J.P. Morgan Asset Management Global Liquidity Investment Survey 2011

TREASURY, RISK AND FINANCE PROFESSIONALS ACT

EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

ACTS Association of Corporate Treasurers (Singapore)

Irish Association of Corporate Treasurers

ACTSA

TMANE Treasury Management Association of New England

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J.P.Morgan
Asset Management

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Introduction

I am delighted to introduce the J.P. Morgan Asset Management Global Liquidity Investment Survey 2011. Now in its 13th edition, the survey has provided an unbroken global benchmark for corporate treasurers since its launch in 1999.

The 2011 survey is the most comprehensive yet, with a record 487 treasurers from around the world providing their views by online questionnaire between July and September. As you'll see from the results, the strong response rate has helped to identify some particularly interesting trends as global treasurers seek to navigate the current low interest rate environment with high levels of surplus cash and a watchful eye on risk.

The survey maintained a truly global focus, with treasurers responding on behalf of organisations in a wide range of regions and markets. This year saw an increased proportion of responses from Asia and EMEA (Europe, the Middle East and Africa), as well as continued strong participation from North America. We received responses from companies operating in all sectors of the economy, from industrials and technology to financial services and healthcare.

Supported by the Association of Corporate Treasurers

Our longstanding partnership with the Association of Corporate Treasurers (ACT) continues to play a vital role in the success of the survey. Not only does the ACT give us access to the broad global community of treasurers under its umbrella, but it also ensures the widest possible distribution of the results. I'd therefore like to extend my warm thanks to the ACT for its ongoing advice and support.

Of course, we could not complete the survey without the treasurers themselves, and I'd like to thank everyone who took the time to participate. Your contributions have helped us to produce the most detailed and wide-ranging results so far, and I hope you will find the report informative.

A true industry barometer

In previous years, the survey has captured the views of treasurers in some extraordinary market conditions, from the height of the tech bubble in 2000 to the depths of the financial crisis in 2008 and the extreme volatility of this summer. This impressive history makes the survey a true barometer of global liquidity investment trends, tracking short- and longer-term shifts in attitudes and behaviours.

If you require further information, please visit our website, where the results of past surveys are also available for download: **www.jpmgloballiquidity.com.**

Robert Deutsch
Head of Global Liquidity
J.P. Morgan Asset Management

Executive summary

Refocusing on yield, but managing risk

This year's survey took place against a backdrop of renewed volatility on global financial markets, as the eurozone debt crisis escalated, the US credit rating was downgraded and fears mounted that the world may be heading back into recession. Nonetheless, the findings suggest that risk appetite among corporate treasurers continues on the path of gradual recovery noted last year.

Surplus cash levels have continued to grow, and treasurers are less satisfied with the returns they are able to obtain on their cash balances. After the financial crisis, preservation of principal became the main focus for treasurers, but last year we noted the beginnings of a renewed appetite for yield, and the trend has continued this year.

However, treasurers emerged from the financial crisis with a new focus on risk, and they are not willing to set this aside. Counterparty risk is a particular concern, and risk management is perceived as a more important part of the treasury role than it was last year.

Treasurers must therefore walk a tightrope between their appetite for yield on one hand and their caution about risk on the other – a delicate balance that was summed up by one treasurer as 'managing the margin: getting the best return for minimum/zero risk'.

Key findings

The appetite for yield is returning – After several years of extremely low yields, treasurers are becoming frustrated with the returns they are able to access on their cash investments. Return on investment is now the key metric for measuring investment success, with preservation of principal dropping to second place. A greater proportion of treasurers are now looking for higher yields, and they are more willing than last year to take on additional risk to achieve it.

Liquidity is still key – Liquidity is the biggest concern in treasury departments today, and is also the most important consideration for those who segment their surplus cash. However, over a quarter of treasurers would now be prepared to sacrifice daily liquidity for higher yields – a marked increase versus last year.

Risk remains in focus – Risk management is now the third-highest area of importance for the treasury department, moving up from fifth in 2010. Counterparty risk is a key concern, with the financial strength of the institution now the most important criterion for treasurers when selecting a primary bank, overtaking the quality of relationship management for the first time.

Banking relationships have increased further – Treasurers increased their number of banking relationships again in 2011, continuing a trend seen since the beginnings of the credit crisis back in 2007. This continued increase suggests treasurers may still be diversifying counterparty risk, while others may have been forced to use more banks for the services they require as some providers have retreated from the market place.

Cash flow forecasting is not the priority it once was – Cash management (eg cash concentration, liquidity management) replaced cash flow forecasting as the key area of importance for the treasury department in 2010, and took the top spot again this year. Accurate cash flow forecasting fell in importance as a measure of success in both 2010 and 2011.

Regulatory change is not yet a significant concern – So far, treasurers appear relatively sanguine about the potential impact of regulatory change, with only a very small number of respondents citing issues related to regulation as the biggest challenge they face in the next year. However, with two thirds of treasurers unwilling to consider investing in fluctuating net asset value funds if regulatory change makes stable value money market funds unavailable, it is possible that regulation may have a greater impact than treasurers currently anticipate.

1 The respondents

Number of respondents

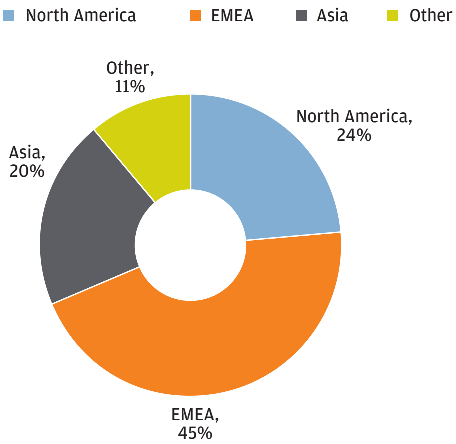
This year's survey attracted a record 487 qualifying responses from treasurers around the globe.

Geographical breakdown

The 2011 survey maintained a truly global focus, with treasurers responding on behalf of organisations in a wide range of regions and markets. This year saw an increased proportion of responses from Asia (20%) and EMEA (45%), as well as continued strong participation from North America (24%).

Please note that regional breakdowns throughout this report are based on the location of the main treasury centre.

Q. Location of main treasury centre.



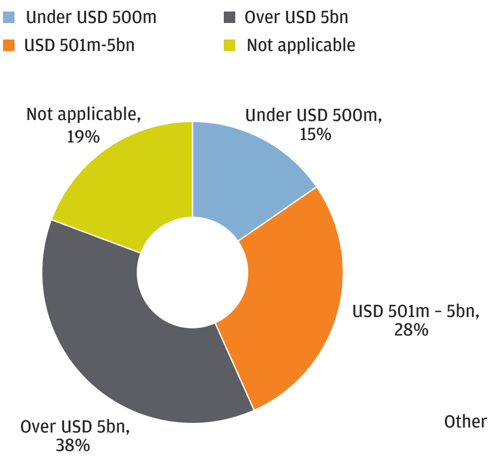
Base: 487; North America 115, EMEA 220, Asia 99, Other 53. Other includes combinations of 38 EMEA countries, 2 Asia, 7 Australia and 6 South America.

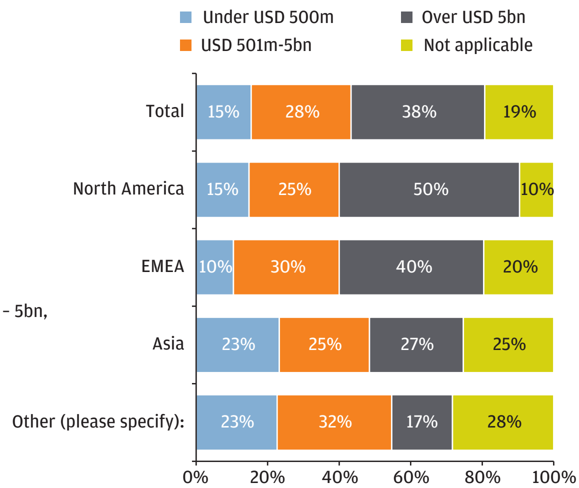
Market capitalisation

As always, the survey sought to capture the views of treasurers from organisations of all sizes, from small regional players to large multinationals. This year, around one in six respondent organisations had a market capitalisation of under USD 500m, while 38% were valued at more than USD 5 billion.

In comparison with the 2010 survey, the 2011 survey had a greater proportion of respondents in the USD 5 billion plus category. This was driven primarily by North America, where 50% of respondents were valued at over USD 5 billion, up from 30% in 2010.

Q. Indicate the market capitalisation of your group.



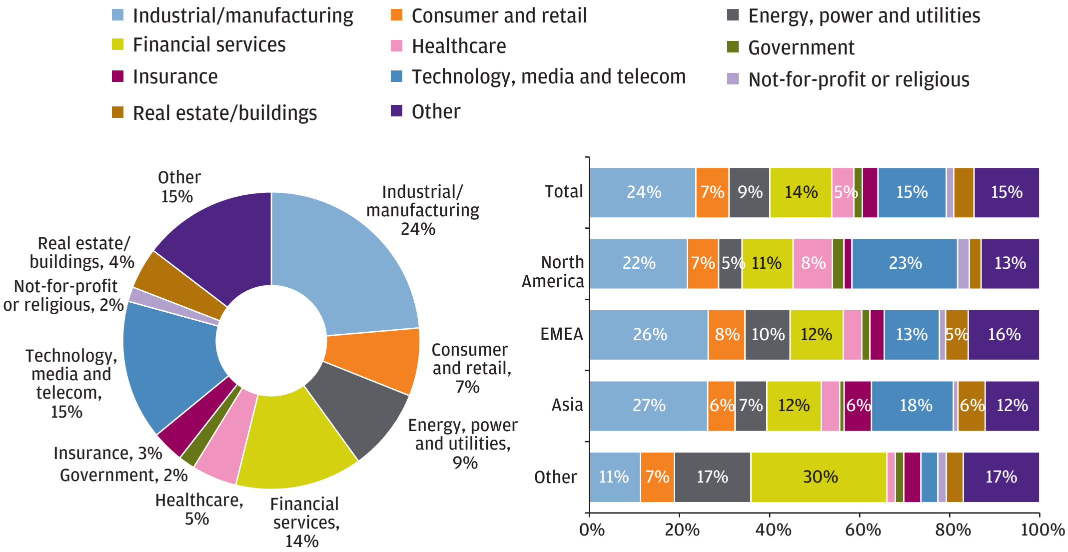


Base: 487; North America 115, EMEA 220, Asia 99, Other 53.

Industry spread

Once again this year, respondents represented companies and organisations from all sectors of the economy, from industrials and technology to financial services and healthcare.

Q. Select the appropriate industry group for your organisation.



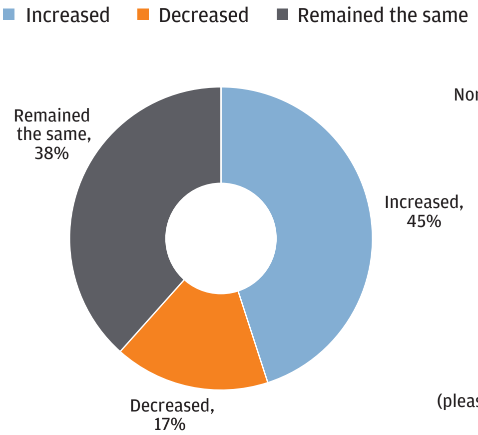
Base: 487; Other for industry group includes commodities, transportation, government, professional services, hospitality, diversified industries and engineering. North America 115, EMEA 220, Asia 99, Other 53.

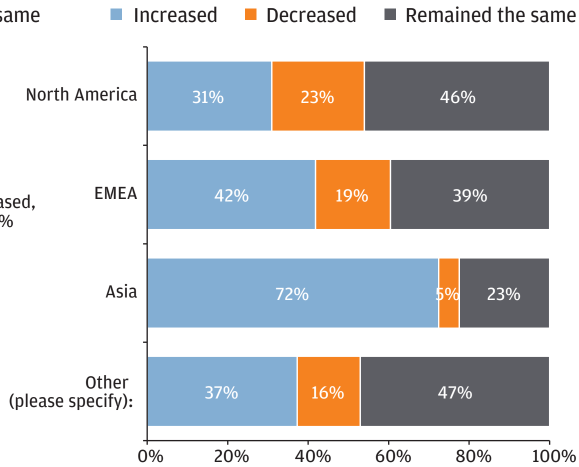
2 Banking relationships

Number of banking relationships

For a fourth successive year, the trend has been towards an increase in the number of bank relationships, with 45% of treasurers reporting a rise, compared with 17% that have seen a reduction. As in 2010, Asian treasurers were the most likely to increase their relationships, with 72% reporting a rise compared to just 5% reporting a drop, but across all regions more treasurers have increased than decreased their bank relationships.

Q. Has the total number of your bank relationships increased, decreased or remained the same over the last 12 months?





Base: 482; North America 113, EMEA 220, Asia 98, Other 51.

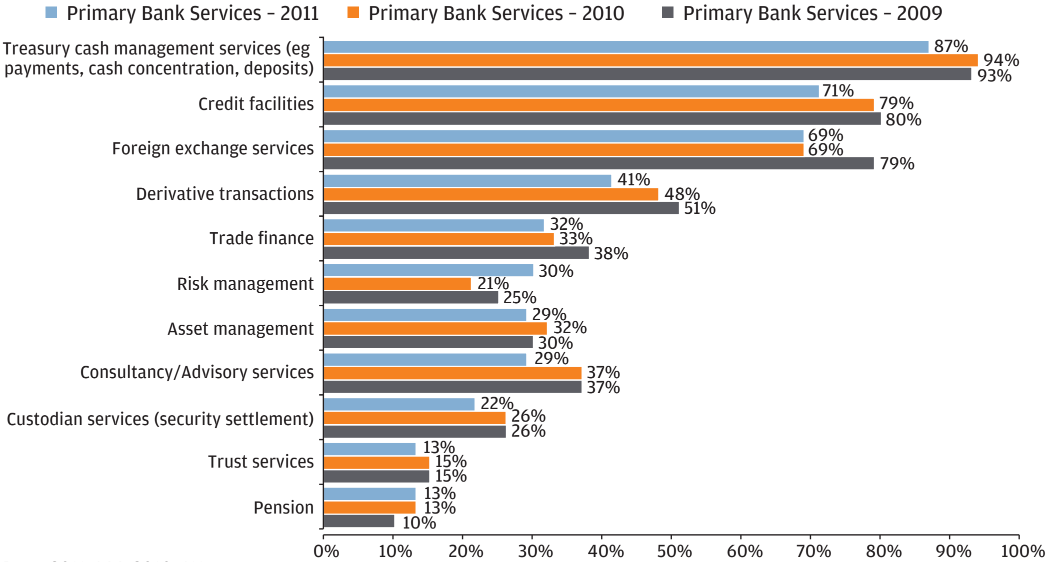
Before the financial crisis, the survey demonstrated a gradual trend towards fewer bank relationships. However, in 2008 the majority of treasurers either increased their relationships or kept them the same, and this has continued in the subsequent years.

Among those who increased their bank relationships, around a third said the reason was business expansion, while about a quarter cited diversification. Among those who saw a decrease in the number of bank relationships, the most popular reason was a desire for fewer relationships (34%), while around a quarter attributed the decrease to bank consolidations.

Services for which primary bank is used

Treasurers continue to use their banks for a full range of services, with treasury cash management, credit facilities and foreign exchange services topping the list. However, the proportion of treasurers using their primary bank for treasury cash management services has fallen from 94% in 2010 to 87% in 2011, while the proportion using their primary bank's credit facilities is down from 79% to 71%. In contrast, use of risk management services has increased, from 21% in 2010 to 30% this year.

Q. For which of the following services do you use your primary and secondary bank? *(Select all that apply.)*



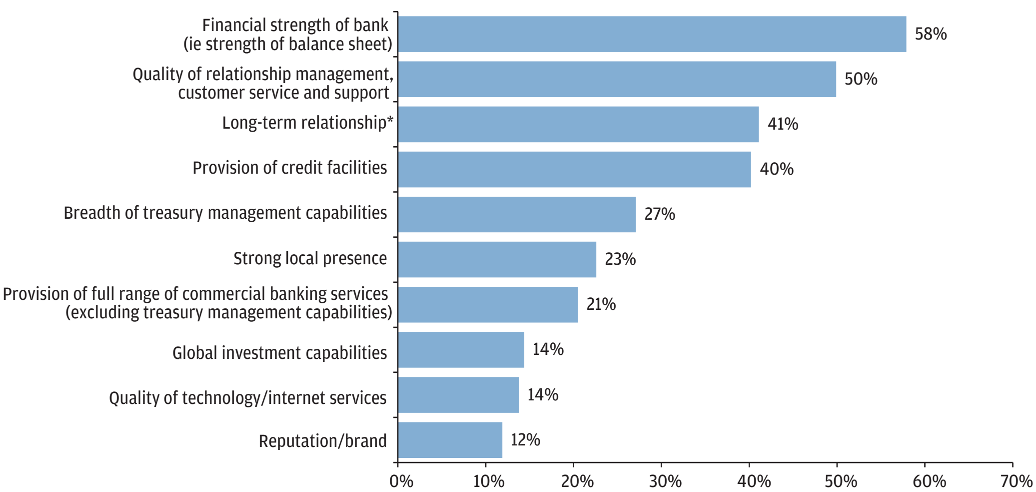
Base: 2011-466, 2010-411.

Bank selection criteria

The continued focus on counterparty risk in the wake of the financial crisis is reflected in the fact that the financial strength of the institution is now the most important criterion for treasurers when selecting a primary bank, overtaking the quality of relationship management for the first time this year, and with a clear margin. Relationship factors are still highly valued, however, taking the second and third places this year.

Reputation/brand remains a relatively marginal concern, but it is interesting to note that the proportion of treasurers selecting this criterion has doubled since last year.

Q. Select your top three criteria when choosing your primary bank.



Base: 487. *New choice this year.

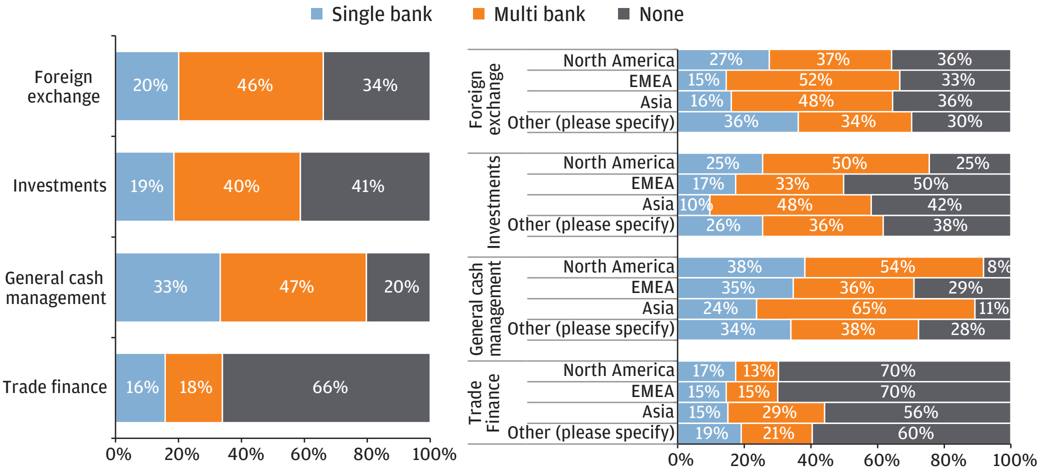
Bank selection criteria by region

In Asia, strong relationships remain paramount, with the quality of relationship management (52%) taking the top spot ahead of financial strength (49%), and long-term relationships (47%) valued more highly than in any other region. However, financial strength is most important among treasurers in North America (67%), and was also the most selected response in EMEA (55%).

Use of online portals

General cash management portals are the most widely used online portals/platforms, with 33% of treasurers using single bank cash management portals and 47% using multi-bank portals. By region, treasurers in North America are most likely to use general cash management portals, followed by those in Asia. Treasurers in EMEA remain the least likely. However, the uptake for foreign exchange portals is the highest in EMEA, where multi-bank platforms are used by 52% of treasurers.

Q. Do you use the following online portals/platforms?

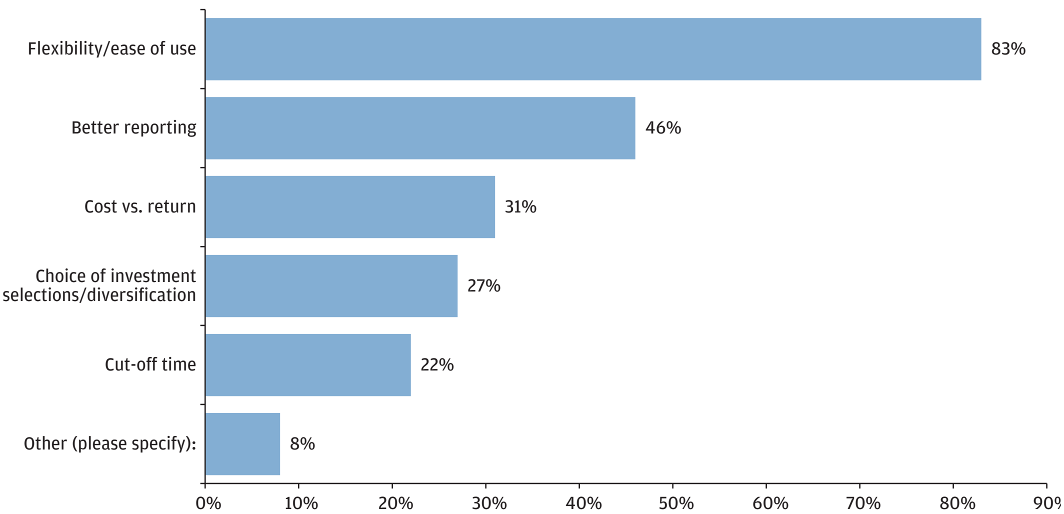


Base: Foreign exchange 462 (North America 109, EMEA 213, Asia 93, Other 47); Investments 463 (North America 110, EMEA 213, Asia 93, Other 47); General cash management 463 (North America 110, EMEA 213, Asia 93, Other 47); Trade finance 462 (North America 109, EMEA 213, Asia 93, Other 47).

Reasons for using online portals

This year, for the first time, we asked why treasurers use online portals. The vast majority (83%) like the flexibility/ease of use, and almost half (46%) said portals provide better reporting.

Q: Please indicate the primary reasons you use the online portals/platforms: *(Select all that apply.)*



Base: 412. Other reasons included transparency, efficiency, speed, encourages competitive pricing, accuracy, security.

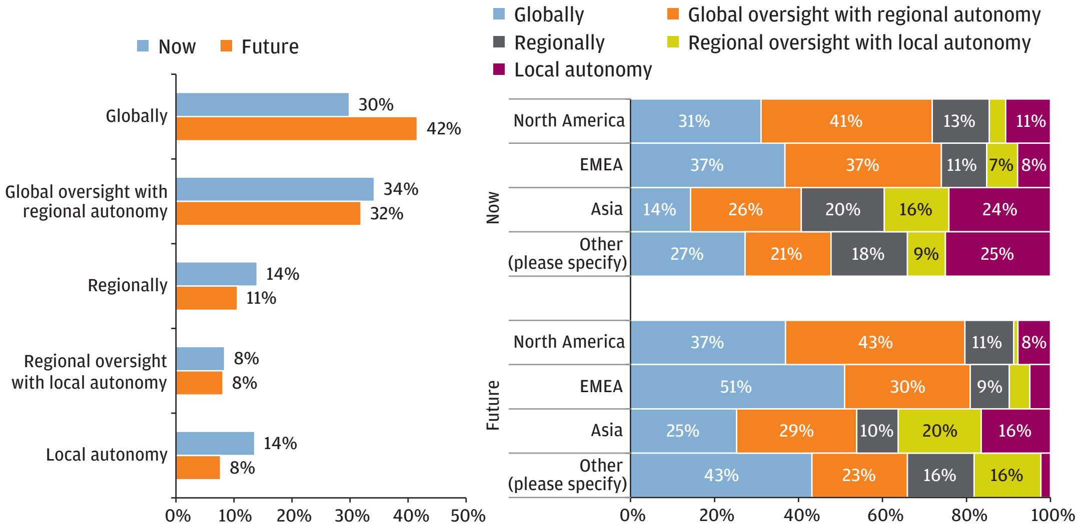
3 Treasury function

Cash management structure

In recent years, the survey has reflected a gradual move towards a global cash management structure, as the events of the financial crisis have emphasised the importance for treasurers of having immediate access to information including cash balances, counterparty exposures and foreign exchange across their entire firm.

The 2011 survey found that 64% of treasury departments structure their cash management either globally or with global oversight. This was down from 74% in 2010, largely due to the increased participation from Asia, where treasurers are still more likely to use regional and local structures. In the future, treasurers in all regions expect to move towards more global structures.

Q. Across the group, how does your treasury department structure its cash management now, and how will it be structured in the future?



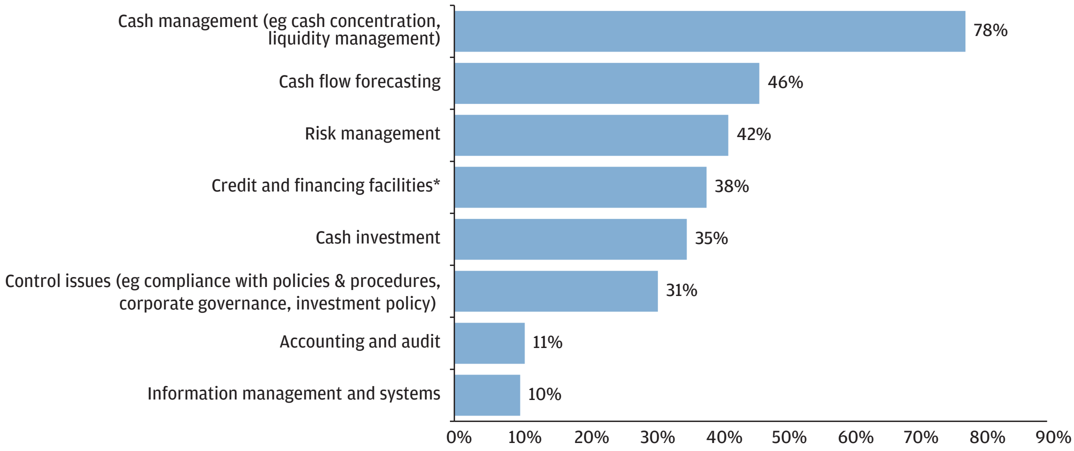
Base: 442; North America 103, EMEA 204, Asia 91, Other 44.

Areas of importance for the treasury department

The top two priorities for global treasurers this year were unchanged from 2010, with cash management in first place and cash flow forecasting in second. The continued emphasis on cash management perhaps reflects the broad increase in surplus cash on balance sheets in recent years, which has required treasurers to put structures in place to manage it.

A notable change versus both 2010 and 2009 is a significant increase in the proportion of treasurers viewing risk management as a key area of importance. Risk management has moved into third place, from fifth, and is now ranked in the top three by 42% of treasurers.

Q. Select the top three areas of importance in your treasury department.



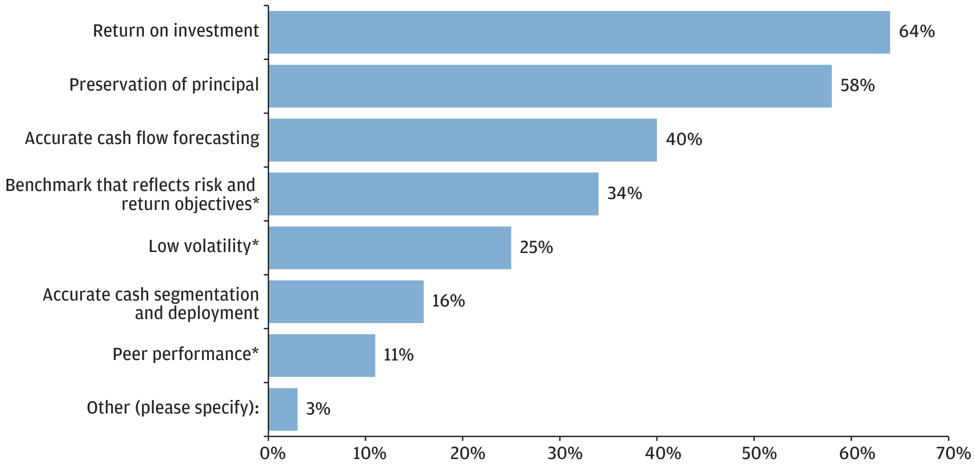
Base: 447. *New choice this year.

Measuring success

In 2010, when treasurers were asked how they measure investment success, the most selected answer was preservation of principal, closely followed by accurate cash flow forecasting. Return on investment was in third place, selected by just 48% of respondents. This year, return on investment has leapfrogged into first, and was chosen by 64%. While this differs by region, it does suggest that the extreme caution manifested in the wake of the financial crisis is beginning to recede, and appetite for yield is returning.

Accurate cash flow forecasting has fallen in relative importance as a measure of success in each of the last two years. This fall perhaps reflects the higher levels of surplus cash on corporate balance sheets (see page 23), which mean that treasurers may currently place less emphasis on forecasting than they did in the past. It may also be that after a long period of focusing on forecasting, treasurers have improved their processes and are now more comfortable with the visibility of flows.

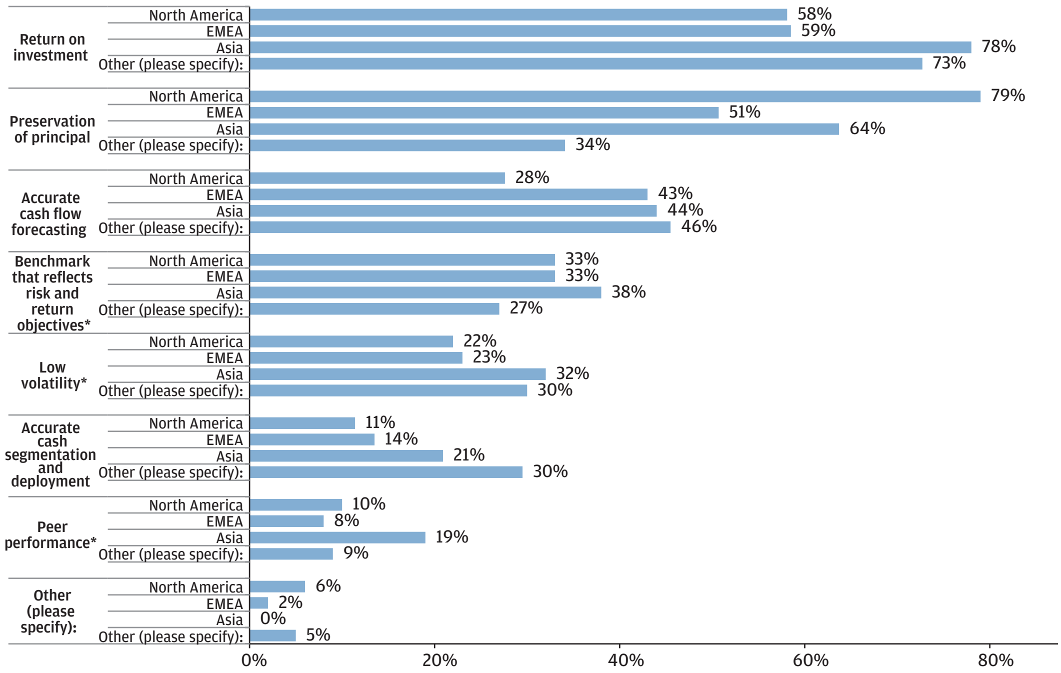
Q. What key metrics do you use to measure investment success? *(Select all that apply.)*



Base: 447. Other included FX losses, liquidity, FFP/interest, return on risk. *New choices this year.

By region, metrics used to measure success vary markedly, with treasurers in Asia by far the most likely to look at return on investment. Return on investment was also the most selected response among treasurers in EMEA, although by a smaller margin, while treasurers in North America continue to view preservation of principal as the most important factor. Interestingly, accurate cash flow forecasting is significantly less important to North American treasurers than to their peers elsewhere in the world.

Q. What key metrics do you use to measure investment success? *(Select all that apply.)*



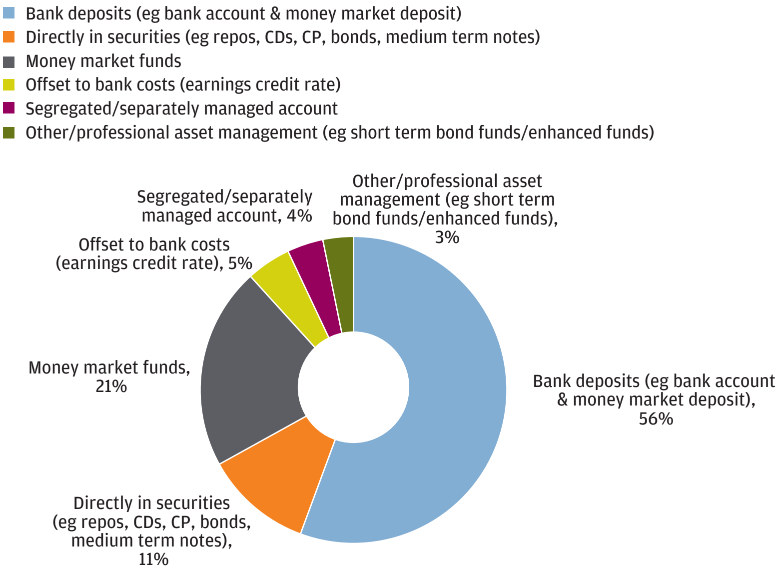
Base: 447. Other included FX losses, liquidity, FFP/interest, return on risk. *New choices this year.

4 Short-term investment strategy

Surplus cash allocation by region

Treasurers were asked to provide a breakdown of the allocation of their surplus cash portfolios. At 56%, bank deposits account for the largest proportion of treasurers' surplus cash, followed by money market funds (21%) and direct investment in securities (11%).

Q. How is your surplus cash currently allocated? Please indicate the asset allocation of your total surplus cash portfolio as of 30 June 2011.

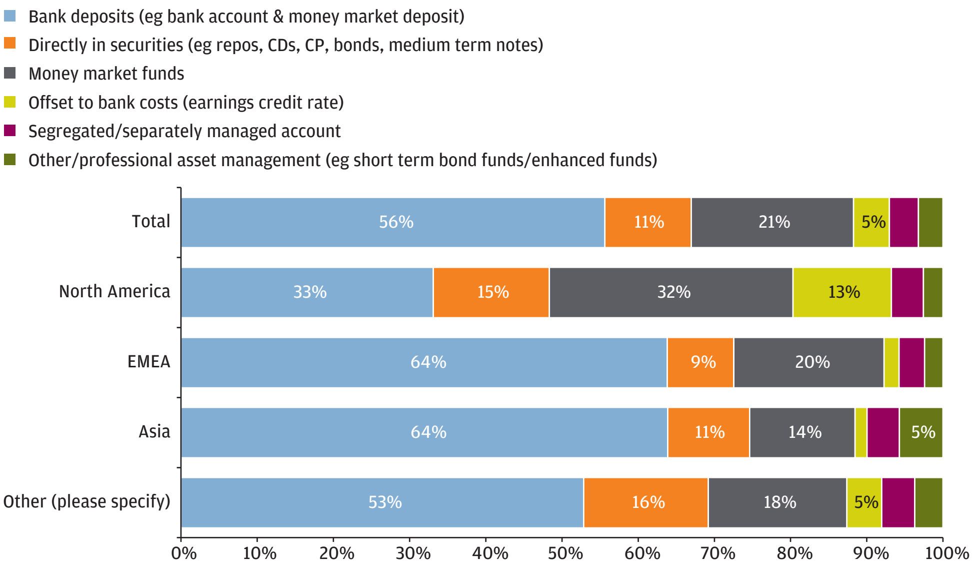


Base: 386.

Surplus cash allocation by region

There remains a high degree of regional disparity in surplus cash allocations – unsurprisingly, given the adherence among cash investors to the investment management tools traditionally used in their regions. North American treasurers allocate a greater proportion of their surplus cash to money market funds than treasurers in any other region, and also allocate a much smaller proportion to bank deposits. In contrast, Asian and European treasurers favour bank deposits, which make up 64% of surplus cash portfolios in both regions.

Q. How is your surplus cash currently allocated? Please indicate the asset allocation of your total surplus cash portfolio as of 30 June 2011.

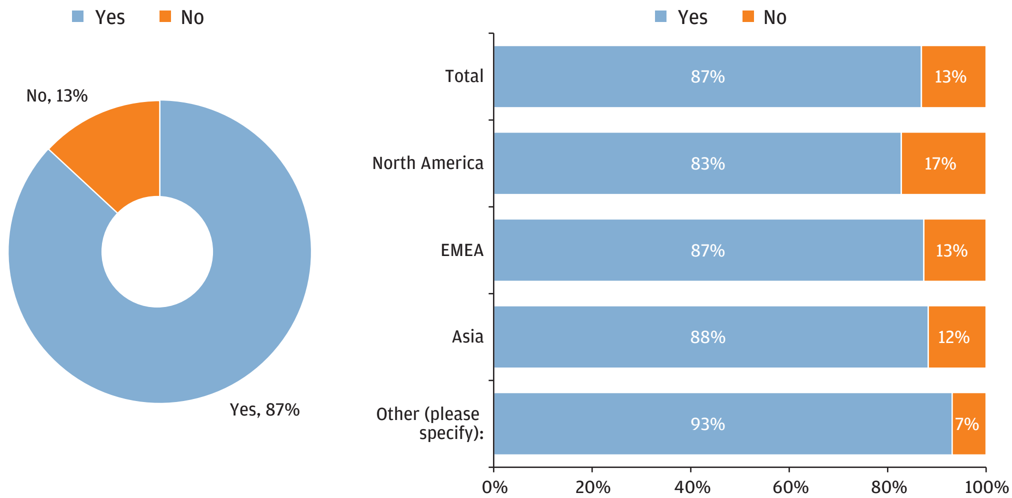


Base: 386; North America 91, EMEA 185, Asia 76, Other 34.

Use of bank deposits

The vast majority of treasurers in all regions use bank deposits to manage their surplus cash. Among the small group who do not use bank deposits, the most common reason is a preference to manage cash directly.

Q. Do you currently use or plan to use bank deposits to manage your surplus cash?

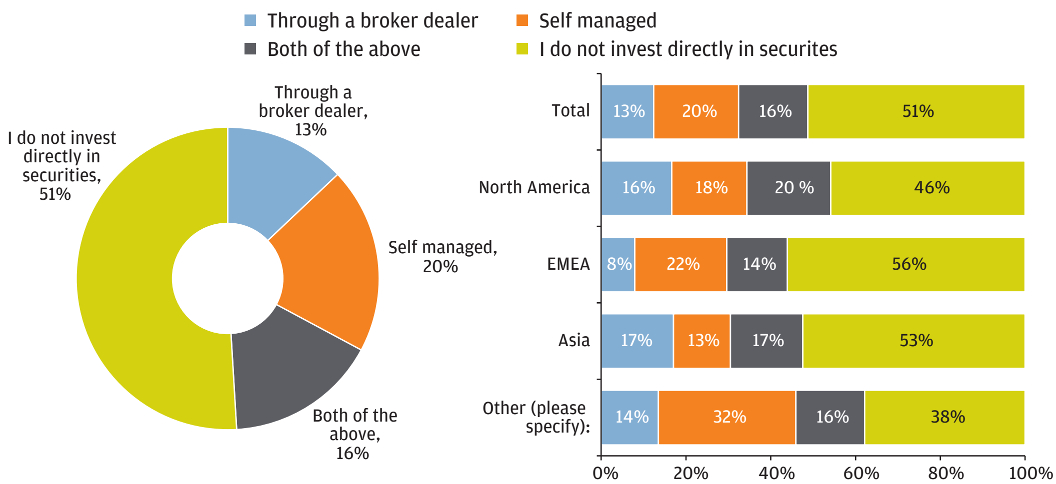


Base: 350; North America 87, EMEA 166, Asia 68, Other 29

Direct investment in money market securities

We asked whether treasurers invest directly in securities (eg certificates of deposit, commercial paper, repos), and by what means. Just under half of treasurers invest directly in securities, with 20% managing their investments themselves. By region, treasurers in North America are the most likely to invest directly in money market securities, and the most likely to do so both through self-management and via a broker dealer.

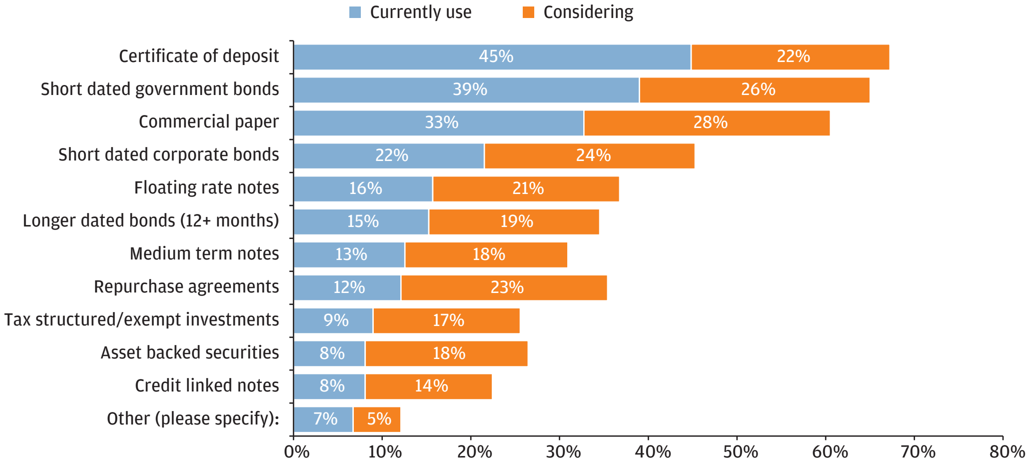
Q. Please indicate whether and how you invest directly in securities (eg, repos, CDs, CP, bonds, medium term notes).



Base: 404; North America 96, EMEA 189, Asia 82, Other 37

As in 2010, the three most commonly used instruments for managing surplus cash directly are certificates of deposit, short-dated government bonds and commercial paper.

Q. If you invest directly in securities, please indicate the instruments you use or are considering using: ***(Select all that apply.)***

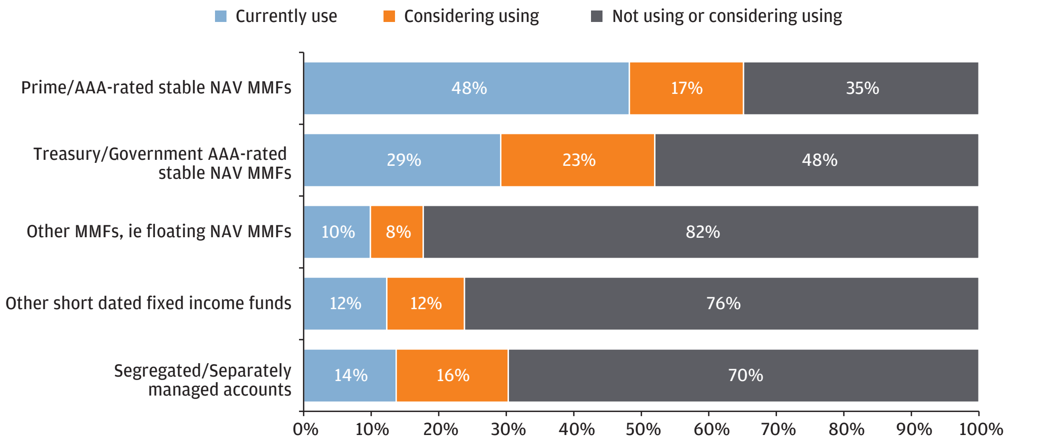


Base: 243. Other includes time deposit, agency mortgage-backed securities, equities, munis, stocks, money market investments, index linked bonds, FDIC insured multi-bank deposits, and tri-party repos.

Use of pooled instruments

Among treasurers who are using or considering pooled instruments for their investment management, an emphasis on liquidity and credit quality remains evident. Prime/AAA-rated stable NAV money market funds are the most popular pooled vehicle, with 65% of treasurers either using them or considering doing so. Over 50% of treasurers either use or are considering using Treasury/government money market funds (AAA-rated stable NAV funds that invest only in government securities).

Q. If you use or are considering using pooled investments for cash management, indicate which products:



Base: 373. Other funds currently used are bond funds, floating NAV, other MMFs, liquidity, AAA rated stable value, emerging market funds, balanced, T-bills, gold, bank funds, managed fund, personal fund/loan, CDs, Libor tracker funds, operational cash funds, fixed deposit and return funds. Other funds being considered are FDIC deposit accounts, gold, loans, Floating NAV funds and other types of fixed income funds.

Reasons for not using pooled funds

For treasurers who do not currently use pooled funds and have no plans to do so in the future, the main reason continues to be a preference to manage cash directly. This is the case for both AAA-rated stable value money market funds (45%) and other pooled vehicles (50%).

For AAA-rated stable NAV funds, the second most cited reason – that the organisation is a net short-term borrower – and the third – a lack of investment approval – are virtually tied at 21% and 20%. The proportion of treasurers citing net short-term borrowing has increased from 8% in 2010.

For other pooled funds, a lack of investment approval (31%) takes the second place, well ahead of net short-term borrower (14%) in third.

5 Responses to regulatory change

This year, the survey included some new questions designed to investigate attitudes among treasurers to recent or potential regulatory changes that may impact their cash investments.

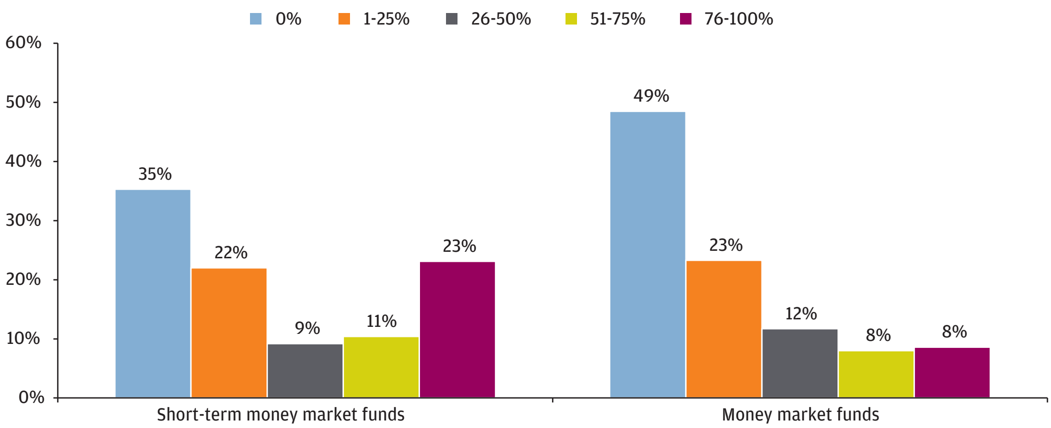
ESMA money market fund classifications

The independent financial supervisory authority of the European Union, the European Securities and Markets Authority (ESMA), previously known as the Committee of European Securities Regulator (CESR), has introduced a new two-tier classification to clarify the different levels of risk in short-term investment vehicles. Under the new definitions, 'short-term money market funds' have either stable or fluctuating net asset value (NAV), maximum security maturity of 397 days and maximum weighted average maturity (WAM) of 60 days, while 'money market funds' have a fluctuating NAV, maximum security maturity of two years and maximum WAM of six months.

Treasurers that currently invest in European money market funds were asked what percentage they would expect to allocate in each of the two categories under the new ESMA classification. Overall, 65% of treasurers expect to use short-term money market funds and 51% expect to use money market funds.

In short-term money market funds, there is a barbell pattern of expected use, with 22% expecting to invest 1-25% and 23% expecting to invest 76-100%. In money market funds, the largest group (23%) expect to invest 1-25%.

Q. Of your European money market fund investments (according to the new ESMA definitions), what percentage would you expect to invest in the following *(Please skip to next question if you have no European MMFs):*



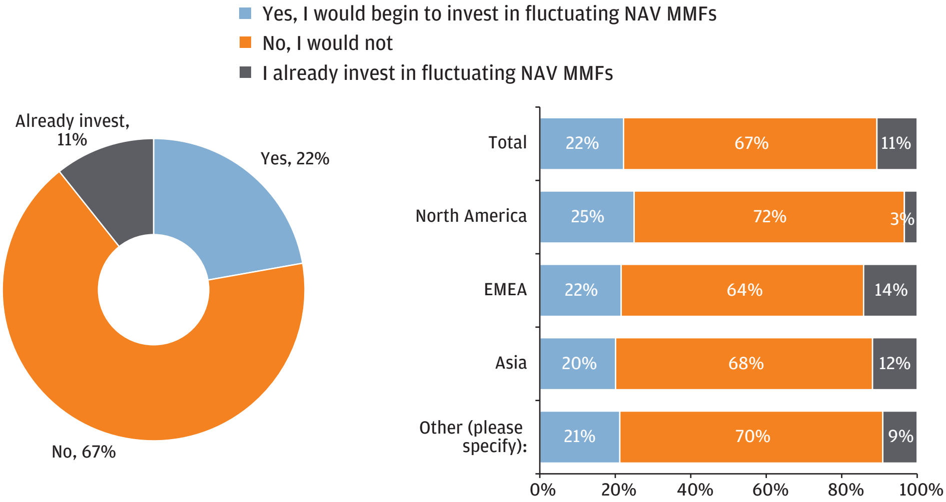
Base: Short-term money market funds – 173; Money market funds – 163.

Fluctuating NAV money market funds

Given the continuing discussions among regulatory bodies around the possibility of requiring money market funds to float their NAVs, treasurers were asked if they would use fluctuating NAV funds if stable NAV funds were not available. Two thirds of treasurers said they would not use fluctuating NAV funds, while 22% said they would and 11% said they already do so.

The results were directionally consistent by region, but because of regional differences in fund availability, EMEA and Asia have a higher proportion of treasurers that already invest in fluctuating NAV money market funds.

Q. If you currently don't invest in fluctuating net asset value (NAV) money market funds, would you consider investing in them if stable NAV money market funds were no longer available due to regulatory changes?



Base: 365; North America 88, EMEA 176, Asia 68, Other 33.

Among those who would not begin investing in fluctuating NAV funds, the two most commonly cited reasons related to internal policy restrictions (25%) or concerns about preservation of principal (22%). Treasurers commented that 'Floating NAV destroys the premise of a money market fund', 'Preservation of principal is one of our key requirements' and 'The board won't approve the use of them'.

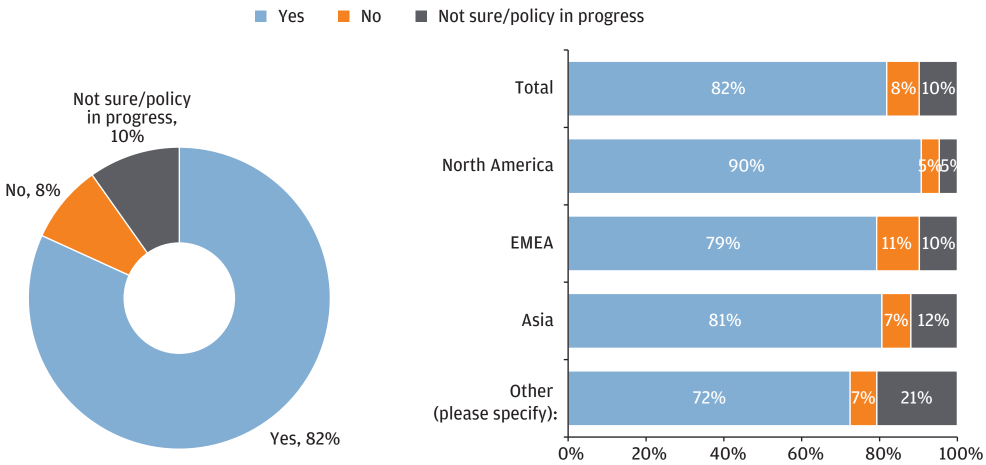
Among those that would begin to invest in fluctuating NAV funds, the most common reason was a lack of options (24%), followed by reasons related to returns and liquidity (both 15%). Treasurers commented that floating NAV would be 'the next best option', and that there would be 'no other choice'. One treasurer suggested that 'the market would adjust' to floating NAV products.

6 Investment policies

Use of investment policies

The vast majority of treasurers have an investment policy governing their cash investments. This is true across all regions, with treasurers in North America most likely to have a policy in place.

Q. Does your organisation currently have an investment policy governing its cash investments?



Base: 47; North America 87, EMEA 164, Asia 67, Other 29.

Among those with an investment policy, almost all (91%) have it formally written down, with a further 7% saying that it is not written, but is formally understood.

Reviews and revisions to investment policies

The majority of treasury departments (60%) review their investment policy annually. Treasurers in Asia are the least likely to review annually, with 54% doing so and 30% reviewing only as the need arises.

Over half of treasury departments made no change to their investment policy in the last year. Of those that did change their policy, twice as many tightened as loosened it. Almost half of treasurers require changes to the investment policy to be approved by the chief financial officer, and around the same proportion require board approval.

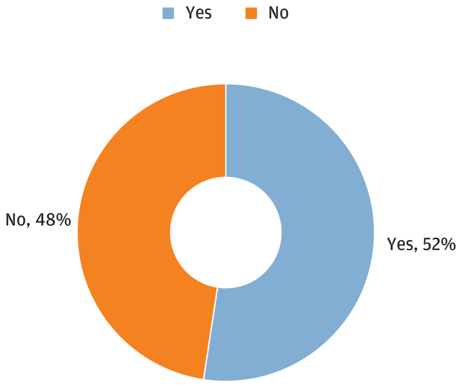
7 Criteria for investing surplus cash

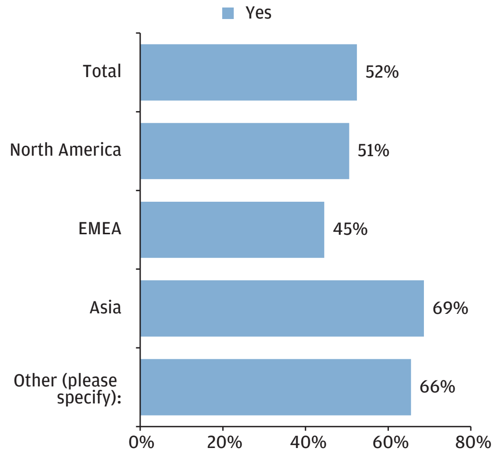
Segmenting surplus cash

Over half of treasurers segment their surplus cash into different categories, for example short-term/operating cash versus long-term strategic cash.

There are marked regional variations, with only 45% of treasurers in EMEA segmenting their surplus cash, compared with 69% in Asia.

Q. Do you segment your surplus cash into different categories (eg operating/short-term vs. strategic/long-term)?





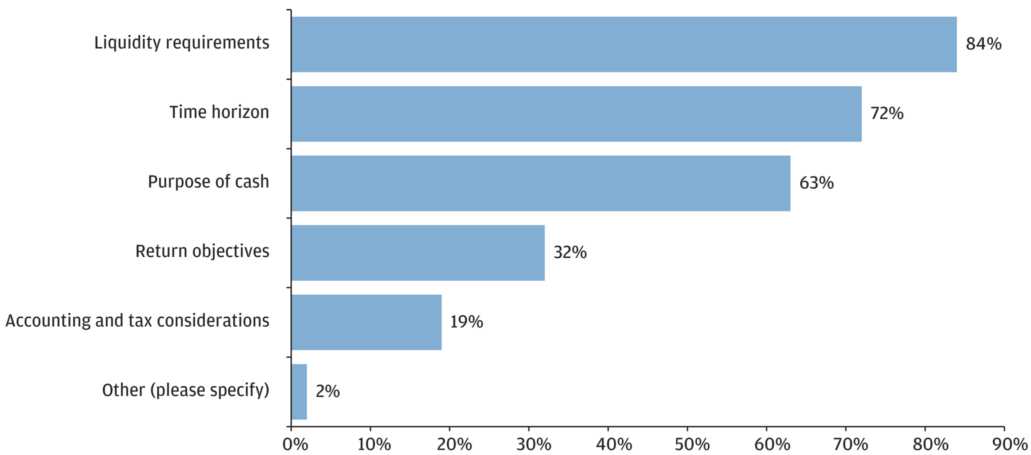
Base: 347; North America 87, EMEA 164, Asia 67, Other 29.

By industry, too, there are notable differences, with those in the insurance, real estate & building, technology, media & telecoms and financial services sectors most likely to segment their surplus cash. Treasurers in the healthcare, industrial & manufacturing and energy, power & utilities sectors are comparatively less likely to segment their surplus cash.

Considerations for segmenting surplus cash

Among those who segment their surplus cash, the primary considerations are consistent with 2010, with liquidity remaining in first place, followed by time horizon and purpose of cash. Return objective was the fourth most selected consideration once again, but was selected by 32% of respondents this year, compared with just 24% in 2010.

Q. What are your segmenting considerations? *(Select all that apply)*



Base: 181. Other includes asset/liability matching, volatility target and CAPEX.

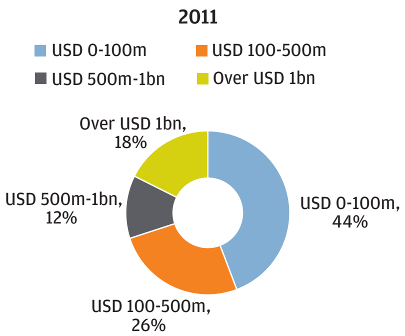
Of those segmenting their surplus cash, the majority (74%) employ different investment strategies for each segment. Treasurers in EMEA, who are least likely to segment their surplus cash, are also the least likely to employ different strategies for each segment, at 70%. In comparison, 84% of North American treasurers employ different strategies.

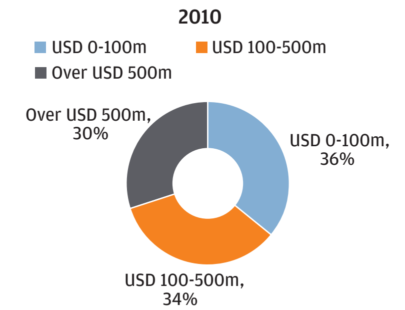
Cash balance of the short-term investment portfolio

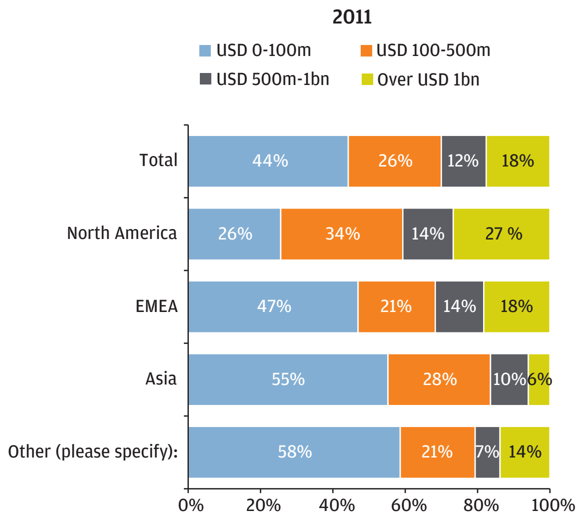
As in 2010, 30% of treasury departments have an average cash balance of more than USD 500m. This year, we broke this category down further, and found that 18% of treasurers have balances in excess of USD 1 billion. The largest proportion of treasurers have balances under USD 100m.

Treasury departments in North America are most likely to have cash balances in excess of USD 1 billion, while those in Asia are most likely to have balances under USD 100m. This may reflect market capitalisation differences, as North American participants in the survey had the largest average market caps, and the participants from Asia the smallest. Treasury departments in Asia may also repatriate large surplus cash balances to their headquarters in other regions.

Q. Over a one year period, what is the average cash balance of your short-term (less than one year) investment portfolio?







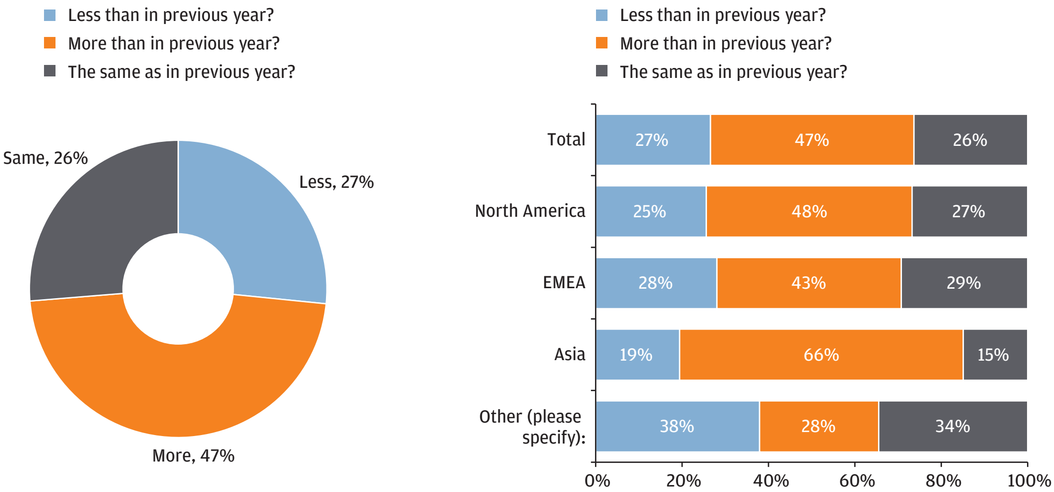
Base: 2011 – 346; North America 86, EMEA 164, Asia 67, Other 29; 2010 – 353.

By industry, technology, media & telecoms companies and government treasury departments have the highest average short-term cash balances.

Change to surplus cash balance

Surplus cash on balance sheets remains well above pre-crisis levels, and continues to grow overall. In 2010, 55% of respondents said they had more cash than in the previous year, while only 23% had less. This year, 47% have more, and 27% have less. Given the volatile market conditions and uncertain economic backdrop, companies may be delaying putting cash back to work through M&A and capital investment.

Q. Over the last year, has surplus cash on your balance sheet been:



Base: 346; North America 86, EMEA 164, Asia 67, Other 29.

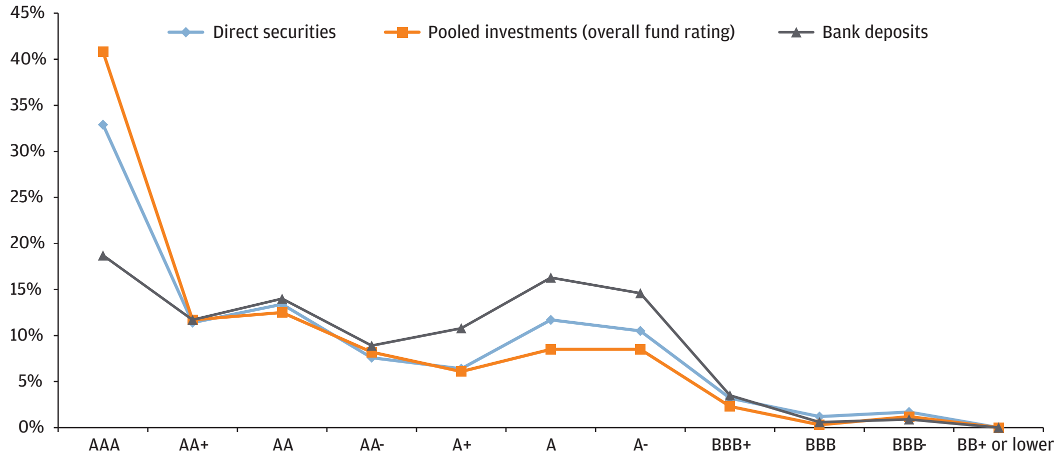
Treasurers with higher levels of surplus cash in 2011 attribute the increase to factors including positive cash flow (67%) and business growth (62%). Among those with lower cash balances, 41% said cash has been used to pay down debt, 30% have made acquisitions, and 29% have returned cash to shareholders through dividend payouts.

Minimum credit ratings required

When investing surplus cash, the minimum credit rating treasurers require decreased slightly in 2011, with a slight reduction in the proportion of treasurers requiring AAA ratings for all three investment types – direct securities, pooled investments and bank deposits. This continues a trend seen in 2010, following a spike in required ratings in 2009.

The continued reduction in required ratings may indicate that risk aversion is abating. However, it may also reflect the reduced availability of AAA-rated funds and securities since the financial crisis, and particularly since the US downgrade, which came halfway through the survey period.

Q. What is the minimum credit rating you would need when investing surplus cash in:



Base: 343.

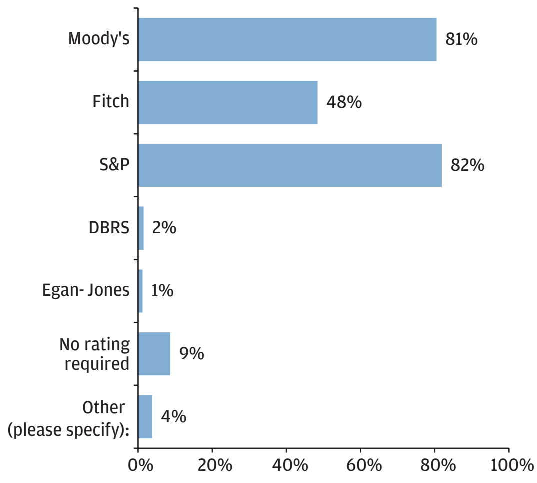
Nonetheless, required ratings remain above pre-crisis levels. In 2011, 41% of treasurers require AAA ratings for their pooled investments, compared with the 35% who demanded the highest rating in 2007.

Ratings allowed by investment guidelines

Standard & Poor's and Moody's remain the most popular agencies for treasurers looking to assess the credit ratings of potential investments. Fitch continues to lag, and has lost some ground since 2010, when 58% of treasurers were permitted to use Fitch ratings.

There continues to be little uptake among treasurers for rating agencies outside the top three.

Q. Which rating agencies do your investment guidelines allow you to use? *(Select all that apply)*



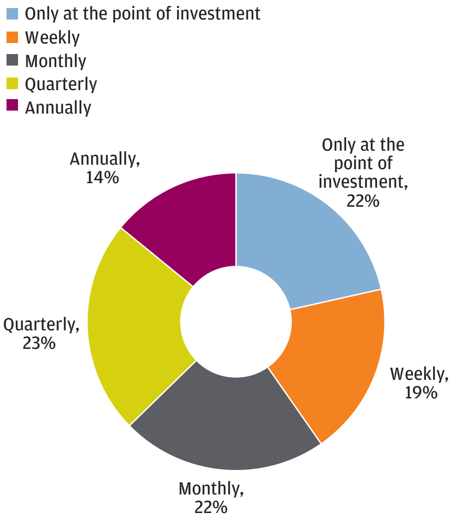
Base: 343; Other included capital intelligence, own rating methodology, credit default swaps, no specified guidelines, Treasuries only by mandate.

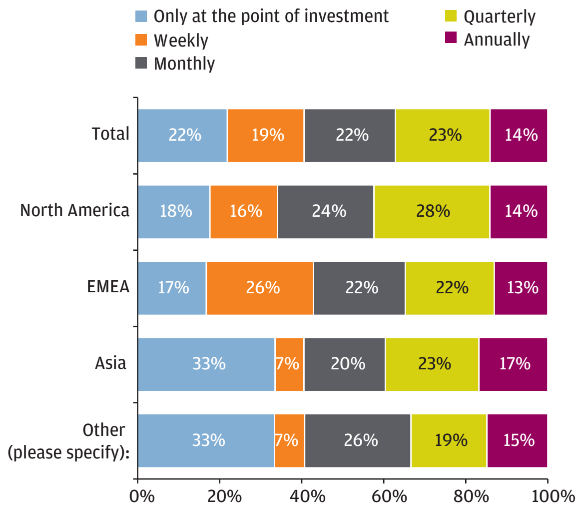
Frequency of rating review

Overall, treasurers are most likely to review the credit ratings of their short-term investments quarterly, with 23% doing so. However, almost the same proportion review only at the point of investment, which is perhaps surprising given the continued focus on security evidenced elsewhere in the survey.

Treasurers in EMEA are the most likely to review more frequently, with 26% monitoring ratings weekly and a further 22% doing so monthly. Treasurers in Asia are the most likely to review only at the point of investment.

Q. How frequently do you review credit ratings?





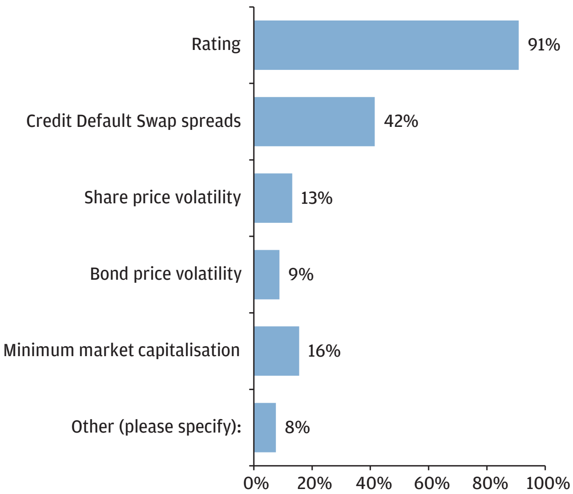
Base: 340; North America 85, EMEA 162, Asia 66, Other 27

Smaller organisations are the least likely to have a regular review schedule in place, with 37% of those with market capitalisations under USD 500m monitoring ratings only at the point of investment. A lack of resources may prevent smaller treasury departments from carrying out more frequent reviews.

Monitoring counterparty risk

The vast majority of treasury departments monitor counterparty risk through credit ratings. However, the popularity of other methods of assessing risk has increased since 2010, perhaps suggesting that some treasury departments no longer feel that ratings alone are sufficient. 42% now look at credit default swap spreads, up from 37% in 2010.

Q. What do you use to monitor counterparty risk? *(Select all that apply)*

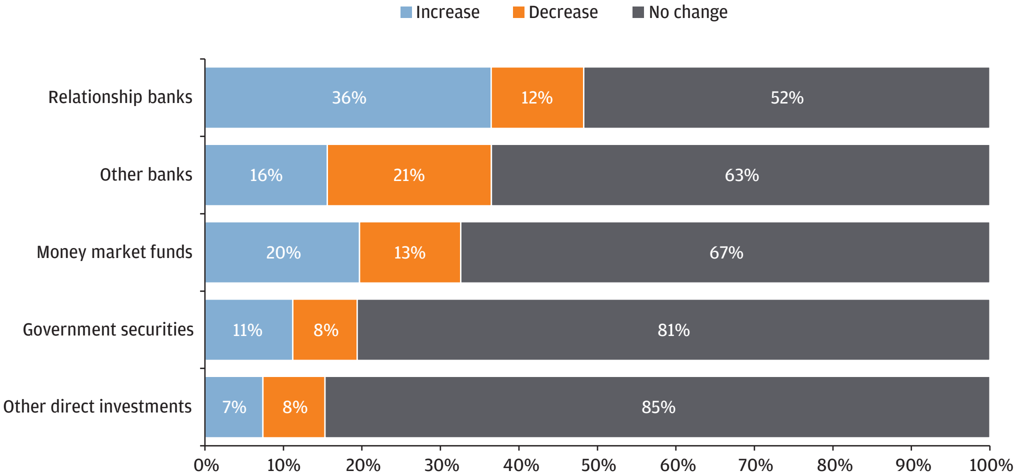


Base: 340. Other includes market news, Tier 1 ratios, internal and credit analysis, familiarity, relationship with counterparty, market intelligence, approved lists, investment share, equity and net worth.

Changes to counterparty exposure limits

The majority of treasurers made no change to counterparty exposure limits over the past year. However, 36% increased their exposure limits to their relationship banks, continuing a trend seen in 2009 and 2010.

Q. Have you increased or decreased your exposure limits to your counterparties over the last year?



Base: 340.

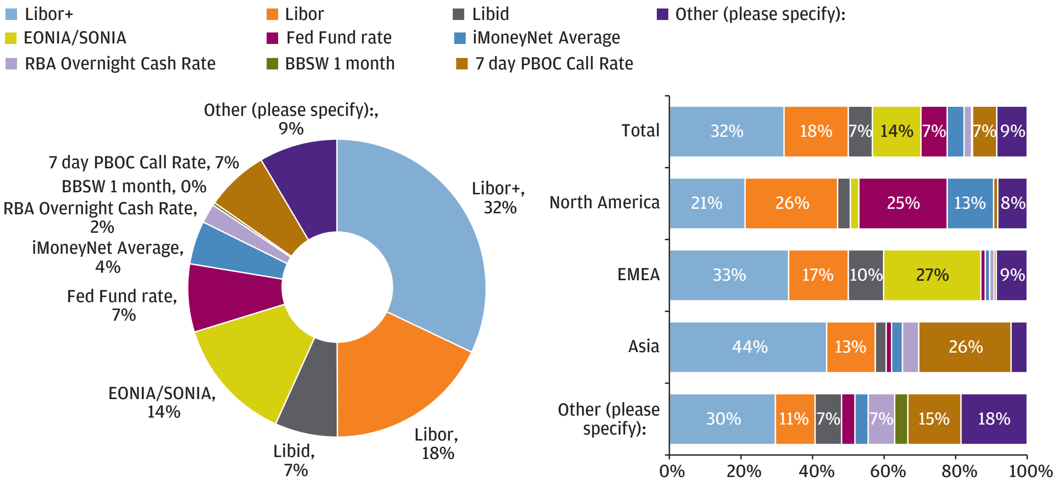
The increase in relationship bank exposure limits may appear surprising given the continued emphasis on managing risk. However, it may stem from the fact that companies continue to hold high levels of cash, and therefore need to increase the limits they hold with their counterparties. It may also reflect a change in the way treasury departments are managing counterparty risk. Given the greater focus on financial stability, it is possible that the higher limits are allowing organisations to consolidate their holdings with the banks they perceive as being the strongest. This may also be reflected in the fact that more treasurers have decreased than increased their limits with banks other than their relationship banks.

Target returns for short-dated cash

In last year's survey, the beginnings of a recovery from the extreme risk aversion of the financial crisis were suggested by a change in the returns treasurers were looking for from their cash investments. In 2009, the majority of treasurers were content to receive returns in line with Libor from their surplus cash, with findings throughout the survey suggesting that the emphasis was on security, rather than yield. In 2010, however, the most commonly selected return preference, at 27%, was Libor+. This has increased further in 2011, with 32% of treasurers now aiming for Libor+ returns.

By region, treasurers in Asia are the most likely to be seeking higher returns, with 44% identifying Libor+ as their return target.

Q. Assuming your minimum credit rating, what target returns do you aim to receive from your short-dated surplus cash?

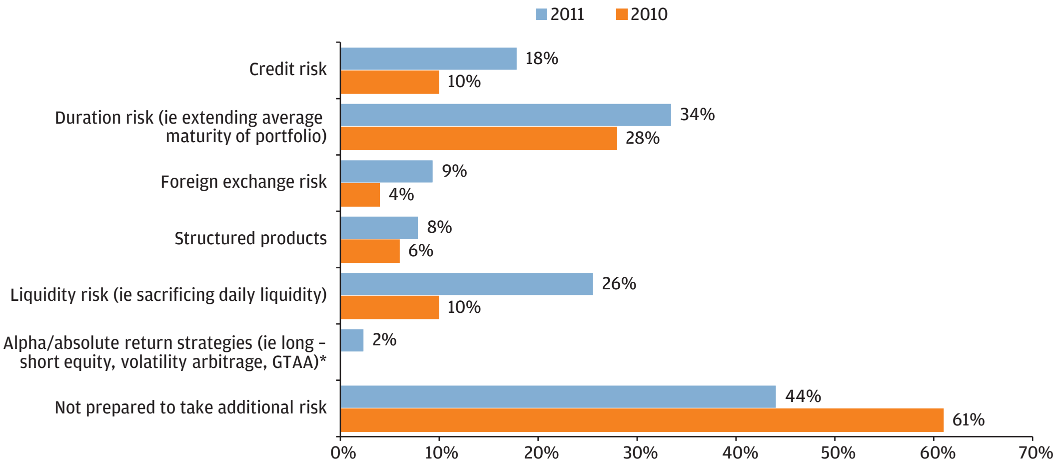


Base: 340. Other includes for what target funds you aim to receive: T-bill, Six-month Treasury, above three-month time-deposit, Euribor/Euribor+, repos, no explicit target. North America 85, EMEA 162, Asia 66, Other 27.

Areas willing to take risk when seeking a higher yield

Last year, the majority of respondents who wanted higher yields were not prepared to take on additional risk to achieve them. In contrast, this year only 44% are unwilling to take on more risk, and an increased proportion of treasurers are willing to take on all types of risk. As in 2010, extending duration is the most popular additional risk treasurers are willing to take in an effort to boost yields. It is also notable that 26% would be prepared to sacrifice daily liquidity.

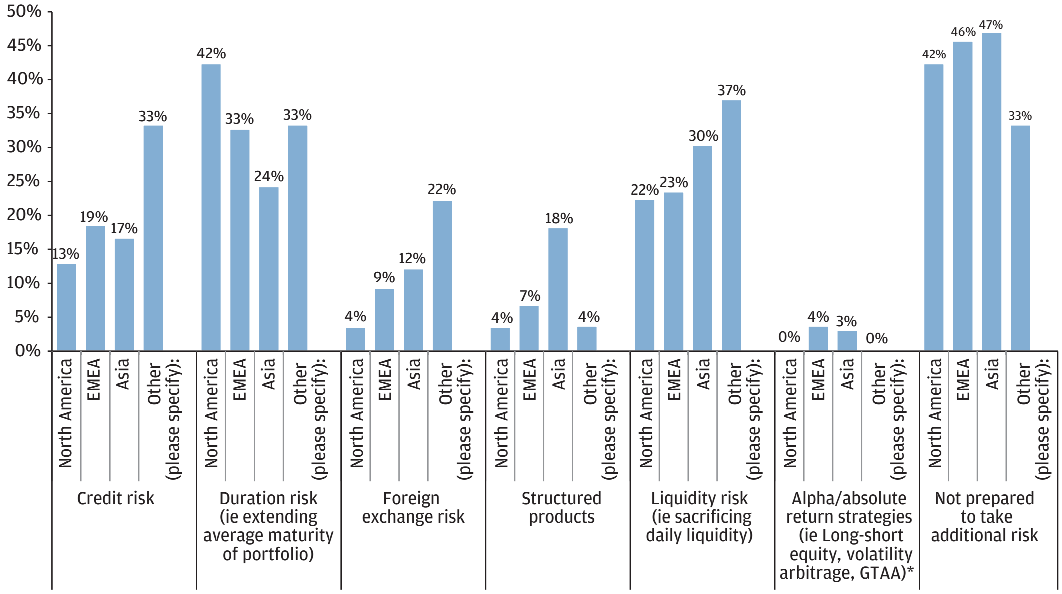
Q. If you are seeking higher yields, please indicate where you are willing to take additional risk: *(Select all that apply)*



Base: 2011-340, 2010-344. * New choice this year. Also new are the explanatory comments in parentheses.

Treasurers in North America are the most willing to take on additional risk overall, and 42% would be willing to extend duration. Treasurers in Asia are more willing than their peers in North America and EMEA to sacrifice daily liquidity and to take foreign exchange and structured product risk.

Q. If you are seeking higher yields, please indicate where you are willing to take additional risk: (Select all that apply.)



Base = 340; North America 85, EMEA 162, Asia 66, Other 27. * New choice this year. Also new are the explanatory comments in parentheses.

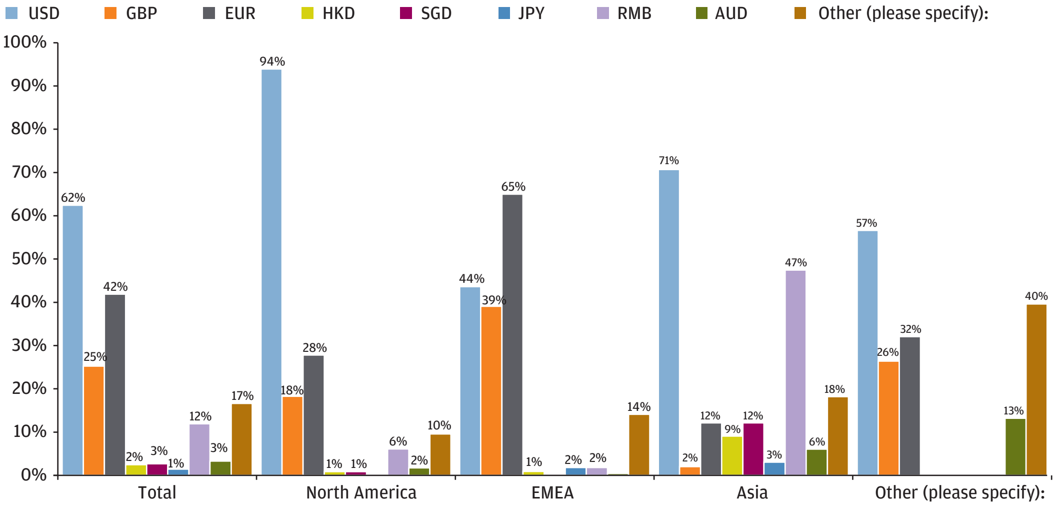
8 Cash and liquidity concentration

Currency of surplus cash

US dollar holdings dominate, reflecting the tendency of treasurers outside the US to hold cash in dollars as well as in local currency.

Despite the increased proportion of respondents from EMEA in this year's survey, the percentage holding surplus cash in euros has increased only slightly, from 37% to 42%. Treasurers may be holding their cash in other currencies as a result of the volatility in the euro that is arising from the sovereign debt crisis.

Q. In which currency do you predominantly hold your surplus cash? *(Select up to three answers.)*



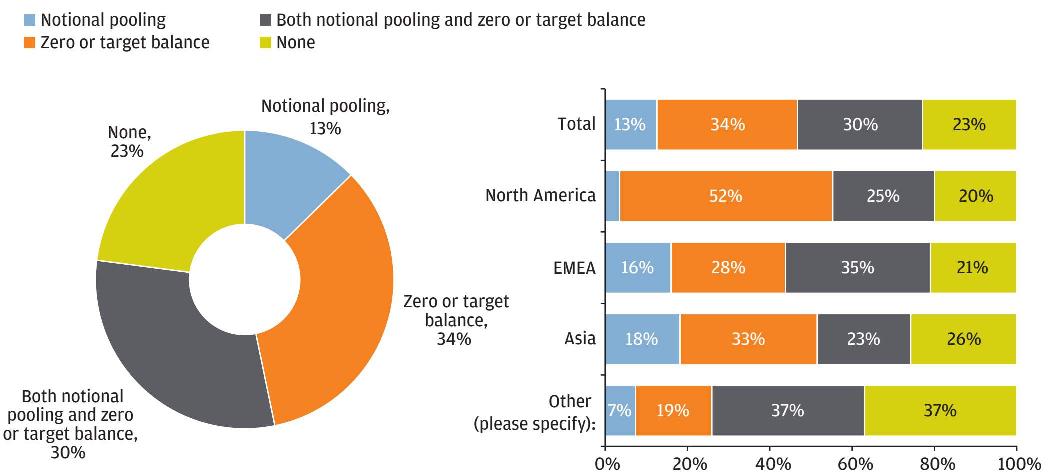
Base: 487. Other includes CAD-8, INR-8, NOK-7, CHF-6, SEK-5, AED-3, BRL-3, CZK-3, HRK-3, and 34 other currencies cited once or twice. North America 115, EMEA 220, Asia 99, Other 53.

Techniques used in cash concentration

As in previous years, zero/target balance structures are the most popular techniques used in cash concentration, although use has fallen from 46% in 2010 to 34% this year. The proportion using both notional pooling and zero/target balance has increased from 26% to 30%.

Treasurers in North America are the most likely to use zero/target balance structures, while treasurers in EMEA are more likely to use both notional pooling and zero/target balance than their peers elsewhere in the world. By market capitalisation, the smallest companies are the least likely to use either zero/target balance or notional pooling.

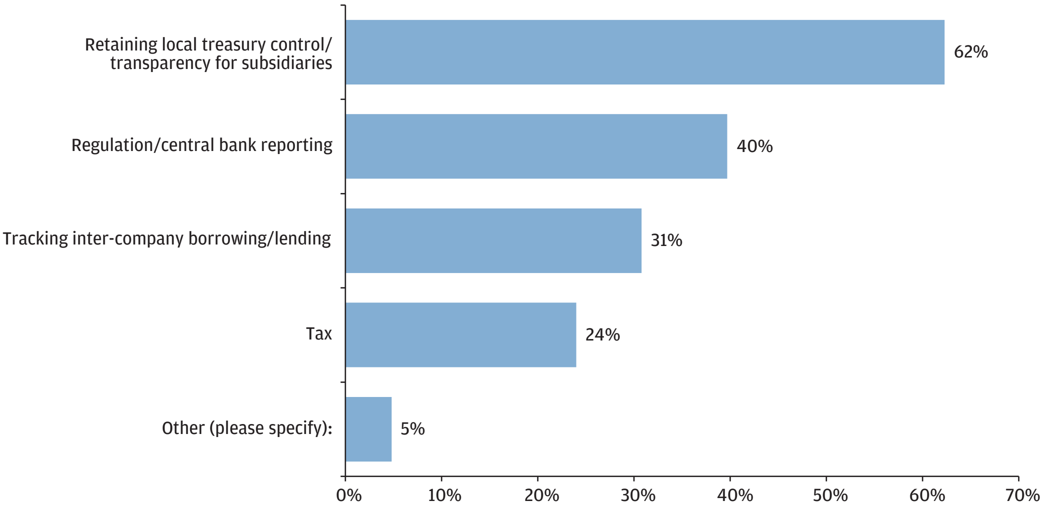
Q. Which of the following do you use in your cash concentration structures?



Base: 340; North America 85, EMEA 162, Asia 66, Other 27.

Among treasurers who use notional pooling alone or both notional pooling and zero/target balance structures, the main driver is retaining local treasury control/transparency for subsidiaries. This is driven by treasurers in EMEA, where retaining local control is one of the two main drivers for 66% of treasurers. Regulation/central bank reporting replaced tracking inter-company borrowing/lending in second place this year.

Q. What are your two main drivers for making this decision? *(Select only two answers)*

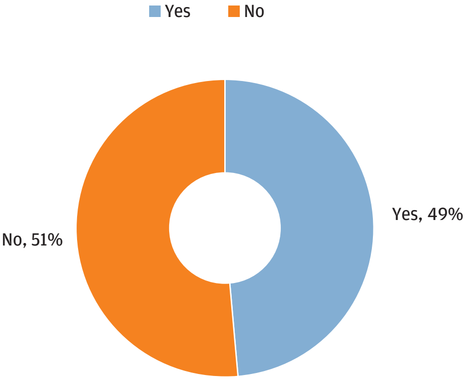


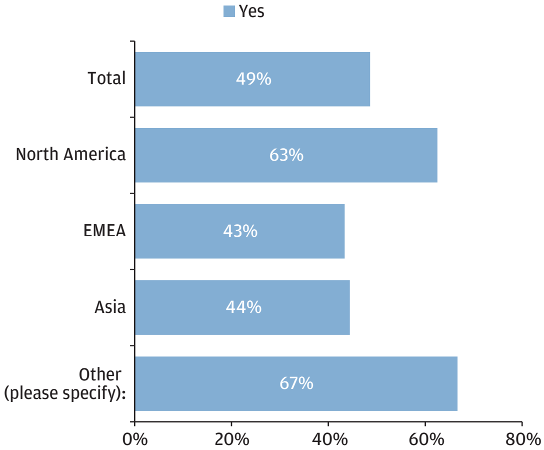
Base: 146. Those that answered prior question notional pooling or both in response to the prior question. Other includes practicality and cost, optimising cash pool, cash concentration, no debt so little benefit of pooling outside of UK, difficult regional FX regimes, set aside fund according to demand and agreement with the invest/audit committees.

Cash pooling across currencies

Overall, 49% of treasury departments pool cash across currencies – a substantial increase on last year, when only 37% did so. Treasurers in North America and those with the largest market capitalisation (above USD 5 billion) are the most likely to pool cash across currencies.

Q. Do you pool cash across currencies?



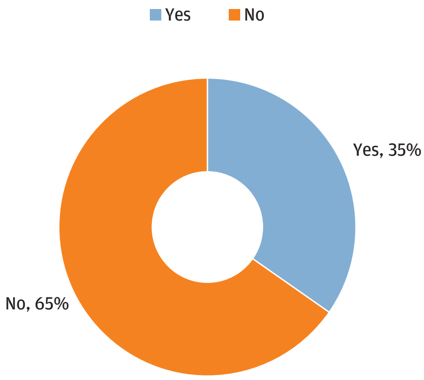


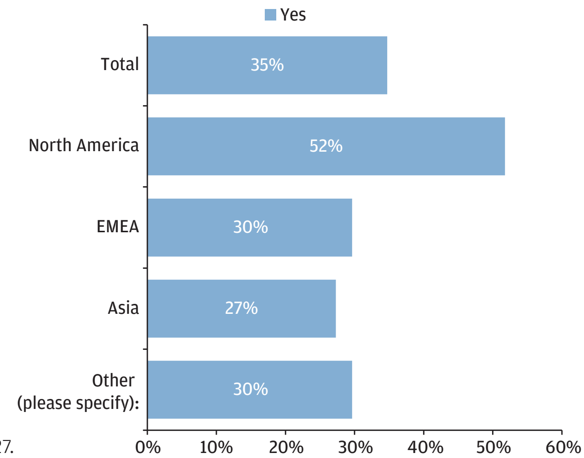
Base: 146; North America 24, EMEA 83, Asia 27, Other 12.

Use of automated investment sweeps

Use of automated sweeps has continued to fall, dropping to 35% in 2011 from 40% in 2010. In 2008, 52% used automated sweeps. Over half of treasurers in North America use automated sweeps, but less than a third do in EMEA or Asia.

Q. Do you currently use an automated investment sweep for your surplus cash?





Base: 340; North America 85, EMEA 162, Asia 66, Other 27.

Among those who do not use automated sweeps, 31% said the main factor that would need to be overcome for them to do so in the future was cost versus return, while 24% cited flexibility.

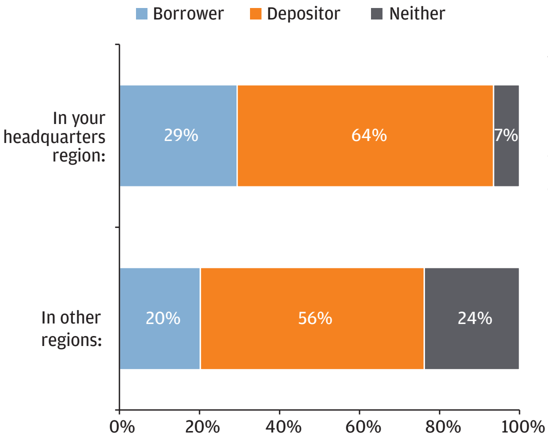
9 Debt position

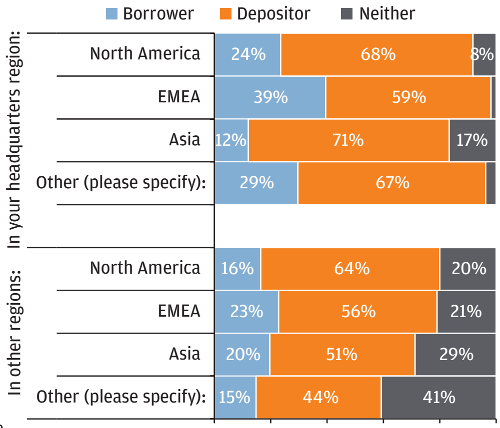
Net debt position

As in 2010, the majority of treasury departments in both the headquarters region and other regions are net depositors of cash. The proportion of treasurers who are net depositors has remained stable in both regions. As in 2010, treasurers in EMEA are significantly more likely to be net borrowers than those in other parts of the world.

In 2009, 46% were net borrowers in the headquarters region, compared with 28% in 2008. This came down to 30% in 2010.

Q. Please indicate whether you are a net borrower or net depositor of cash:

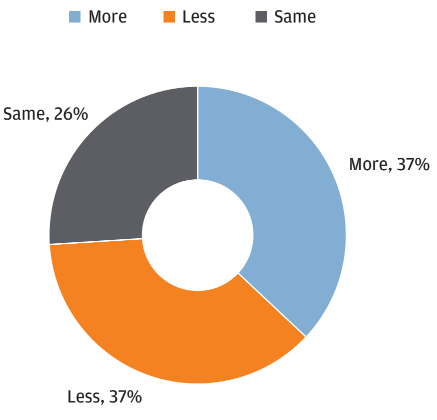




Base: 340; North America 85, EMEA 162, Asia 66, Other 27.

A quarter of treasurers expect that net borrowings will be the same in 12 months' time. The remainder are equally split between those expecting borrowing to rise and those expecting to see a fall. In Asia, 50% of treasurers expect to be borrowing more in a year's time.

Q. Do you think net borrowings will be more, less or the same in 12 months' time?

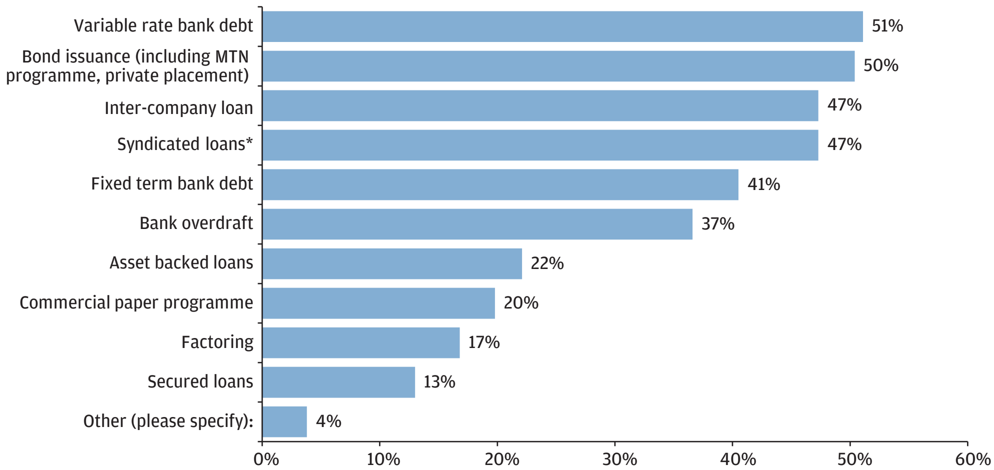


Base: 131. Respondents that answered net borrowers on prior question.

Methods of borrowing funds

The two most popular methods of borrowing cash – variable rate bank debt and bond issuance – are consistent with last year. The option of syndicated loans was included for the first time this year, and was the fourth most popular, driven by EMEA.

Q. Which methods are used by your group to borrow funds? *(Select all that apply.)*



Base: 131. Other includes RCF, perpetual loan, convertible, licensed borrow/financial house. Those respondents that answered prior question on net borrowers. *New choice this year.

Bond issuance is the top choice in North America and is less used by organisations in Asia than in other regions, reflecting the relative stage of development of the bond markets in the two regions. Organisations in Asia are more likely to use inter-company loans than their peers elsewhere in the world.

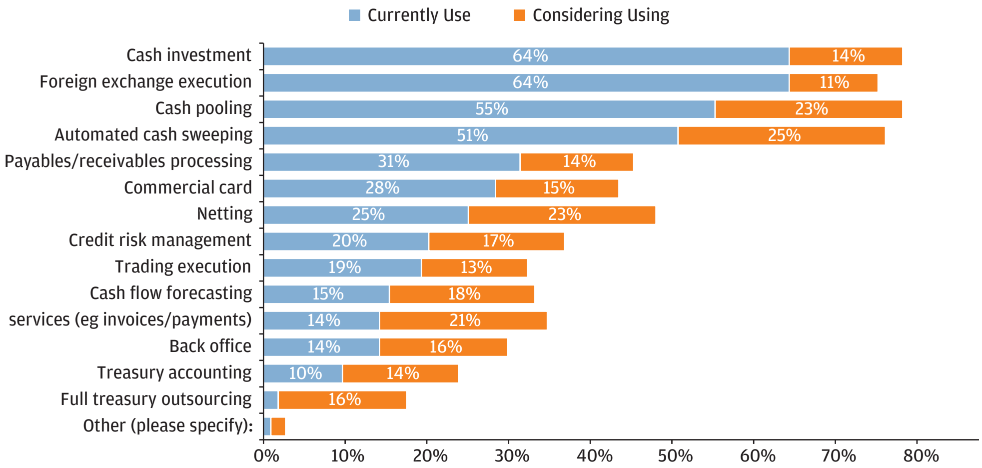
10 Use of financial services

Financial services used and considered

The top four services being used or considered for use – cash investment, foreign exchange execution, cash pooling and automated cash sweeping – are consistent with last year. However, the proportion using cash investment has fallen from 77% to 64%. The proportion using commercial card services has also fallen markedly, from 41% in 2010 to 28% this year.

The most significant increase is in those using financial service providers for credit risk management, up from 10% in 2010 to 20% this year. The greater proportion of treasurers outsourcing the management of this risk to specialists may stem from the continued focus on credit risk as a result of the sovereign debt crisis.

Q. What services do you use or would you consider using from financial service providers? *(Select all that apply)*



Base: 331. Other includes two-level sweeping, eservices, trade confirmation treatment.

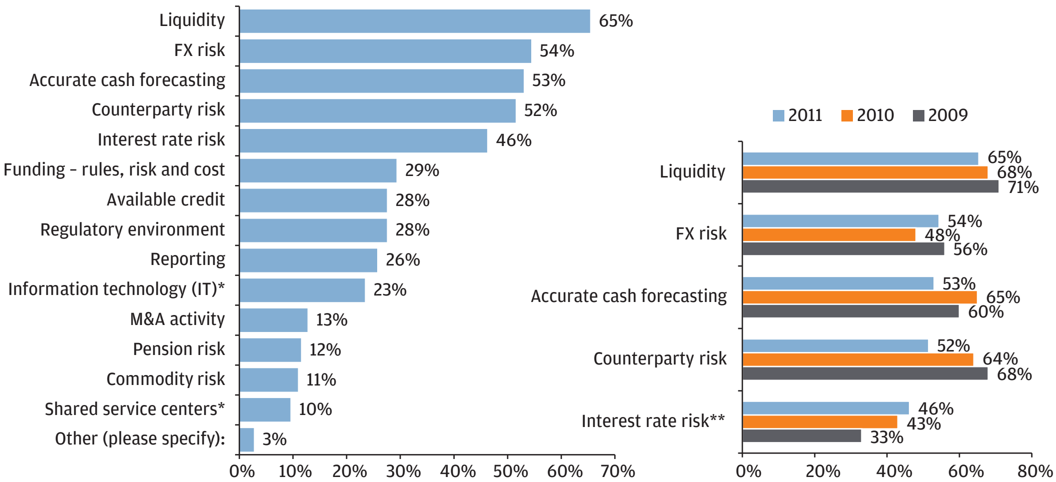
11 The future of cash and treasury management

Concerns in the treasury department today

As in 2009 and 2010, liquidity remains the biggest concern in treasury departments in 2011, suggesting the severe dislocation in credit markets during the financial crisis remains at the forefront of treasurers' minds.

FX risk, the fourth-biggest concern in 2010, is the second-biggest today, perhaps reflecting the volatility on the currency markets this year, as well as the continued uncertainty over the future of the euro. Accurate cash forecasting has fallen from second to third place, and from 65% to 53%, consistent with its lower relative importance as a measure of successful cash management (see page 12).

Q. What services do you use or would you consider using from financial service providers? *(Select all that apply)*



Base: 2011-338, 2010-329. Other included investment options, maximising investment while maintaining counterparty risk, financial stability, policy, staff, diversification. *New choices this year. **Interest rate risk was not in the top five concerns in 2009 (came in 7th). Available credit was 5th at 54%.

The challenges ahead

For the first time this year, treasurers were asked to identify the biggest challenge they face in the coming 12 months regarding the investment of their surplus cash. This was an open question, with treasurers invited to supply their own answers.

The responses were diverse, but several key themes emerged. After several years of extremely low yields, treasurers are perhaps now becoming frustrated with the returns they are able to access on their cash investments, and the ongoing low interest rate environment was a frequently cited challenge. This echoes findings elsewhere in the survey that treasurers now have higher return targets and are more willing to take on risk to achieve higher returns (see pages 26 and 27).

However, many treasurers want more yield, but 'without significant increase in risk to principal preservation'. Although they are looking for higher returns from their cash investments, the financial crisis has left them with a heightened awareness of risk, and achieving a balance between risk and return was viewed as a key challenge by a significant number of respondents.

Counterparty risk is a particular focus, as evidenced elsewhere in the survey in the emphasis on financial stability when choosing a primary bank (see page 9), and a large number of treasurers view finding reliable counterparties or managing their counterparty exposure as their biggest challenge in the coming 12 months. One treasurer commented:

> *'Counterparty risk is the biggest challenge. Capital adequacy at banks is not sufficiently disclosed given the significant market and systemic risks in bank assets. Concentration of assets in very large banks globally has made the banks more risky, rather than less. Assessing the risk of a money market fund sponsor being unable to provide liquidity to a fund in a financial crisis [...] is also a concern.'*

Finally, with the survey taking place against the extremely volatile backdrop of the US debt ceiling deadlock and subsequent credit rating downgrade, as well as the intensification of the eurozone debt crisis, many treasurers viewed market conditions as the biggest challenge they will face over the next year.

Only a very small proportion of treasurers identified regulatory issues as their largest challenge in the year ahead, suggesting treasurers are currently relatively sanguine about the potential impact of regulatory change.

Comments: The challenges ahead

"Finding enough risk free or low risk counterparties."

"Counterparty risk is the biggest challenge. Capital adequacy at banks is not sufficiently disclosed given the significant market and systemic risks in bank assets."

"Finding a safe, liquid place to invest funds."

"Risk/return and M&A funding in a volatile environment."

"To avoid foreign exchange risk generates high cost."

"Preservation of principal in uncertain markets."

"Regulatory creep."

"Government policy and interference."

"Obtaining enhanced yield in an investment environment full of uncertainties."

"Obtaining a meaningful return."

"How to increase the return on idle funds more flexibly."

"Picking up yield in the low rate environment without taking on significant risks."

Conclusion

The J.P. Morgan Asset Management Global Liquidity Investment Survey has once again taken the pulse of treasurers around the world. The 2011 findings suggest that while treasurers are still cautious in the wake of the financial crisis, they are becoming frustrated with low returns. As a result, there is an increasing appetite for yield, within a properly managed risk environment.

A new challenge may emerge for treasurers in the form of changes to regulation in the money market fund industry, and it will be interesting to see how these changes are reflected in the survey in the coming years.

If you have questions about any of the findings in this year's survey, or if you would like any further information, please contact your J.P. Morgan Global Liquidity client adviser, or call Jim Fuell, Head of Global Liquidity EMEA, on +44 20 7742 3620.

Acknowledgements

J.P. Morgan Asset Management would like to thank all the treasurers who took the time to respond to the survey. Without their participation, this report would not have been possible. The following participating organisations generously agreed to have their names listed in the report.

Actelion Pharmaceuticals
AdChina
Adidas
AECOM
Affymetrix
Agilent Technologies
Agthia Group
Alghanim Industries
alstria office REIT-AG
AMEC
AOL
Arriva
ASCO Group
Autoliv
Avon Products
AXASOFT
BAE Systems
Bank of Namibia
BG RCI
Bosch (China) Investment
Brady Corporation
BRITAX Excelsior
British Airways
Cancer Research UK
Capita
Carlsberg Croatia
CBRE Global Investors
Centerline Capital Group
CentroCredit Bank
Certis CISCO
CEZ Group
China Real Estate Information Corporation
Community Health Systems
Clearwire
CLT-UFA
Coats
Constellium
Continental
Corning Incorporated
Crossover Advisors
Dart Energy
Dell
Dover Corporation
Dr Pepper Snapple Group
Dwr Cymru Welsh Water
Easa Saleh Al Gurg Group
Elan Capital-Partners
Enpower Corporation
Equinix
Etimine
Evonik Degussa (China)
Experian Finance
Fairfield Energy Limited
Franshion Properties
Freescale Semiconductor
G4S
General Motors
Georgia-Pacific Services
GKN
GPC Electronics
Grameenphone
Grupo Zeta
Guardian Europe
Gulf Helicopters
Hangzhou H3C Technologies
Herstal Group
Hewlett-Packard
Home Inns

Honeywell
Hormel Foods
IDEXX Laboratories
InterContinental Hotels Group
Infineon Technologies
Ingersoll-Rand
International Fund for Animal Welfare
Interpol
iSoftStone
Industria de Turbopropulsores
Karenbridge Associates
Kerry Group
Kingspan Group
Kyocera Mita
Ladbrokes
La-Z-Boy
Lear Corporation
Liberty Syndicates
Live Nation Entertainment
Louisiana Workers' Compensation Corporation
Mecox Lane
Mercuries & Associates
Midia Group
Mitsui Sumitomo Insurance
Mondi
The Mosaic Company
MTS France
Murphy Oil
National Grid
New Oriental Education & Technology Group
NORDENIA International
Novelis
NVIDIA
Omnicom Finance
OOCL
Pershing
Qiagen
Q-Park Financial Services
QuickPay Administrators
Raba Jarmuipari
Revive Nepal
Rhodia
Rockwell Automation
Rotork
RSA Insurance Group
RSH
RTL Group
RWE
Saint Gobain
SCANA
Schaeffler
Society for Worldwide Interbank Financial Telecommunication (SWIFT)
SOCO International
Sompo Japan Insurance
Spectris
Stagecoach Group Pension Scheme
STRABAG Property and Facility Services
Systagenix
Texas Instruments
Texas Instruments Singapore (Pte)
Textron
Tishman Speyer
Transport for London
TRUMPF
VanceInfo Technologies
Want Want China
Wawa
Will County Treasurer
William Hill
WuXi AppTec
Xizi Otis Elevator Company
Zain
The Zuellig Group
Zurich Financial Services Australia

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