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Adam Smith Awards 2021

Overall Winner

Best Investing Solution

FARFETCH

Manuele Rosignoli, Group Treasurer

FARFETCH

Launched in 2008, FARFETCH is the leading global platform for the luxury fashion industry, with over US$3bn of gross merchandise value connecting over three million consumers across over 190 countries and territories.

Multi-investment solution to a billion-dollar cash pile

The challenge

During 2020, FARFETCH built up considerable cash reserves of approximately US$1.5bn. Against a backdrop of near-zero global interest rates, the treasury team faced many challenges in managing this substantial cash reserve while ensuring their key treasury objectives were met:

- **Ensuring high levels of liquidity** – access to cash remained of strategic importance to treasury. Liquidity needed to be available, not only to fund working capital and capital expenditures but also to finance the company's ongoing growth strategy. Simply locking cash in long-term deposits was not an option.
- **The hunt for yield** – given the Fed's implementation of a zero interest rate policy (ZIRP), FARFETCH needed an investment solution that remained risk conservative but would simultaneously generate yield, thereby reducing the cost of carry on its debt. This challenge was compounded given the current outlook for US$ rates.
- **Adhering to internal policy** – the existing investment policy had not been reviewed for some time and was highly restrictive in terms of permissible investments. Counterparty limits were also challenging, given the materially higher levels of cash that FARFETCH was running. The accounting impact of longer-dated investments needed internal review and approval.

"Any solution needed to be compatible with our existing investment platform to facilitate execution and manage risk and we needed to keep within operational deposit limits with our relationship banks. Basel III requirements meant that cash could not simply be centralised with our house bank," explains Manuele Rosignoli, Group Treasurer.

The solution

Following multiple review sessions with the asset management function of the bank, FARFETCH was offered a multi-investment solution that met the company's needs.

Investment policy: the company conducted a thorough review of its existing investment policy, challenging if it was appropriate and increasing its flexibility given the new higher levels of cash it was holding as well as the lower interest rate environment. Utilising J.P. Morgan Asset Management's PeerView Survey, the team also analysed the approaches of other emerging technology companies with a similar cash and currency mix and determined that internal adjustments to counterparty limits would ensure appropriate diversification across providers but still within a manageable group. Ultimately, the CFO and board approved the changes.

Cash segmentation: following an analysis of its short and long-term liquidity requirements, FARFETCH segmented its cash into operational, reserve, and strategic buckets, making it easier for the team to optimise its investment approach across different solutions with varying investment horizons. As part of the cash portfolio, the treasury team selected an ultra-short duration variable net asset value (VNAV) fund, which offered an optimal risk-return/liquidity blend with greater performance, without locking cash away for a fixed term.

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Performance analysis and accounting impact: given the inclusion of ultra-short duration funds, FARFETCH analysed both the credit aspects and interest rate risks in detail. Looking back over a ten-year period, the team were able to create a granular returns profile to ensure risk was both manageable and within their variability thresholds. They also evaluated any unforeseen impact to their balance sheet.

Best practice and innovation

Improved diversification and enhanced performance potential, critical at a time of near-zero interest rates and the ability to align longer-term strategic cash to a fund vehicle with a similar investment horizon.

Key benefits

- Broader array of investment solutions, spreading credit risk.
- Better alignment of cash segments across the tenor and credit spectrum.
- Increased returns on cash, while adhering to internal risk thresholds.
- Fund execution, risk management and reporting across a single portal.

"We are incredibly excited about the new approach," said Rosignoli. "By laddering our cash across the tenor and credit spectrum, we have optimised performance but still remain risk conservative."

After building-up considerable cash reserves, our client FARFETCH required a short-term investment solution that ensured liquidity and return opportunities, particularly in the current ultra-low rate environment.

The solution that J.P. Morgan Asset Management provided not only met these objectives but also helped leverage the company's ability to segment cash and improve risk diversification.

Richard Ayrton, Client Advisor, J.P. Morgan Global Liquidity

in partnership with J.P.Morgan Asset Management