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.

HOW TO DEVELOP A CASH IPS

- Clarify objectives for liquidity management
- Inventory expenditures to produce a detailed cash forecast
- Segment cash into pools to achieve different objectives

2 How to develop a cash investment policy statement: Beginning the process

Clarifying cash investment objectives

An Objectives section of the cash IPS should define the organization's goals for its short-term investment strategy. It should provide a high-level framework that clearly explains how the organization will meet each objective. While affirming cash investment objectives, the IPS should also retain enough flexibility and adaptability to take advantage of new market opportunities that may present themselves. The Objectives section may address:

CAPITAL PRESERVATION Protection of principal—the safety of cash investments—is likely to be a primary objective for many organizations.

SUFFICIENT LIQUIDITY The treasury group or financial staff can ascertain the liquidity level appropriate to steer clear of avoidable risks—a crucial goal.

YIELD/INCOME Providing consistent current income may be another goal, which will, however, need to be balanced with a probable increase in the volatility of principal.

TAX-ADVANTAGED RETURNS Tax-conscious liquidity management may be a goal, in which case tax-free short-term funds become an appropriate option.

ABOVE-BENCHMARK RETURNS Exceeding a benchmark that mirrors the portfolio's underlying investments may be among the priority objectives.

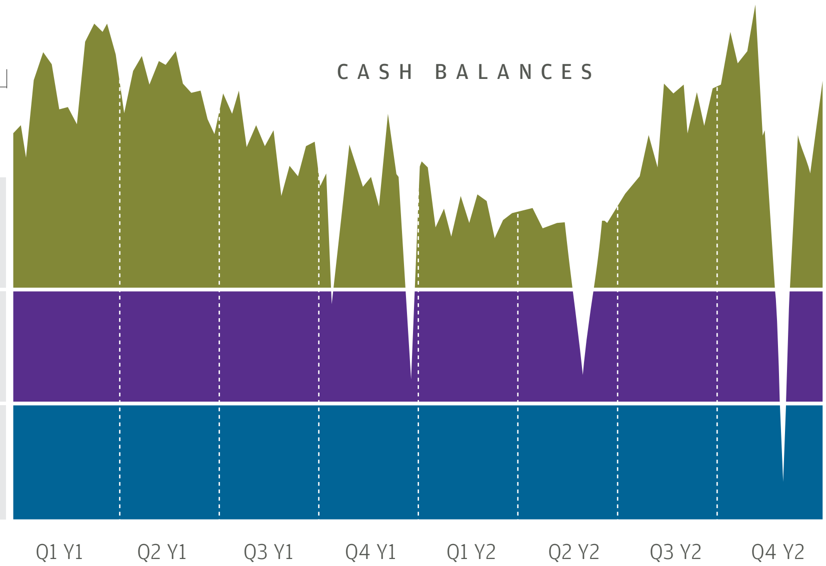
Cash segmentation

The well-established discipline of cash segmentation is an especially useful tool for short-term fixed income investors. Once a cash forecast is in place, an organization can segment its liquidity portfolio into three categories, reflecting their different liquidity needs and risk profiles (EXHIBIT 1): operating cash (requiring same-day liquidity), reserve cash (with an investment horizon of six to 12 months); and strategic cash (with an investment horizon of one year or longer).

EXHIBIT 1: UNDERSTANDING YOUR CASH NEEDS

ASSESS cash flows and segment balances → **DETERMINE** liquidity need and risk tolerance → **REVIEW** outlook → **REBALANCE** as needed

OPERATING	Horizon: Purpose: Liquidity:	Daily–6 months Fund operating needs Late-day/same-day
RESERVE	Horizon: Purpose: Liquidity:	6-12 months Acquisitions/stock repurchase Limited
STRATEGIC	Horizon: Purpose: Liquidity:	1+ years Capture cash not historically used Limited



Cash segmentation enables an organization to choose the most appropriate investment solution for each segment. (For more details, see *"Put cash in its place: Leveraging the power of cash segmentation,"* jpmgloballiquidity.com.

BUILD STRONGER LIQUIDITY STRATEGIES WITH J.P. MORGAN

Rigorous credit and risk management, combined with access to J.P. Morgan's global resources and expertise, help us to deliver the most effective short-term fixed income solutions for our clients.

Global coordination, lasting partnerships

- Harness the power of our research-driven, globally coordinated investment process, led by our dedicated team of liquidity professionals.
- Make investment decisions based on actionable insights from our senior investors, and build portfolios based on the output of proprietary benchmarking tools.
- 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.

→ **CONTACT** your client advisor for more information.