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.

GOVERNANCE—AN IPS SHOULD:

- Specify who has authority over governance
- Build in provisions for reviewers to do so regularly
- Include procedures for review to accommodate exceptional circumstances
- Specify who has final sign-off and who is authorized to participate

4 Roles and responsibilities:

Who institutes a cash investment policy statement?

Governance

While organizations vary, the cash IPS should identify responsibilities: how, when and by whom it will be approved, implemented and modified. The IPS should include provisions for ongoing evaluation: how the cash IPS will be evaluated on a regular basis and how compliance with its terms will be ensured over time.

In its Governance section, the IPS should also define how credit quality will be assessed and monitored, beyond agency ratings. As with asset management (see below), examine whether the organization has the ability and resources to do credit analysis in-house, or whether it should it be outsourced.

Review, compliance, management:

Build in provisions for regular reviews and updates to keep the IPS current and flexible enough to allow, for example, a quick response to a significant cash inflow from a divestiture or bond issue, or a cash position reduced by an acquisition, share buyback or pension funding. Risk tolerance or investment philosophy may change, too. Cash management can also be affected by a regulatory event or the introduction of a new money market product. You may want to include:

- How frequently the IPS will be reviewed (quarterly, biennially or annually) and what types of events would activate an unscheduled review.
- Who is responsible for conducting the IPS review, and who is authorized to recommend modifications (generally, the list includes the chief financial officer and treasurer, assistant treasurers, treasury department managers and other members of the treasury group; the CEO and/or board of directors may also be responsible for exceptions or updates).
- The person with final sign-off authority (typically, someone at the most senior level of responsibility for investment activities: the board of directors, CEO or CFO). Often an IPS is prepared by the CFO or treasurer and submitted to the board for final approval. These roles should be clearly delineated in the IPS.

Compliance

During extraordinary market environments, exceptions to the investment policy may become necessary even with well-written policies. Procedures should be included to accommodate exceptions, along with a formal approval process that outlines responsibility for each step.

Asset management capabilities: Internal vs. external

Once you have developed a short-term IPS, how will your organization implement it? Examine whether the resources exist internally to manage short-term fixed income assets or whether an external asset manager should be hired. For internal management, consider whether your institution has:

- the resources in-house, such as the knowledge, time and infrastructure to manage all the aspects of short-term investing. These include portfolio management systems, operations, technology and credit risk and risk control expertise.
- a credit team and, if so, whether it is sector-specific (with different analysts covering asset-backed commercial paper, financials, utilities, etc.)
- a procedure for regular compliance-monitoring reporting to senior levels

Some of the key criteria to consider when seeking an outside asset manager

1 **PORTFOLIO MANAGERS** Look at the firm's tenure in the short-term fixed income business, whether its portfolio managers have invested through multiple credit cycles and market events, and whether they bring track records in credit and risk management.

2 **DEDICATED CREDIT TEAM** Think about its size, whether credit analysts serve both short-term and long-term fixed income portfolios, and team members' average years in the industry and with the asset manager. How has the team evolved in the past two to five years? Is the credit team separate from the portfolio managers—can portfolio managers override the credit team's recommendations or list of approved issuers?

3 **BUSINESS AND GEOGRAPHIC BREADTH** Does the asset manager reside within a diversified fixed income and asset management business? Does the asset manager have global presence and scale?

4 **DIVERSITY OF CLIENT BASE** How diverse is the fund sponsor's client base? And has it garnered assets during times of market instability?

5 **SIZE, SCALE AND MARKET SHARE** What are the firm's total assets under management in short-term fixed income, including money market funds? What is its share of the money market business and how has this changed over time (in the U.S. and internationally)?

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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.