMORGAN'S 2007 GLOBAL CASH MANAGEMENT SURVEY REVEALS THE LATEST SHORT-TERM INVESTMENT TRENDS. **KATHLEEN HUGHES** REPORTS.

Executive summary

- Findings that stood out in JPMorgan's 2007 Global Cash Management Survey were an unexpected rise in the number of banking relationships, an increasing focus on yield by treasurers, and a greater proportion of surplus cash being held in euro.

- Unexpectedly, the trend of recent years towards fewer banking relationships reversed this year, for both primary and secondary relationships. One potential reason for this change could have been the credit market turmoil, which may have prompted cash managers to cast their nets wider in search of better yield and services, and to spread risk.

The latest JPMorgan Global Cash Management Survey is now complete, and has once again been compiled with the valuable help of the ACT. In its ninth consecutive year, the 2007 survey attracted a record number of responses from corporate treasurers around the world, despite the increased number of surveys now being conducted in the sector. This year 339 respondents provided their valuable comments, which is a 50% increase on last year's survey.

With such an impressive volume of responses and wide range of respondents, the survey continues to provide valuable insights into how the short-term investment management industry is developing. It highlights the products that treasurers are currently using and the performance and service levels that are now demanded, in addition to their expectations for future developments.

TIMING OF THE SURVEY Compilation of the 2007 Global Cash Management Survey began during the summer, the time which marked the start of the crisis in the credit market. Where we feel the financial market turbulence may have impacted on responses, we separated the online responses, which we can accurately date, into those received before September, and those returned during or after September, to look for any noticeable disparities or changes in attitude.

RANGE OF RESPONDENTS This year the survey was more globally inclusive than ever, with an impressive spread of respondents covering a wide range of regions and markets and from as far a field as China. While the majority of corporate treasurers were from the UK, Central Europe and the US, we also received a large number of responses from Eastern Europe, in particular from the Czech Republic.

2007 marked the first year in the survey's history when half of all responses came from companies with a market capitalisation of over \$5bn, up from 39% in 2006 and 31% in 2005. While the range of companies remained broad, particularly given the large increase in the number of corporate treasurers responding this year, the vast majority represented companies with a market capitalisation of over \$500m, with 14% from smaller companies.

IN-DEPTH SCRUTINY OF CASH MANAGEMENT ISSUES The questions posed in the 2007 survey were divided into 10 sections, covering all areas of the treasury cash management function. These include banking relationships, how surplus cash is invested and how cash management providers are selected, in addition to expectations for future developments. While the questions remained largely similar to those of previous years to facilitate meaningful comparisons with the results of previous surveys, the format and subjects covered continued to evolve.

The responses to these questions are discussed below in more detail. However, some findings that stood out were an unexpected increase in the number of banking relationships, an increasing focus on yield by treasurers, and an increase in the proportion of surplus cash held in euro.

BANKING RELATIONSHIPS Unexpectedly, the trend of recent years towards fewer banking relationships reversed this year, for both primary and secondary relationships. One potential reason for this

change could have been the credit market turmoil, which may have prompted cash managers to cast their nets wider in search of better yield and services, and to spread risk. The importance of yield to respondents is a continuing theme in the report, and is discussed below (see *Figure 1*).

The most important factor when selecting a primary bank has also changed, from credit facilities, which took the top spot in 2006, to the quality of relationship management, customer service and support being viewed as most important this year.

INCREASING USE OF BANKING SERVICES The greater number of primary banking relationships may also be related to a significant increase in the range of services being used by the respondents. This year, a much greater proportion of corporate treasurers are using asset management, trade finance, consultancy and advisory, risk management and pension services. In each area, utilisation of these services increased by at least 10% (see *Figure 2*).

The large rise in asset management services provided by the primary banks is also notable because the increase in usage, which doubled from 12% in 2006 to 24% in 2007, was primarily influenced by a large increase in the use of this service by respondents in the US.

YIELD: THE MOST IMPORTANT FACTOR WHEN CHOOSING POOLED FUNDS In a change in trend from 2006, when treasurers rated reputation and brand as the most important factors when selecting pooled investments, this year yield was deemed to be most important for both AAA-rated money market funds and enhanced yield funds. 33% of respondents ranked yield the top criterion for selecting money market funds, up from 28% in 2006. This year

Figure 1: Number of banking relationships

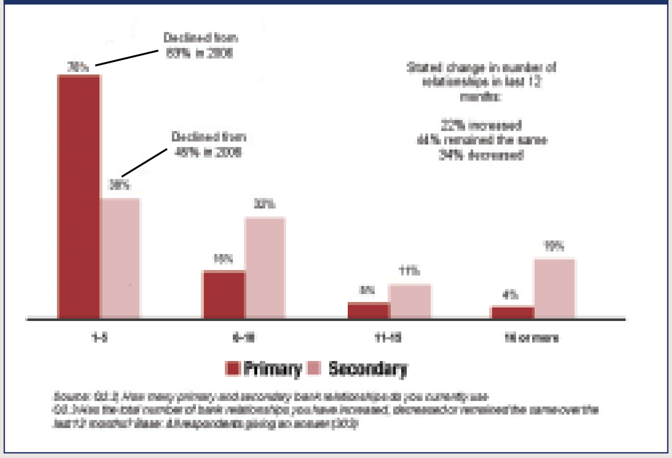


Figure 2: Services primary bank is used for

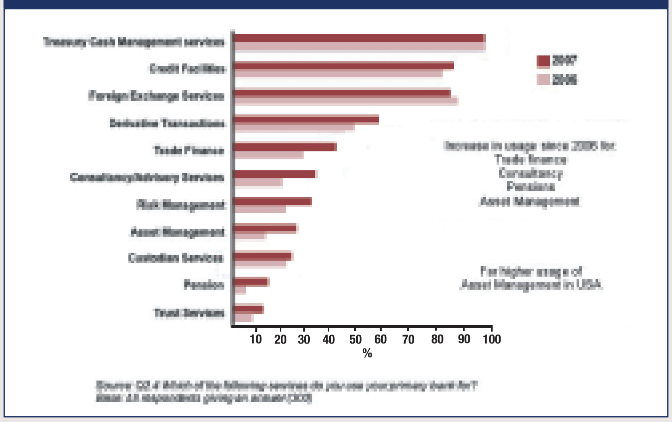
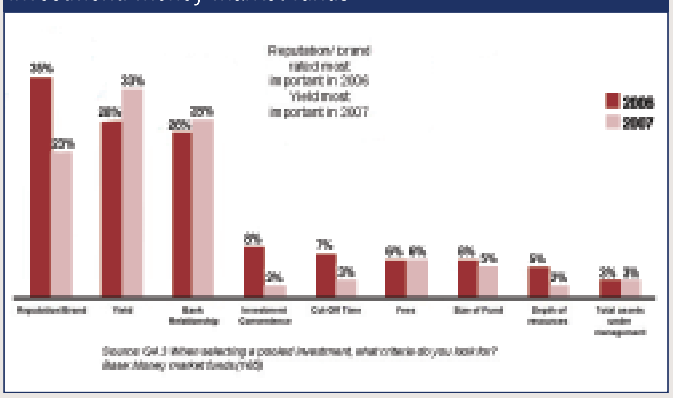


Figure 3: Areas of importance when selecting a pooled investment: money market funds



reputation and brand have fallen to third place, with bank relationships taking second place (see *Figure 3*).

To investigate this result further, we compared the results from treasurers who responded before September to those received from September onwards, and there was a difference. Responses from September onwards showed that yield, bank relationship and fees were all more important to treasurers when selecting money market funds than they were to those who submitted their completed surveys before September.

Yield was also highlighted as being one of corporate treasurers' key concerns in the free-answer section, which invited respondents to outline their main concerns about managing cash positions.

TRADE-OFFS FOR HIGHER YIELD The survey asked treasurers what additional risk they would be willing to take on when seeking higher yield. The overall results showed that respondents were most willing to take on additional duration risk and least willing to take additional foreign exchange (FX) risk. However, when comparing the responses received before September with those received later on, it was noticeable that those who completed the survey from September onwards were more willing to take FX risk, even more prepared to take duration risk, but were less willing to take credit risk (see *Figure 4*).

Furthermore, when questioned about investment timing, 67% of respondents also indicated that they would be willing to consider an earlier cut-off time if it meant delivering a higher yield.

INSTRUMENTS USED TO MANAGE CASH The overall allocation of surplus cash to bank deposits, the most common type of investment, remained broadly static at 61%. However, looking at responses by region, there were some strong disparities. US treasurers are more likely to use pooled investments, with 63% of surplus cash allocated to this investment type, but at 17% are least likely to use bank deposits.

In contrast, Eastern European treasurers are the highest users of bank deposits, with 81% of surplus cash allocated to this investment type, while they are least likely to allocate surplus cash to pooled investments (see *Figure 5*).

Figure 4: Areas willing to take risk when seeking higher yield

	Mean score: Before September	Mean score: September onwards
Duration risk	2.02	1.94
Different instrument risk	2.49	2.52
Credit risk	2.32	2.65
Foreign exchange risk	2.91	2.62

Figure 5: Average percentage allocation for each investment type

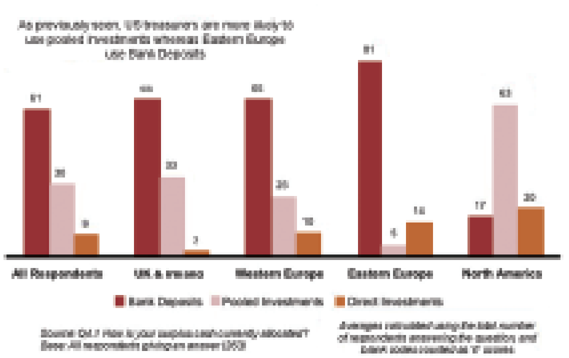
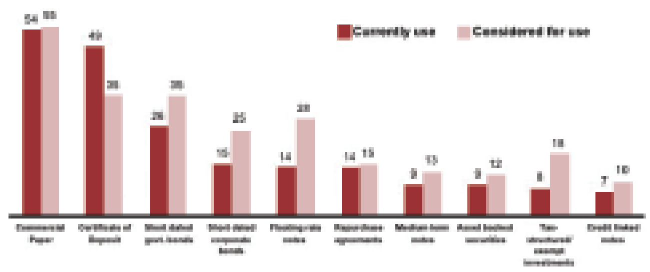


Figure 6: Money market instruments considered for use



Source: Q4.5 If you invest directly in money market instruments, please indicate the instruments you use or are considering using.
Base: All considering money market instruments (60)

THE FUTURE FOR CASH MANAGEMENT Consistent with last year, the impact of the Single Euro Payments Area (SEPA) was seen as the key future development in cash management. Respondents also predict that automation, globalisation and online-based solutions will increase in the future.

Currently, 29% of cash management structures are purely global. While this is consistent with last year's survey, it does not reflect the significant increase that respondents forecasted in that survey. There has, however, been a 10% increase to 41% in global oversight with regional autonomy structures. This year treasurers again predict a large increase in global cash management structures in the future, which suggests that respondents expect change to occur at a faster pace than has so far actually occurred.

Respondents were also asked which money market and pooled investment instruments they are considering for future use. On the money market side, this revealed a positive outlook for short-dated government bonds and short-dated corporate bonds, which could be another reflection of an increasing emphasis on yield.

Respondents also indicated an increasing interest in floating rate notes, which may be due to a greater acceptance as they are becoming more widely available (see *Figure 6*).

Meanwhile, over one-third of respondents who are considering pooled investments are looking at enhanced yield funds. This would significantly increase the use of this type of investment from its current low base, where just 6% of assets are currently allocated to enhanced yield funds. At present the majority of assets, 71%, are allocated to money market funds, which is evidence that money market funds are the most popular investment vehicles for corporate treasurers.

Looking at the potential for outsourcing services, over 30% of respondents are considering outsourcing automated cash sweeping, cash pooling and/or netting. Currently only 26% of respondents outsource netting, providing plenty of scope for this to increase in the future. However, respondents believe that external providers could improve their systems and services, and 10% of respondents would also like them to provide better cut-off times.

A full version of JPMorgan's 2007 Global Cash Management Survey is on the ACT and JPMorgan Asset Management websites. A hard copy can be obtained from JPMorgan Asset Management by contacting Kathleen Hughes by phone (+44 20 7742 6059) or email (see below).

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