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Built to fit: a bespoke cash investment policy for Asia Pacific

Asia Pacific is far from homogenous, which brings all manner of complexity for the corporate cash investor. It is therefore crucial for corporates to have a cash investment policy that is both robust and flexible and that encompasses local nuances whilst still aligning with global objectives.

Aidan Shevlin
Head of Asia Pacific Liquidity Fund Management

Ben Ford
Head of Global Liquidity Sales, ASEAN and Australia

J.P.Morgan
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Asia Pacific is generally regarded as a complex place to do business, especially when compared to the largely standardised markets of the United States and Europe. This complexity manifests itself in many forms, but one area where the challenge is most acute for corporate treasurers is short-term investing.

Aidan Shevlin, Head of Asia Pacific Liquidity Fund Management at J.P. Morgan Asset Management explains why: "In Europe and the US, the short-term investment market has developed to maturity over a period of over 40 years. There is uniformity in the markets and investors are familiar with the products that exist and are comfortable using these. Also, from a macro perspective, there are very few surprises in the market and the regulatory landscape is relatively stable."

Shevlin adds that this is not the case in Asia. The region is far from uniform: each country is at a different stage of development, with its own regulatory environment, market practices and investment instruments. And with the vast majority of multinational corporations operating in more than one of these markets, this complexity is something that treasurers cannot avoid.

One size does not fit all

For many treasurers faced with this challenge, the first thought is simply to put aside the complexity and follow an investment strategy guided by a policy drafted at the company's headquarters in the US or Europe. "This is something we come across a lot when speaking with clients who are fairly new to the region," says Shevlin. "Although this strategy can work to a certain degree, especially in the region's more developed markets like Singapore and Australia, ultimately it is not viable in the long term and may see the business exposed to unnecessary risk, resulting in missed opportunities."

To put this into perspective, Shevlin provides an example of a US company having an investment policy dictating that the company could not invest in funds less than US$10bn in size. "In the US, this is not a problem because the market is well-developed and there are a number of active funds of this size," he says. "In Asia, there are not many funds of this size simply because the industry hasn't been around long enough yet."

A similar issue arises around credit ratings. Shevlin notes that many corporates will typically only want to invest in AAA rated funds and will state this clearly in the investment policy. Again, this may not be a problem in Europe or the US, but the developing nature of the markets in Asia means that many countries are not rated this highly – China's rating, for instance, is AA. "In both of these examples, the treasury is severely limiting its options, and often unnecessarily so, by dogmatically following a policy drafted to work in regions without such diversity," notes Shevlin.

The short-term products that treasurers use in Asian markets also need to be considered carefully: while the products may look similar to their Western counterparts, there can be subtle differences. Shevlin uses time deposits as one such example. "In China, until recently, the tenor and rates of time deposits were controlled by the People's Bank of China (PBoC), regardless of the bank from which they were purchased," he explains. "The PBoC has since loosened its control and a whole range of products across the liquidity, maturity and credit quality spectrum have emerged. These products can be very complex, so it is important that treasurers do not simply see them as 'traditional' time deposits and fully understand the risk they are taking before using these products."

Fit for purpose

It is clear from these examples that a cash investment policy built for the US and Europe has to be adapted to fit Asia, especially if the policy limits options too narrowly or exposes the organisation to unnecessary risks. But what precisely needs to be changed and how can treasurers go about this?

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There, of course, is no silver bullet; policies will have to be drafted differently from company to company. Interestingly though, Ben Ford, Head of Global Liquidity Sales, ASEAN and Australia at J.P. Morgan Asset Management, notes that the devil is not necessarily always in the detail. "Most multinational companies will have a comprehensive policy already in place," he says. "These will clearly define the objectives of the organisation and provide guidance around risk tolerance, for example. The temptation when adjusting this policy for the Asian market can simply be to add in more detail, highlighting precisely what can and can't be done in each market the company is operating in."

This may be ill-advised. Ford notes that some changes will, of course, need to be made to the document to accommodate local market nuances and ensure that the business is not exposed to excessive risks by using products that are not fully understood. However, he notes that whilst these changes should be well-detailed, they should not be limiting: "Ultimately the policy needs to empower local teams and enable them to operate efficiently and invest fully."

The policy should therefore be drafted in such a way that it maintains the investment philosophy of the company's headquarters, aligns with the regional office's strategy, and accounts for local practice. "The only way to do this," notes Ford, "is to take a holistic approach when drafting the policy; marrying together the local knowledge of the teams on the ground with the headquarter's overall investment objectives. Approaching the drafting of the policy in this way will also provide uniformity across the region and ensure that the locals are comfortable with what they are doing, empowering autonomous decision making."

Don't delay

Making changes to an investment policy, no matter how minor, requires a significant degree of effort. Indeed, according to the latest J.P. Morgan Global Liquidity Investment PeerView℠ survey, 82% of those planning to amend their policies stated this would require moderate or significant effort.

Interestingly, the same study also highlighted that only 26% of companies in Asia Pacific were considering making changes to their policies. When compared to the 39% in the Americas and 46% in Europe that said they were, this indicates that policy change is not top of mind for treasurers in Asia at present.

There is a logical reason for these findings, as the study also revealed that only 11% of corporates operating in Asia Pacific had been encouraged by their banks to move non-operating deposits off its balance sheet as a result of Basel III. And with a plethora of other challenges currently being dealt with by treasurers in the region it is understandable that their efforts are being focused elsewhere at present. But with the Basel III regulations increasingly beginning to bite, Shevlin encourages treasurers to start thinking in more detail about their investment policy.

"Bank deposits continue to be the investment tool of choice for corporates, but this will soon change as the banks in the region begin to conform with the Basel standards," he says. "Once these changes are fully implemented, corporates will be forced to diversify their investments and think more proactively about what they are doing. Those companies that go through the short-term pain and create a robust and flexible policy will reap advantages in the long term."

A trusted partner

Ford observes that corporates embarking on this journey away from bank deposits do not tend to start using complex products right away. Indeed, he notes that the journey for corporates is typically slow and considered.

"Most corporates in Asia tend to start investing cautiously in the region, primarily using time deposits with safe banks," he says. "As they become more comfortable with the region and its rules and regulations, they eventually start branching out and use other instruments."

As one of the region's longest standing asset managers, Shevlin notes that J.P. Morgan Asset Management is there to support its clients at every stage of this journey. "Having offered short-term cash investment solutions to corporate clients in Asia for over ten years, we have built up a wealth of knowledge and experience," says Shevlin. "Our clients can tap into this at any time and we are constantly acting as thought leaders to ensure our clients stay abreast of any changes that might impact their operations, or provide new opportunities."

For Shevlin, investing with J.P. Morgan Asset Management ultimately gives treasurers reassurance. "Asia can seem complex and confusing," he says. "There are lots of headlines about risks in the region but there are also lots of opportunities; having a fit for purpose investment policy suited to the region is the first step treasurers need to make in order to take advantage of such opportunities and stay one step ahead of their industry peers." ■