



Global Liquidity Insights

Put cash in its place

Leveraging the power of cash segmentation

What does it mean to think holistically about investing your cash?

The most effective strategy incorporates a clear investment policy, well-defined goals and parameters for liquidity, quality and return. An essential element, in our view: cash segmentation.

In following this well-established discipline, organizations distinguish among operating cash (with an investment horizon of same day to six months), reserve cash (with an investment horizon of six to nine months or longer) and strategic, or core cash (with an investment horizon of one year or longer). They can then choose the most appropriate investment solution for each segment.

As markets shift and business needs evolve, cash segmentation has become an especially useful tool for short-term fixed income investors. In the following pages we examine how segmentation should be addressed in an investment policy; how to forecast cash flows and establish the structure of segmentation; and how best to choose an investment solution for each segment of a cash portfolio.

Investment policy

An organization’s investment policy, which defines the objectives of liquidity investment, should guide the framework around cash segmentation. An investment policy will specify what percentage of an investment portfolio must be in cash, list the investment goals, and identify acceptable levels of risk (defining, for example, maximum portfolio duration and the minimum credit rating for a security in the portfolio).

Cash forecasting

Cash segmentation begins with a detailed cash forecast. An organization should first determine what percentage of a portfolio needs to be immediately accessible as cash and what percentage can be viewed as surplus cash. The precise detail captured in that forecast will depend on how much visibility a business has on its cash flows. Ideally, the treasury team should try to ascertain when and where surplus cash is held in the organization, how much of it is available and for how long.

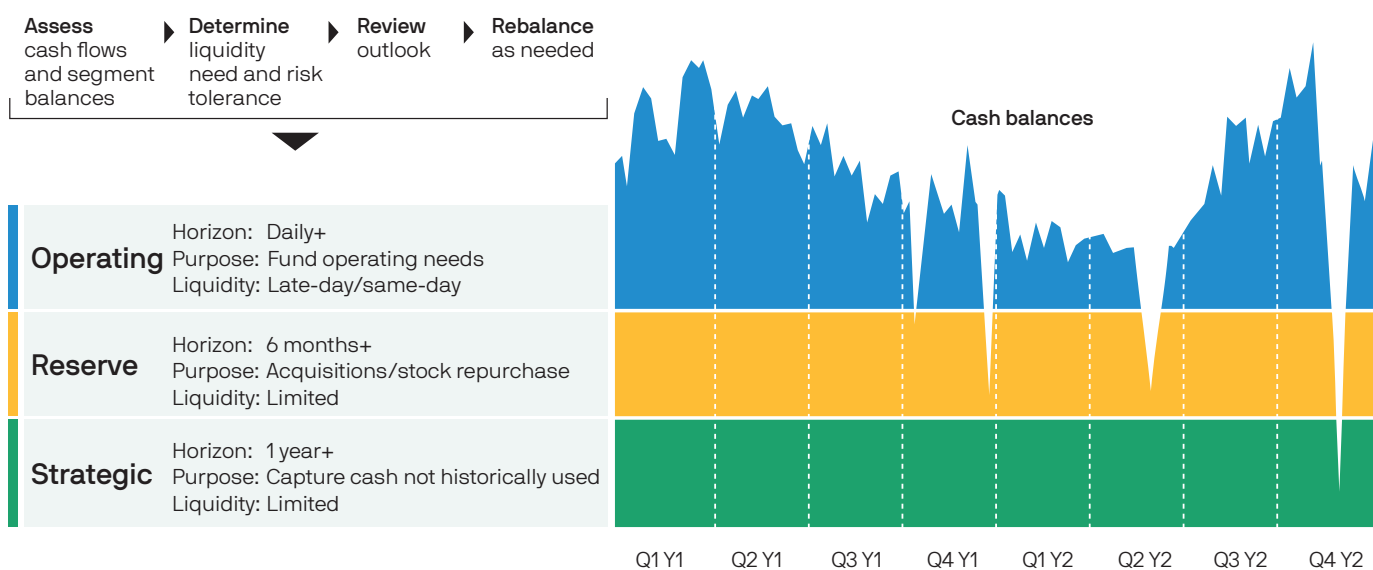
Accuracy is important. If the level of surplus cash is underestimated, then it may not be invested optimally and the organization could miss the opportunity to capture valuable investment returns. Conversely, if the level of surplus cash is overestimated, cash may need to be pulled from investments on short notice, which could lead to realized losses. An organization’s treasury team may also run the risk that it cannot liquidate investments in time to meet business needs and may need to find funding from alternate sources.

Cash segmentation

In making a cash forecast, an organization should consider if any event could have an effect on the cash position—and then assess its likelihood and timing. For example, a surplus cash position might be substantially increased by a bond issue or sale of part of the business. Conversely, the cash position may be reduced by an acquisition, share buyback or pension funding.

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, used to fund an organization’s day-to-day needs, requires late day/ same day liquidity. Reserve cash, used for such items as acquisitions, stock repurchase or R&D, does not require same day liquidity. Finally, strategic cash, surplus cash that can accommodate even more limited liquidity, can be invested over a longer-term horizon.

Exhibit 1: Understanding your cash needs



For illustrative purposes only

Investment solutions

The most effective liquidity strategy will select a specific investment solution for each cash segment (**Exhibit 2**).

Operating cash may be invested in money market funds (MMFs), government or prime, with either a stable or floating net asset value (NAV). Bank obligations, treasuries and commercial paper are other solutions for operating cash requiring same-day liquidity.

Because reserve cash requires limited liquidity, it can be invested over a horizon of 6–12 months, thereby capturing incrementally higher yields and returns than money market funds, while taking on only slightly greater risk and keeping a focus on preservation of principal. A strategy for reserve cash could have a portfolio duration of up to one year, investing in commercial paper, asset-backed securities and corporate bonds, among other securities. The maximum maturity for an individual security could be as much as three years.

As surplus cash, with no identified short-term use, strategic cash can be invested over an even longer horizon of one to three years. The portfolio duration for short duration bond funds is 1.5 to 2.5 years; these funds can thus offer still-higher yields and returns than reserve funds, while controlling for risk and maintaining a focus on preservation of principal. Volatility is more noticeable, but while an investor may see deterioration in NAV on a daily or even monthly basis, this would likely not be the case over longer time periods.

Conclusion

As we have discussed, a detailed cash forecast sets the foundation for effective cash segmentation, which has become an increasingly important tool for short-term fixed income investors. Segmenting a liquidity portfolio into operating cash, reserve cash and strategic cash allows for an optimal outcome: additional return/income within acceptable levels of volatility.

Build stronger liquidity strategies with J.P. Morgan

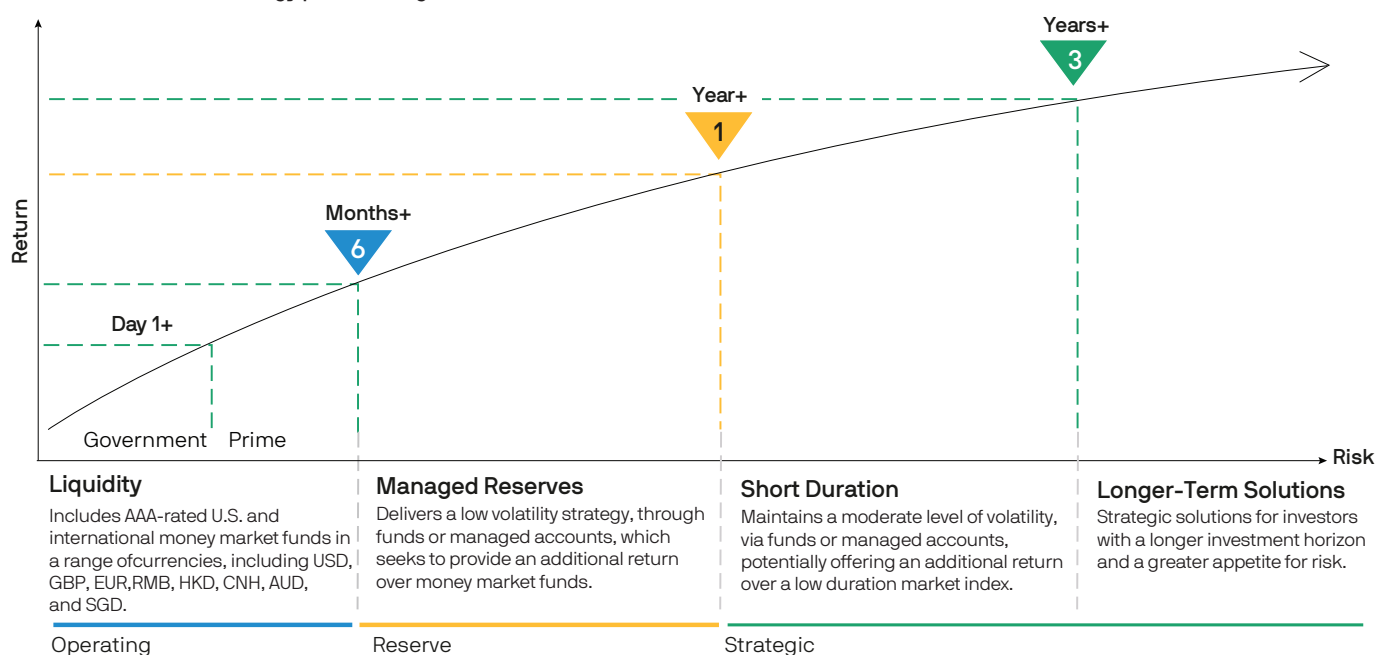
Rigorous credit and risk management, combined with access to

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 cash strategy.
- Tap into 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.

Exhibit 2: Investment strategy per cash segment



For illustrative purposes only

NOT FOR RETAIL DISTRIBUTION: This communication has been prepared exclusively for institutional, wholesale, professional clients and qualified investors only, as defined by local laws and regulations.

The views contained herein are not to be taken as advice or a recommendation to buy or sell any investment in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own financial professional, if any investment mentioned herein is believed to be appropriate to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. It should be noted that investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yield are not a reliable indicator of current and future results. J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at <https://am.jpmorgan.com/global/privacy>. This communication is issued by the following entities: In the United States, by J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative Asset Management, Inc., both regulated by the Securities and Exchange Commission; in Latin America, for intended recipients' use only, by local J.P. Morgan entities, as the case may be; in Canada, for institutional clients' use only, by JPMorgan Asset Management (Canada) Inc., which is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon and is also registered as an Investment Fund Manager in British Columbia, Ontario, Quebec and Newfoundland and Labrador. In the United Kingdom, by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions, by JPMorgan Asset Management (Europe) S.à r.l. In Asia Pacific ("APAC"), by the following issuing entities and in the respective jurisdictions in which they are primarily regulated: JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, each of which is regulated by the Securities and Futures Commission of Hong Kong; JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; JPMorgan Asset Management (Taiwan) Limited; JPMorgan Asset Management (Japan) Limited, which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia, to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Commonwealth), by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919). For U.S. only: If you are a person with a disability and need additional support in viewing the material, please call us at 1-800-343-1113 for assistance.

© 2022 JPMorgan Chase & Co. All rights reserved.

LV-JPM53704 | 06/22 | 0903c02a81ffbaae
