IN BRIEF

At a pivotal moment on a number of fronts—regulatory, interest rate and economic—around the globe, more investors are reassessing their short-term fixed income investment policy statement (cash IPS) and putting into place the strategies and solutions that can best help them navigate a changing environment. A cash IPS lets an organization define its short-term investment objectives and the strategies for achieving them. It creates a sound foundation and promotes consistent, long-term discipline in decision-making through all market conditions, so that crucial liquidity and investment goals may be met.

THE BENEFITS OF AN IPS

- Provides greater clarity across the firm
- Defines short-term investing parameters
- Instills discipline and control
- Allows for optimizing cash
- Builds in governance
- Helps with navigating changing rates and regulations

1 What is a cash investment policy statement?

A sound foundation for cash investment decisions

As investors continue to navigate a shifting interest rate environment globally and face reforms and new regulatory standards, a short-term fixed income investment policy statement—or cash IPS—offers clarity, giving everyone in an organization, from the investment team to the board of directors, a common understanding. A cash IPS provides financial transparency and a mechanism for internal control. It addresses the essential activity of cash segmentation—categorizing cash by liquidity needs (distinguishing among operating, reserve and strategic segments), enabling firms to seize the varied opportunities available and deploy a range of appropriate, optimal cash investment strategies.

A cash IPS defines an organization's:

- parameters for liquidity, quality and return
- risk tolerance
- return requirements
- permissible investments
- relevant constraints *(tax considerations; environmental, social and governance [ESG] guidelines)*

A cash IPS spells out the investment philosophy tailored to the organization's needs. And it should be flexible and dynamic. Many treasury teams continually update theirs to adjust to new cash management products and take advantage of opportunities in evolving global markets. For example, after 2016, the Securities and Exchange Commission (SEC) introduced new rules governing money market funds (MMFs) and many cash investors reconsidered the relative attractiveness of prime vs. government MMFs. In Europe, amid new MMF reform, investors will likely evaluate a range of new structures. And Basel III regulations redefining global standards for bank capital, liquidity and leverage will continue to drive non-operating deposits off bank balance sheets.

Why do you need a cash IPS?

A cash IPS can be used as a basis for discussing an organization's evolving investment management priorities. Every organization must find its own optimal balance—among capital preservation, yield generation and access to liquidity. Accordingly, the cash IPS serves as a necessary strategic guide in planning and implementing short-term investment. This has become especially important since liquidity investment has grown from a straightforward practice to a multi-faceted discipline with potentially greater risk.

A cash IPS is also a means for accountability. It builds in prudent governance, risk management and the monitoring and reporting of results. Organizations also need a cash IPS because it can provide the documentation required for Sarbanes-Oxley compliance, while serving as a mechanism for financial transparency and control. Consider writing an IPS if your corporate treasury group doesn't have one, or re-evaluating with your board and asset manager whether your existing IPS is up-to-date.

When should you institute an IPS?

Your organization more than likely has a cash IPS in place already. More investors are updating theirs in this dynamic interest rate, regulatory and market environment. Less than a decade ago, an undifferentiated cash management industry offered a few no-risk asset classes. That has been transformed into a complex industry offering many products—3(c)(7)s, ETFs, separately managed accounts, money market mutual funds, ultra-short bond funds and short-duration bond funds. A new or changed cash IPS may be needed to take advantage of evolving market opportunities, but instituting one takes time and, often, considerable effort. It may be prudent to start the process sooner rather than later.

Who supervises an IPS review?

Responsibility usually rests with the CFO, treasury managers and their team members. The CEO and/or board of directors may also be responsible for exceptions or updates. Final sign-off typically occurs at the most senior level of responsibility for investment activities. An IPS may be prepared by the CFO or treasurer and submitted to the board for final approval.

Whether the cash IPS will be implemented in-house or through an outside asset manager will depend on whether cash management resources—the knowledge, time and infrastructure—exist internally, such as portfolio management systems, technology and credit risk and risk control expertise.

The steps to developing a cash IPS

1 Define short-term fixed income investment objectives

While these are unique to each company, they are typically some combination of maintaining necessary liquidity, maximizing total returns given risk tolerance, preserving capital, accommodating tax concerns and/or exceeding a particular benchmark.

2 Draw up cash forecast

The finance team can generate this from an inventory of cash flows.

3 Organize cash segments into categories

The short-term portfolio reflects several types of liquidity needs and risk profiles, designed to meet different investment goals. Segments typically cover operating cash, reserve cash and strategic cash.

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- Select from a breadth of outcome-oriented solutions designed to help you build the most effective liquidity strategy.
- Tap into the award-winning innovation and success of one of the world's top liquidity fund managers, with over 30 years of demonstrated results across market cycles.

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