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.
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**

<table>
<thead>
<tr>
<th>Cash Flows and Segment Balances</th>
<th>Liquidity and Risk Tolerance</th>
<th>Review Outlook</th>
<th>Rebalance As Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING</strong></td>
<td>Purpose: Fund operating needs</td>
<td>Liquidity: Late-day/same-day</td>
<td></td>
</tr>
<tr>
<td><strong>RESERVE</strong></td>
<td>Purpose: Acquisitions/stock repurchase</td>
<td>Liquidity: Limited</td>
<td></td>
</tr>
<tr>
<td><strong>STRATEGIC</strong></td>
<td>Purpose: Capture cash not historically used</td>
<td>Liquidity: Limited</td>
<td></td>
</tr>
</tbody>
</table>

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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.)
Instituting a cash IPS begins with inventorying cash flows, defining liquidity targets and determining short-term fixed income investment objectives for your organization's cash that will guide cash segmentation. From those foundations, the IPS becomes more detailed, specifying acceptable levels of the many types of risk—for and within each segment. An organization can choose to have a higher-return strategic cash allocation; however, because higher returns come with a higher level of risk, this decision and its trade-offs should be well understood (even if quantifying the risk is difficult), agreed upon and documented within the IPS.

**Begin with a cash flow inventory**

From that fundamental premise, we expand below on the variety of important risk factors to consider as critical components when building out a cash IPS. In addition, we explore five related components: permissible investments, benchmarks, realized gain/loss treatment, duration strategies and sustainability (ESG) parameters, if any.

**Risk tolerance is the most important issue.** To examine various risks, which we enumerate below, we recommend considering these questions to clarify the organization’s tolerance for various types of risk and volatility:

- **Constraints** What is the organization’s tolerance for the possibility it could be unable to raise cash for a chosen purpose—that its liquidity could be constrained?
- **Fees** How does it view the prospect of having to pay a liquidity fee in times of market stress?
- **Interest rate volatility** How sensitive is the organization to unrealized portfolio losses due to interest rate volatility?

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**CRITICAL COMPONENTS OF A CASH IPS**

- Risk tolerances
- Portfolio benchmarks
- Permissible investments
- Treatment of realized gains/losses
- ESG requirements, if any

---

**INTEREST RATE RISK:** This is the risk a security’s value will change because of a change in prevailing interest rates. The operating, reserve and strategic segments may each have distinct tolerances; of the three, operating cash is likely to have the lowest interest rate risk tolerance, making it the least able to generate a high yield. The reserve segment generally has more flexibility and duration appetite. The strategic segment offers the most flexibility and assumes the highest level of tolerance for interest rate risk.

**LIQUIDITY RISK:** This is the inability to raise cash for any purpose—in an extreme case, possibly requiring sales of illiquid assets or even making it impossible to meet a debt payment (leading to default). A cash IPS will stipulate ample liquidity, through investing in short-dated maturities, so an organization won’t be forced to sell longer-dated securities to meet cash needs. In considering liquidity risk tolerance, think about how the organization views the prospect of a money market fund imposing a liquidity fee, or “redemption gate,” in a time of market stress.

**CREDIT RISK:** This is the risk that a fixed income security’s value will change due to a rating downgrade or because of a credit risk default. Credit quality is central to all fixed income investing. A security with a lower credit rating typically adds yield to the portfolio, but it also adds an element of risk. The IPS defines the minimum credit quality of individual securities; however, having an average credit quality limit on the portfolio as a whole may be just as important, to ensure credit quality diversification.

**LOSS OF PRINCIPAL RISK:** If an organization invests in a longer-duration cash product and an event provokes a major downturn, perhaps volatility in floating NAV, loss of principal is possible. The cash IPS should define whether the organization can accept some level of short-term volatility, and the degree to which it requires steady dividend income and wants to diversify its investments.
Negative returns. Could it tolerate negative total returns over the short term to achieve potentially higher returns longer term?

Realized gains/losses. What is the “bandwidth” for acceptable net realized gains/losses in a given period? An effective IPS considers these matters, defining acceptance levels for, among others, three major types of risk in a portfolio: interest rate risk, credit risk and liquidity risk.

Several further components of the IPS related to risk tolerance should also be factored in:

1 PERMISSIBLE INVESTMENTS

While different countries will have different investment options, the “permissible investments” section of a cash IPS defines the types of securities allowed, along with parameters for credit quality, maturity and diversification. It should be updated periodically to reflect market changes and the organization’s evolving investment philosophy. Along with permissible investments, the IPS should specify the course of action if a security or issuer is downgraded or has different ratings from rating agencies.

2 BENCHMARKS

Portfolio benchmarks express the organization’s goals for its cash portfolios, providing mechanisms to track performance, define risk limits and communicate clearly to, for example, an advisory committee, senior management and external asset managers. Choose transparent benchmarks that are easy to understand, clear in their composition, publicly available and, most important, that mirror the investment strategy for which they will serve as yardsticks.

3 REALIZED GAIN/LOSS TOLERANCE

An IPS should define an organization’s tolerance (if any) for realized gains/losses, on a net or absolute basis, on a per-month or per-quarter basis. This will provide clear internal parameters for acceptable performance and may give the investment manager more flexibility to help enhance return. As there are no set standards, the definition of realized gain/loss tolerance should evolve to reflect an organization’s circumstances, drawing on input from finance and accounting departments.

4 DURATION STRATEGIES

An IPS should articulate duration strategies (which will differ for each cash segment). It should delineate whether the approach in each case will be a target duration or a buy-and-hold strategy. A target can create more active trading, triggering higher costs, as well as higher levels of interest rate risk during a rate-hiking cycle. Buy-and-hold strategies are more appropriate for capital preservation, a short-duration portfolio and when liquidity is the key objective.

5 SUSTAINABILITY (ESG) PARAMETERS

Some organizations will factor in values-based screening or “impact” investing themes—also called sustainability or environmental, social and governance (ESG) parameters. A cash IPS might, for example, restrict the purchase of securities because of an issuer’s energy use.

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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?

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Cash investment policy framework
Creating a solid foundation for future cash investment decisions

A well-stated cash investment policy (hereinafter "investment policy") is an essential tool for an organization to provide a clear and documented view of its objectives and permissible investments. An investment policy communicates a common understanding of guidelines to all stakeholders and ensures a consistent approach to investing through all market conditions.

Many organizations are continually updating their investment policies to reaffirm investment goals and provide the framework flexibility to adjust to changing markets.

To help with this process, this framework outlines the most common elements in a typical investment policy, including the scope, objectives, definition of tolerance for risk and volatility, roles and responsibilities, benchmarks, permissible investments, credit quality, maximum maturity, duration, taxable vs. tax-exempt investing, realized gains/losses, reporting, evaluation and compliance, and custody.

It also includes sample language for your consideration that can be customized to fit any organization’s needs.
Scope
This policy shall apply to XYZ Corp. and the following legal entities
list each legal entity and all future legal entities of XYZ Corp.
This policy applies to short-term cash managed by:

(Choose all that apply)
- Internal staff of XYZ Corp.
- Internal staff of all related legal entities of XYZ Corp.
- External manager(s)

Short-term cash is defined as operating capital necessary for daily
operations and reserve, restricted and strategic cash. This policy
does not cover long-term or pension assets of the organization. All
investments covered under this policy will:

- Be purchased in U.S. dollars
- List currencies, or state that local currencies may be used
  by legal entities where applicable and desired to hedge
  asset exposure and minimize foreign exchange risk

Objectives
The primary objectives of XYZ Corp. are:

(Rank all that apply)
- Preservation of capital and protection of principal
- Safety of funds and investments
- Maintenance of sufficient liquidity to avoid unreasonable or
  avoidable risks
- Yield
- A high level of current income consistent with low volatility
  of principal
- A total return consistent with the benchmark

The portfolio should be managed in a way that is deemed prudent
under the outline of this policy.

Roles and responsibilities
Within the organizational structure, the following have been given
authorization to carry out the responsibilities as shown below:

(Choose the appropriate responsibilities for each role from
the list below)
ROLE:
- Board of directors
- Investment committee
- CEO
- CFO
- Treasurer
- Assistant treasurer
- Cash manager
- Treasury analyst
- Treasury department

RESPONSIBILITIES:
- Approve investment policy
- Authorize revisions and recommend changes to the
  investment policy
- Provide investment oversight
- Execute policy
- Interpret policy and ensure conformity
- Approve exceptions to the policy in writing
- Open investment accounts
- Establish custody relationships
- Select and change external managers
- Execute investment documents
- Update and review policy on a predetermined periodic basis
- Invest cash
- Monitor the investment results of all external investment
  management firms, as well as any in-house investment
  activities

Annual or other time frame review of the policy is required.
Benchmarks

XYZ Corp. intends to use the following benchmarks for each applicable currency:

(Choose the appropriate benchmark[s] for each applicable currency. Please note that this is not an exhaustive list of available benchmarks.)

**USD BENCHMARKS**
*(BofA Merrill Lynch and Barclays Capital are the most frequently used index providers.)*
- 3-month U.S. Treasury Bill Index
- 6-month U.S. Treasury Bill Index
- 9–12 month U.S. Treasury Bill Index
- 1–3 year Treasury Index
- 1–3 year Government Index
- 1–3 year Government/Credit Index
- 1–5 year Treasury Index
- 1–5 year Government Index
- 1–5 year Government/Credit Index

**EUR BENCHMARKS**
- 3–month Euro Government Bill Index
- 3–month German Government Bill Index
- Euro Government Bill Index
- German Government Bill Index
- 0–1 year Euro Government Index
- 0–1 year AAA Euro Government Index
- 0–1 year AAA–AA Euro Government Index
- 1–3 year Euro Government Index
- 1–3 year AAA Euro Government Index
- 1–3 year AAA–AA Euro Government Index
- 1–3 year Global Government Bond Index hedged to EUR

**GBP BENCHMARKS**
- 0–1 year UK Gilt Index
- 1–3 year Sterling Broad Market Index
- 1–3 year AAA Sterling Broad Market Index
- 1–3 year AAA–AA Sterling Broad Market Index
- 1–3 year Global Government Bond Index hedged to GBP

**SGD BENCHMARKS**
- 1–3 year Singapore Government Index
- 1–3 year Global Government Bond Index hedged to SGD

**AUD BENCHMARKS**
- 1–3 year Australia Government Index
- 1–3 year Australia Broad Market Index
Permissible investments

While different countries will have different investment options, the permissible investments section of an investment policy defines the types of securities that are permitted, along with parameters for credit quality, maturity and diversification. This section should be updated periodically to reflect market changes and the organization’s evolving investment philosophy, which could include considerations like environment, social, and governance (ESG) guidelines. The following chart is provided for illustrative purposes only and does not represent all investments or parameters. Based upon objectives, the organization would assign an appropriate parameter from the suggested ranges below.

<table>
<thead>
<tr>
<th>Security type</th>
<th>Minimum credit rating</th>
<th>Maximum maturity</th>
<th>Maximum portfolio exposure</th>
<th>Maximum issuer exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury securities</td>
<td>N/A</td>
<td>0–5 years</td>
<td>No limit</td>
<td>No limit</td>
</tr>
<tr>
<td>U.S. government agency obligations</td>
<td>N/A</td>
<td>0–5 years</td>
<td>50%–no limit</td>
<td>No limit</td>
</tr>
<tr>
<td>Obligations of non-U.S. agencies, governments and supranational organizations</td>
<td>All investment grade ratings from AAA to BBB-, or the equivalent, depending on credit risk tolerance</td>
<td>0–5 years</td>
<td>50%–no limit</td>
<td>5%–No limit</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance</td>
<td>0–397 days</td>
<td>50%–no limit</td>
<td>3%–5%</td>
</tr>
<tr>
<td>Asset-backed commercial paper</td>
<td>All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance</td>
<td>0–397 days</td>
<td>50%–no limit</td>
<td>3%–5%</td>
</tr>
<tr>
<td>Certificates of deposit (domestic, eurodollar and yankee)</td>
<td>All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance</td>
<td>0–5 years</td>
<td>50%–no limit</td>
<td>3%–5%</td>
</tr>
<tr>
<td>Time deposits, including eurodollar deposits</td>
<td>All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance</td>
<td>0–3 months</td>
<td>50%–no limit</td>
<td>3%–5%</td>
</tr>
<tr>
<td>Money market funds (institutional)</td>
<td>SEC Rule 2a-7 compliant, Institutional Money Market Funds Association (IMMFA) compliant, European Securities and Markets Authority (ESMA) ST MMF</td>
<td>N/A</td>
<td>50%–no limit</td>
<td>No greater than 5% to 10% of total assets of the money market fund</td>
</tr>
<tr>
<td>Private placement funds, including 3(c)(7) funds, lux Specialized Investment Funds (SIFs)</td>
<td>N/A</td>
<td>N/A</td>
<td>50%–no limit</td>
<td>No greater than 5% to 10% of total assets of the fund</td>
</tr>
<tr>
<td>Variable NAV short-term fixed income funds</td>
<td>Not generally applicable</td>
<td>N/A</td>
<td>50%–no limit</td>
<td>No greater than 5% to 10% of total assets of the fund</td>
</tr>
<tr>
<td>Corporate debt securities, including corporate notes, bonds and medium-term notes (fixed and floating rate)</td>
<td>All investment grade ratings from AAA to BBB-, or the equivalent, depending on credit risk tolerance</td>
<td>0–5 years</td>
<td>0%–50%</td>
<td>3%–5%</td>
</tr>
<tr>
<td>Asset-backed securities, including, but not limited to, securities backed by credit card, auto and other assets</td>
<td>AAA/aaa/AAA</td>
<td>0–5 years weighted average life</td>
<td>0%–30%</td>
<td>3%–5%</td>
</tr>
<tr>
<td>Mortgage-backed securities, limited to agency mortgage-backed securities, including agency-collateralized mortgage obligations</td>
<td>N/A</td>
<td>0–5 years weighted average life</td>
<td>0%–30%</td>
<td>3%–5%</td>
</tr>
<tr>
<td>Commercial mortgage-backed securities</td>
<td>AAA/aaa/AAA</td>
<td>0–5 years weighted average life</td>
<td>0%–30%</td>
<td>3%–5%</td>
</tr>
<tr>
<td>Traditional repurchase agreements, collateralized fully by cash or U.S. government securities</td>
<td>All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance</td>
<td>Overnight to 95 days</td>
<td>50%–no limit</td>
<td>0%–25%</td>
</tr>
<tr>
<td>Non-traditional repurchase agreements, collateralized by corporate debt securities, sovereign debt, municipal debt, private mortgages, asset-backed securities, mortgage market securities and equity</td>
<td>All investment grade ratings from A-1+ to A-2, or the equivalent, depending on credit risk tolerance</td>
<td>Overnight to 95 days</td>
<td>50%–no limit</td>
<td>0%–10%</td>
</tr>
<tr>
<td>Variable Rate Demand Notes (VRDNs)</td>
<td>A-1+/P-1/F1, SP-1+/Variable Municipal Investment Grade (VMIG) 1/F1, A-1+/P-1/F1, SP-1+/VMIG 1/F1</td>
<td>0–397 days^6</td>
<td>0%–100%</td>
<td>3%–10%</td>
</tr>
<tr>
<td>Municipal securities</td>
<td>All investment grade ratings from AAA to BBB-, or the equivalent, depending on credit risk tolerance^6,^10,^11</td>
<td>0–5 years</td>
<td>0%–100%</td>
<td>3%–10%</td>
</tr>
<tr>
<td>Covered bonds</td>
<td>AAA/aaa/AAA</td>
<td>0–5 years</td>
<td>0%–50%</td>
<td>3%–5%</td>
</tr>
<tr>
<td>Ultra-short ETFs</td>
<td>N/A</td>
<td>0–5 years</td>
<td>50%–no limit</td>
<td>3%–5%</td>
</tr>
</tbody>
</table>

1. Where applicable, specify if it is permissible to purchase instruments in broad range of currencies.
2. Order of ratings is S&P/Moody’s/Fitch.
3. At time of purchase.
5. Depending upon the tenor of the certificates of deposit, long-term ratings may be more appropriate than the short-term ratings shown here.
6. Details on requirements are included in the Reference Guide.
7. Repurchase agreements are referred to as reverse repurchase agreements outside the United States.
8. Or, if unrated, have been determined to be of comparable quality.
9. For VRDNs, most commonly used maturity limits are reset dates, with most being puttable either daily or weekly, in which case an investor would receive its principal back within one to five business days stating a similar effective maturity.
10. Depending upon the tenor of municipal securities, short-term ratings may need to be included here as well, such as A-1+/P-1 or the equivalent.
11. It is common to use short-term ratings, especially with notes, (i.e., Bond Anticipation Notes, Tax Anticipation Notes and Tax and Revenue Anticipation Notes).
Credit quality

The minimum average credit quality of the portfolio will be (choose one from the list below) or the equivalent:

- AAA
- AA+
- AA
- AA-
- A+
- A
- A-
- BBB+
- BBB
- BBB-

The minimum credit quality for individual securities with short-term ratings will be (choose one from the list below) or the equivalent:

- A-1+/P-1/F1+
- A-1/P-1/F1
- A-2/P-2/F2

The minimum credit quality for individual securities with long-term ratings will be (choose one from the list below) or the equivalent:

- AAA/Aaa/AAA
- AA+/Aa1/AA+
- AA/Aa2/AA
- AA-/Aa3/AA-
- A+/A1/A+
- A/A2/A
- A-/A3/A-
- BBB+/Baa1/BBB+
- BBB/Baa2/BBB
- BBB-/Baa3/BBB-

For securities with split ratings, the (choose one from the list below) will prevail:

- Lowest rating
- Middle rating
- Highest rating

Each individual security held within the portfolio must be rated by:

(Choose one)

- At least one nationally recognized statistical ratings organization, such as S&P, Moody’s or Fitch
- At least two nationally recognized statistical ratings organizations, such as S&P, Moody’s or Fitch
- Unrated securities may be included if the investment manager assigns an equivalent rating to the required minimum

Such ratings are required:

(Choose one)

- At time of purchase
- At all times

Maximum maturity

At the time of purchase only, the maximum maturity of individual securities is X years. For securities with puts or mandatory tenders, the put date or mandatory tender date will be used as the final maturity. For amortizing assets (such as asset-backed securities and mortgage-backed securities), the weighted average life (WAL) will be used as the measure of maturity. At the time of purchase only, the maximum WAL will not exceed X years.
Duration
The maximum interest rate duration of the portfolio will be no longer than $X$ year(s).

Taxable vs. tax-exempt investing
This item is applicable to U.S. investors only. Other countries may have similar considerations:
The organization will invest on a tax-aware basis to maximize after-tax return, subject to any net operating losses (NOLs) or other tax implications that may preclude the use of tax-exempt securities, and subject to all other criteria required by the policy. Because the organization’s tax situation may change over time, its tax basis for the coming year will be determined annually by the Tax Department. Additionally, each portfolio must be reviewed with its portfolio managers to ensure it meets the organization’s tax needs at that time. The determination regarding the purchase of a taxable security vs. a tax-exempt security shall be made at the time of purchase of each security.

Realized gain/loss
(Choose all that apply)
- The organization will establish an appropriate threshold for the potential realization of investment net gains and/or losses
- Net realized gains and/or losses will be kept to $X$ percentage or $X$ dollars per month/quarter
- Currently does not apply because the strategy is buy-and-hold, and securities are held to maturity

For investments in money market mutual funds, a detailed holdings report and fact sheet will be obtained monthly.

Reportings
(Choose all that apply)
- The investment manager
- The custodian
- The broker
- The internal treasury personnel

responsible for the management of cash will provide statements, including transactions, market valuation, Financial Accounting Standards Board (FASB)/International Accounting Standards Board (IASB)/generally accepted accounting principles (GAAP) valuations, cash accruals and a review of the performance of the portfolio assets vs. appropriate benchmarks.

The reports should include the following:

• List of all securities held in the portfolio, including CUSIP, coupon and maturity dates, yield to maturity and ratings of the securities

• Mark-to-market details, with the unrealized gain/loss of each security in the portfolio

• Performance total returns for the month, year-to-date, rolling one-year and three-year periods, as well as all periods since inception

• Certification of compliance with investment policy

(Choose the frequency for each of the appropriate reports)
- Monthly
- Quarterly
- Semi-annually
- Annually
Evaluation and compliance

This policy has been approved by the (choose one from list A). This policy is subject to amendment from time to time. The (choose one) is responsible for implementing, overseeing and reviewing this policy, and for making recommendations to the (choose one) for modifications thereto. Furthermore, the (choose one) has the authority to appoint qualifying outside managers. Should an exception need to be made, the (choose one) must approve. Any modifications or updates to this policy must be approved by the (choose one).

(List A — choose one)
- Board of directors
- Investment committee
- CEO
- CFO
- Treasurer
- Assistant treasurer
- Cash manager
- Treasury analyst
- Treasury department

The (choose one from list A) will review the following on a:

(Choose one)
- Quarterly basis
- Semi-annual basis
- Annual basis
- Other

- Investment results for the most recent fiscal quarter
- Investment allocations among instruments
- Allocation of assets among investment solutions (money market mutual funds, bank deposits, individual securities)
- Credit ratings for the investment solutions and investment providers
- Current strategy given the outlook on interest rates, market conditions and liquidity needs
- Compliance with the investment policy

In the event a security is downgraded below minimum acceptable rating levels by any of the nationally recognized statistical rating organizations (NRSROs):

The external investment manager and/or treasury personnel responsible for the internal management of the corporate cash will provide the (choose one from list A) with a recommended course of action within a reasonable period of time. This may include selling the security. However, if the decision is made to hold the security, the reason for the decision must be documented.

Custody

All institutions with which the organization is permitted to place investments are eligible to provide custodial services. The organization will use custody services provided by:

(Choose one)
- External investment manager
- Broker-dealer
- Third-party custodian

Prior to contracting for custodial services, the external investment manager, broker-dealer or third-party custodian must agree to provide reporting as required by the organization in this policy, along with an annual SAS 70 or similar statement.

Approved as of ________________________, 2018.

XYZ Corp.

By: ________________________________

Name: ______________________________

Title: ______________________________
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