

JPMORGAN FLEMING'S SIXTH ANNUAL INTERNATIONAL CASH MANAGEMENT SURVEY (2004), CONDUCTED WITH THE ACT, PROVIDED AN INSIGHT INTO THE CURRENT DYNAMICS DRIVING THE CASH MANAGEMENT INDUSTRY AND FUTURE INVESTMENT TRENDS. IT ACTS AS A BENCHMARK FOR ACT MEMBERS AND OTHER CASH INVESTORS WHEN EVALUATING THEIR LIQUIDITY MANAGEMENT PROCESSES AND MARKET POSITION IN RELATION TO THEIR PEERS. MARK STOCKLEY REPORTS.

Understanding cash management trends

The 2004 International Cash Management Survey revealed a continued focus by treasurers on yield and investment performance, which is perhaps unsurprising given the still relatively low level of global interest rates. Yield was again seen as the dominant factor for treasurers when selecting an asset manager with 77% of respondents identifying long-term performance as the key criteria used.

Similar to last year, the yield that treasurers expect to receive from their cash investments remains fairly high, with 37% of money market fund users and 44% of direct investors expecting to receive London Interbank Offered Rate (LIBOR). This implies that treasurers remain quite demanding in the current low-yield environment.

Although treasurers clearly expect to receive high yields from their cash investments, they continue to exert strong pressure on the fees that can be charged by asset managers. The survey found low fees to be the second most important criterion for selecting money market fund providers, up from fifth place in 2003.

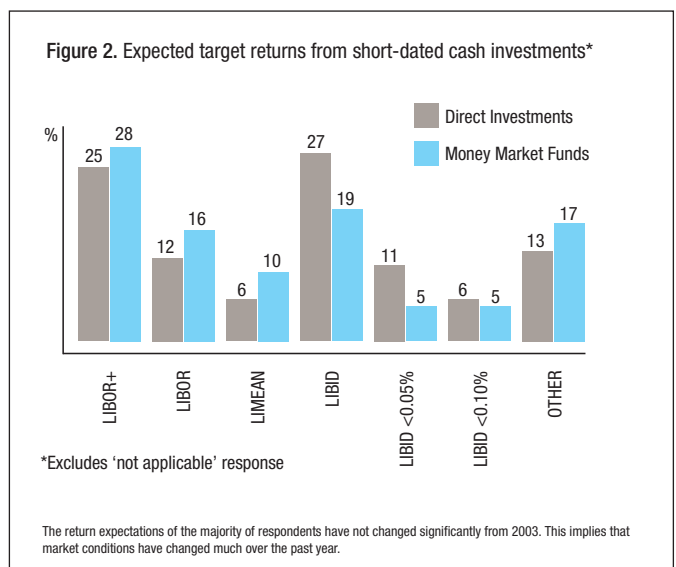
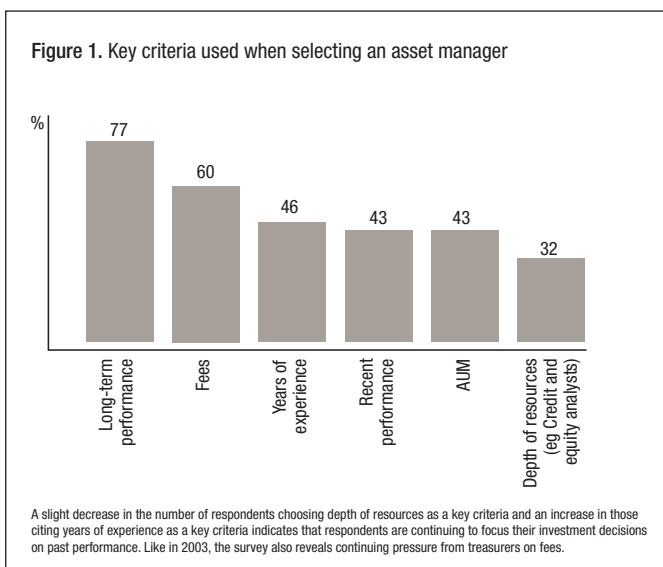
GROWING FOCUS ON SECURITY. The survey also revealed a growing focus on security, possibly because of the continued political instability in the Middle East and the threat of further large-scale

terrorist attacks. This may also be a reaction to a growing sense of economic uncertainty.

For example, when asked about the most important services offered by money market fund providers, having an AAA rating was ranked as the most important feature. This indicates that respondents have changed their investment focus from simply maximising return potential towards greater security. Nevertheless, the desire for strong yields remains high. Treasurers appear to be looking to maintain high returns while at the same time remaining focused on controlling risk.

GLOBAL CASH MANAGEMENT. As far as actually managing cash holdings is concerned, most treasury departments manage cash either globally, or using global oversight with regional autonomy. In the future, however, it appears that treasurers are moving rapidly towards managing cash on a completely global basis with the number of respondents saying that they expect to manage their cash globally in 2007 (rising to 39% from 30% today).

Again, this trend towards global cash management reflects, in part, a desire by organisations to control costs and boost potential returns by centralising the management of their cash holdings. However, the fact that treasurers are increasingly focusing on two or more regions,



or are acting in a global capacity, makes regional comparisons across the survey more difficult to make.

MMFS REMAIN POPULAR. The survey also revealed the continuing growth in popularity of money market funds (MMFs) as an effective way to manage surplus cash, mainly at the expense of traditional bank deposits. Money Market Funds remained the second most popular investment instrument used by the respondents to the survey – at 47%, behind the 67% who use bank deposits. However, the use of bank deposits has dropped since last year's survey when 72% of respondents used them, while money market funds have remained constant at 47%. Also, 17% of respondents to this year's survey, who are not currently using Money Market Funds, expressed a future interest in using them, which was greater than for any other instrument.

The survey uncovered some equally interesting trends regarding the use of outsourcing by treasurers. As in previous years, it asked which treasury functions are currently outsourced to external service providers, and which functions they may use in the future. However, this year the question was split by bank providers and non-bank providers. Perhaps, unsurprisingly, bank providers were used much more commonly than non-bank providers for many outsourced tasks, such as automated cash sweeping, cash pooling and foreign exchange execution. This reflects the fact that these functions often require the backing of a strong bank infrastructure.

The survey did, however, reveal a general trend away from outsourcing with respondents indicating that it is not their future intention to use third-party providers across most functions. Respondents plan to maintain existing outsourcing functions, but have no plans to increase their use of outsourcing. With the use of third parties to provide full treasury services also very low, the survey reveals a general reluctance by treasurers to fully use outsourcing, either to improve efficiency or to cut costs.

On the subject of the internet, respondents to the survey were more enthusiastic with treasurers becoming more comfortable using online services for a variety of treasury functions. Although the internet is still mainly used for market information (currently used by 64% of respondents), the survey revealed a greater acceptance of the internet as a way to improve execution. Online dealing, for example,

Executive summary

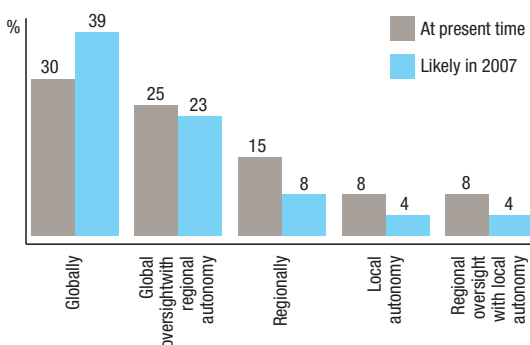
- The 2004 International Cash Management Survey revealed a focus on yield and investment performance with yield seen as the dominant factor when selecting an asset manager.
- The yield treasurers expect to receive from their cash investments remains high with 37% of money market funds and 44% of direct investors expecting LIBOR.
- The survey revealed a growing focus on security with an AAA rating ranked as the most important feature of money market funds. This indicates respondents have changed their investment focus from maximising returns towards greater security when investing in MMFs.
- Most treasury departments manage cash either globally or using global oversight with regional autonomy, but treasury is moving rapidly towards managing cash on a completely global basis.
- Money market funds remain the second most popular investment instrument used (47%) after bank deposits (67%). However the latter's popularity has declined from 72% last year.
- The survey also revealed a general trend away from outsourcing with respondents indicating that it is not their future intention to use third parties across most functions.

is currently popular with 26% of treasurers, while future interest in the service grows to 35%. Also, online dealing and multi-bank portals are deemed quite important, or very important, by about two thirds of respondents

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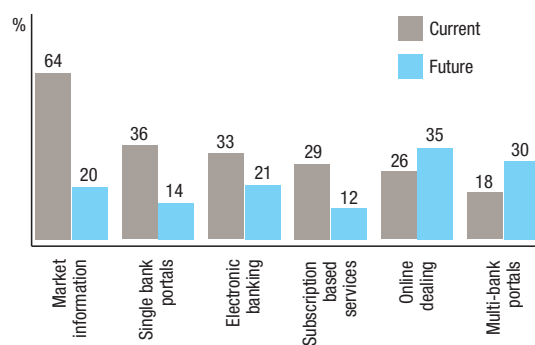
The complete survey can be found on the ACT website www.treasurers.org and the JPMorgan Fleming Asset Management website www.jpmorganfleming.com/liquidity Alternatively, a hard copy can be obtained from JPMorgan Fleming by calling +44 (0)207 742 6213.

Figure 3. Basis on which treasury function is managed



The responses to this question indicate that the possession of global investment capabilities may become an increasingly important area when choosing a bank in future years. The cash management industry is, indeed, moving towards managing cash on a global basis. Given the response to this question, which suggests that the demand for regional cash management will decrease by 2007, we would expect that the migration to global cash management will continue to gather pace.

Figure 4. Services on the internet



The survey shows that respondents plan to use online dealing more in the future, which suggests that respondents are seeking more direct control of their dealings. Following on from this, it seems that the internet has moved from being an information only resource to providing a more value added service.