Alex Fiott

Head of Front Office, Treasury

AstraZeneca

AstraZeneca is a global, science-led biopharmaceutical company that spans the discovery, development, manufacturing, distribution and worldwide commercialisation of primary care and speciality care medicines. They are headquartered in the UK with a primary listing on the London Stock Exchange and are a constituent of the FTSE 100.

Problem…

Like most corporates, AstraZeneca has a short-term investment policy that weights capital preservation and liquidity above yield. In line with this philosophy, the company historically had a very short-term investment horizon, primarily investing in money market funds (MMFs) and overnight cash deposits. "In times of crisis, such as in 2008, we would go ultra-cautious and invest in short-dated US treasury funds," explains Alex Fiott, Head of Front Office, Treasury at AstraZeneca.

Although nothing was fundamentally wrong with this approach, Fiott and his colleague Peter Walker-Smith, believed that cash could be managed more actively. They set about reviewing how it segmented its cash and found that much of it could be invested for a longer time horizon, potentially resulting in more yield.

"Being so heavily invested in MMFs that invest in a high concentration of financials meant that AstraZeneca was effectively paying for somebody else's liquidity," says Fiott. "This, tied with the changing banking and MMF regulatory landscape, made it a good time to step back and challenge our existing investment policy to see what else we could do. We therefore reached out to our liquidity partners to see what alternative solutions were available."

…Solved

They decided to use tri-party repurchase agreements (repos) and separately managed accounts[1] (SMAs) to invest its short-term cash. AstraZeneca chose to use SMAs because of the flexibility they offer. A further benefit was the opportunity for the team to leverage the knowledge and expertise of its fund managers by mandating them to make investments in longer-dated securities on AstraZeneca's behalf. It was hoped that this would provide incremental returns above those of MMFs, while still retaining the aim of capital preservation and flexible liquidity.

Moving to these products was welcomed by senior management, not least because of the treasury team's proactive approach. "Given the changing regulatory environment, we were really taking steps to get ahead of the game," says Fiott. "And because the products we are using fit within the parameters of our existing investment policy, it didn't take much to persuade the risk committee that this was a positive step to take. The security of capital preservation remained, but our cash worked harder."

It must be noted, however, that adopting these solutions comes with its challenges. Fiott highlights that the documentation and legal work which is needed can put some corporates off. "It can take several months to do this and there is a lot of ancillary work that is required, especially when setting up a tri-party repo agreement," he observes. That being said, Fiott notes that the benefits have been well worth this effort[2]. Not only does AstraZeneca have a more diversified portfolio; the tri-party repos and SMAs are yielding 25/30bps over MMFs a year.

Working with an experienced and trusted liquidity partner such as J.P. Morgan Asset Management has been instrumental to AstraZeneca. "J.P. Morgan Asset Management was our partner on this journey from the very beginning," says Fiott. "Perhaps what is most important is that they always offer us an unbiased view of what is happening in the market and breadth of solutions that are available. This helps lead us to reach best practice, and focus on our actual needs. Their track record and expertise in operating short-dated liquidity funds also instils confidence when outsourcing your investments to them."

Fiott notes that segmenting the group's cash and exploring alternative investment vehicles has been a rewarding exercise for AstraZeneca and one that he would recommend to other corporates. Looking forward, the treasury team is also planning to explore what more can be done to refine the existing product solutions in order to diversify further thus continuing a proactive approach to managing liquidity.

For more information about separately managed accounts and other cash investment offerings, please visit **www.jpmgloballiquidity.com**

[1]Separately managed accounts create a customised portfolio of securities based on an investor's particular tolerance for credit and interest rate risk, cash flows, tax status and investment horizon.

[2]There are also risks that apply to investment services and strategies, which should be reviewed carefully before taking any investment action.