2016 AFP

Liquidity Survey

REPORT OF SURVEY RESULTS

AFP® ASSOCIATION FOR FINANCIAL PROFESSIONALS

Underwritten by

STATE STREET GLOBAL ADVISORS®

KEY FINDINGS

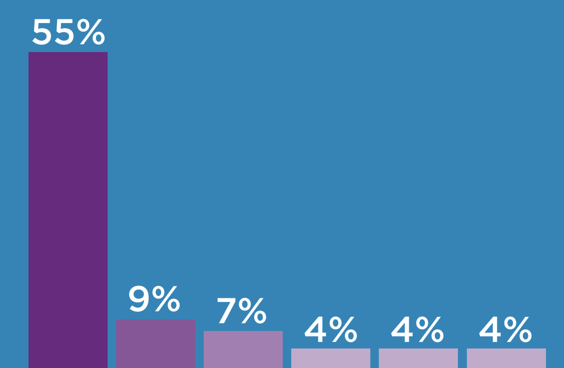
ASSOCIATION FOR FINANCIAL PROFESSIONALS

2016 AFP

Liquidity Survey Report

How do you choose your organization's banking partner?

90% of finance professionals indicate their relationship with their bank is of utmost importance when deciding on where to invest.



Organizations' Short-term Portfolio Allocations:

55% Bank Deposits
9% Prime/Diversified Money Market Mutual Funds
7% Government/Treasury Money Market Mutual Funds
4% Eurodollar Deposits
4% Treasury Bills
4% Commercial Paper

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July 2016

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STATE STREET GLOBAL ADVISORS

ASSOCIATION FOR FINANCIAL PROFESSIONALS

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Dear Corporate Practitioner/Financial Professional:

State Street Global Advisors (SSGA) is pleased to once again partner with the AFP to sponsor the Liquidity Survey. This research continues to provide critical insights to the issues we face as we jointly address the seminal shifts in the cash management industry. As we approach money market fund reform compliance dates, the second half of 2016 may prove to be one of the most challenging periods in the industry's history, and we are eager and ready to support you and your organizations as you navigate this period of change.

It is clear from the results that treasurers continue to place the highest priority on the safety of their organizations' cash and short term investments. This important investment objective has remained consistent and is not likely to change given the volatile global economic picture and political and terrorist worries across the globe.

Also notable in the study is the degree to which treasurers rely on their cash management partners for market expertise and support as well as investment execution. SSGA is privileged to continue to nurture this type of relationship with many institutions and organizations over the last several decades.

Although money market reform is bearing down on us with a mid-October implementation deadline, many treasurers are taking a "wait and see" approach, keeping an eye on interest rates and evaluating options on a real-time basis. It remains unclear what level of assets will move between different types of cash investments, but many viable options exist across the short term spectrum to meet your investment objectives.

Regardless of which way the markets turn and what strategy and solutions you choose to reach your goals, SSGA will be here to help. Our 30+ years helping institutional investors to address their cash needs underscores our commitment to thought leadership and innovation focusing on collaboration and understanding clients' needs.

I hope you find the 2016 Liquidity Survey helpful to your organization and we look forward to working together with you in 2016 and beyond.

Sincerely,
Yeng Felipe Butler
Global Head of Cash Business
www.ssga.com/cash

Introduction

In the past year, domestic economic indicators have been encouraging: continuing upticks in employment numbers, a long-awaited interest rate increase by the Federal Reserve Board and precipitously low energy prices. Last winter's far less severe weather also encouraged some confidence in business leaders in the early months of 2016.

However, the global economy has not had the same good fortune, instead experiencing extreme volatility, downward spirals in the various equity markets and the devaluation of major currencies. Indiscriminate terrorist attacks have shaken the confidence of many, including business leaders, and several European countries are dealing with an unprecedented migrant crisis. These developments have contributed to a tremendous amount of uncertainty in global markets.

These two seemingly divergent economic states have generated a sense of cautious optimism among treasury and finance professionals as they plan and execute their organizations' investment strategies. They are being pulled in different directions. On one hand, they appear poised to invest; on the other, they may be inhibited by circumstances beyond their control. They are eager to begin investing in capital expenditure and to focus on expanding their business operations, but at the same time are being forced to maintain the *status quo* as the current economic environment is less-than-conducive to taking risks. This behavior is reflected in the sentiment shared by treasury and finance leaders earlier this year when they predicted a year of "tepid" economic growth.[1]

To assess current and emerging trends in organizations' cash and short-term investment holdings, and to gauge how treasury and finance professionals are managing cash and liquidity in the prevailing economic environment, the Association for Financial Professionals® (AFP) has been conducting its liquidity survey each year since 2006. Continuing these efforts, AFP conducted its 11th Liquidity Survey in May 2016. The survey generated 787 respondents from corporate practitioners from organizations of varying sizes and representing numerous industries. (For more details about the survey, including demographic breakdowns, see page 28.) Results from this survey report provide treasury and finance professionals with critical benchmarks on short-term investment holdings and strategies.

Key findings from this year's results reveal that one-fourth of corporate practitioners expect their organizations' cash balances to increase in the next 12 months. At the same time, a majority expects those balances to remain the same. Over 60 percent of organizations are holding some cash balances outside the U.S. A large share of organizations continues to maintain written investment policies. Although it has been more than eight years since the last recession and the U.S. economy has been exhibiting signs of recovery, two-thirds of finance professionals continue to report that safety is their organizations' most important investment objective. Organizations are investing 55 percent of their short-term investments in bank deposits.

AFP thanks State Street Global Advisors (SSGA) for its underwriting support of the *AFP Liquidity Survey*. Both questionnaire design and the final report, along with its content and conclusions, are the sole responsibility of AFP's Research Department. Information on survey methodology and demographics of respondents can be found at the end of this report.

[1] The 2016 AFP Business Outlook Survey Report, www.afponline.org/outlook/

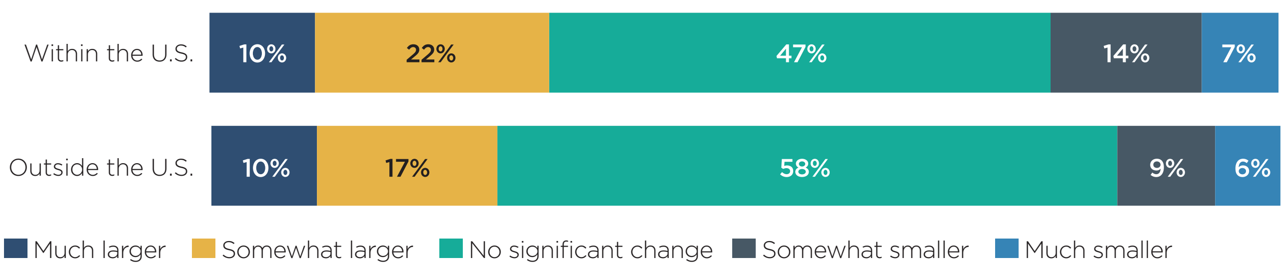
Holdings of Cash and Short-term Investments/Securities

The U.S. economy is relatively stable. But companies are still not convinced that the *global* economy is on an upward path to recovery and so continue to use the cash on their balance sheets as a buffer against uncertainty. In addition, cash and short-term investment balances are often mandated by companies' business objectives. Almost one-third of practitioners reports that their organizations' cash holdings within the U.S. increased from May 2015 to May 2016. At the same time, 47 percent indicate no significant change.

Those companies that have cash or short-term investments outside the U.S. have taken global conditions into account. In the past year the global economy has faced some severe headwinds, the Eurozone never managed to shake-off its crisis, and China dealt with a steep plunge in its markets coupled with a devaluation of its currency. In addition, Europe endured multiple terrorist attacks and many countries have been coping with a massive migrant crisis. Consequently, finance professionals have remained cautious about holdings outside the U.S. Only 42 percent of organizations made few changes to their cash and investment balances outside the U.S. from May 2015 to May 2016, while 58 percent of finance professionals report that in the past year their organizations' investments outside the U.S. were unchanged—similar to the 56 percent in the *2015 AFP Liquidity Survey*.

32% of finance professionals report an increase in their organizations' cash holdings within the U.S. in the past year

Change in Cash and Short-Term Balances Over the Past 12 Months: U.S. and Non-U.S. Cash Holdings
(Percentage Distribution of Organizations with Cash and Short-Term Investments Outside the U.S.)



Cash balances can be impacted by various factors, but the primary one is operating cash flow. Similar to results in previous surveys, this year's survey results also suggest that the majority of organizations that increased their cash holdings in the past 12 months did so because they were generating higher operating cash flow (cited by 64 percent of respondents). The second most-often cited driver of greater cash holdings is generating increased debt outstanding/accessed debt markets (24 percent), followed by decreased capital expenditures and paid back/retired debt (each cited by 16 percent of practitioners).

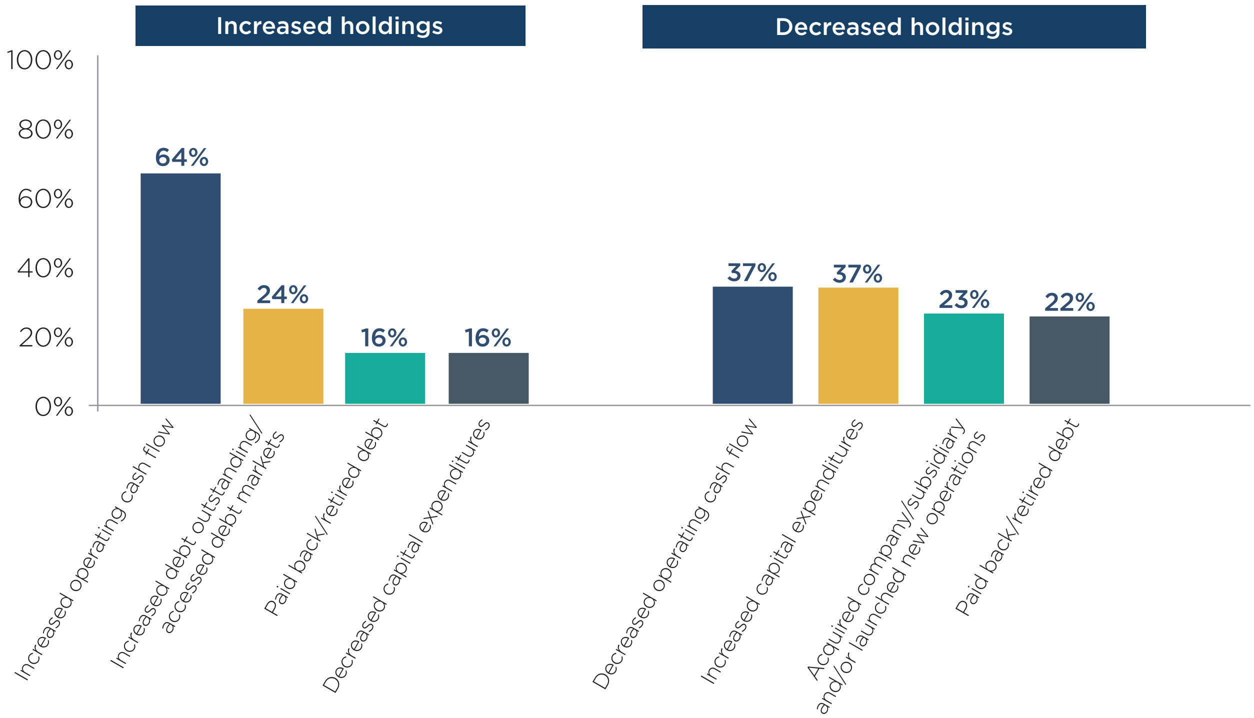
For those companies that had decreased cash holdings compared to a year ago, the primary reasons were:

- Increased capital expenditure (cited by 37 percent of finance professionals)
- Decreased operating cash flow (37 percent)
- Acquired company/subsidiary/or launched new operations (23 percent)
- Paid back/retired debt (22 percent)

Three of the cited reasons for decreased cash holdings are more strategic and are the result of an organization's longer-term view. Increased capital expenditures, acquisitions and retiring debt are examples that show companies are spending their cash wisely by positioning themselves to perform better in the longer term. Investing back into the business is evidence that those companies have an optimistic approach to their longer-term business.

The majority of organizations that increased cash holdings did so because they generated higher operating cash flow

Leading Causes of the Net Change in Organizations' Cash Holdings
(Percent of Organizations with Increased or Decreased Cash Holdings in the Past 12 Months)



Leading Causes of Net Changes in Organizations' Cash Holdings Over the Previous 12 Months
(Percent of Respondents Citing Increased or Decreased Holdings)

	All Responses	Organizations with U.S. Cash Holdings Increasing Over the Past 12 Months	Organizations with U.S. Cash Holdings Decreasing Over the Past 12 Months
Increased operating cash flow	47%	64%	22%
Increased capital expenditures	22	13	37
Paid back/retired debt	20	16	22
Decreased operating cash flow	19	9	37
Increased debt outstanding/ accessed debt markets	19	24	18
Acquired company/subsidiary and/or launched new operations	17	15	23
Decreased capital expenditures	14	16	9
Shortened/decreased working capital cash conversion cycle	11	6	12
Divested company/subsidiary and/or closed operations	7	6	6
Lengthened/increased working capital cash conversion cycle	6	4	8
Issued equity	3	4	3
Other	11	9	17

Looking ahead, 55 percent of practitioners anticipate their organizations' average short-term cash balances and short-term investments will remain unchanged from May 2016 to May 2017. This is very similar to the 56 percent who held the same view in last year's survey for the period May 2015 to May 2016. One-fourth of corporate practitioners predict their organizations will increase cash balances over the next 12 months and 20 percent expect cash balances to decrease.

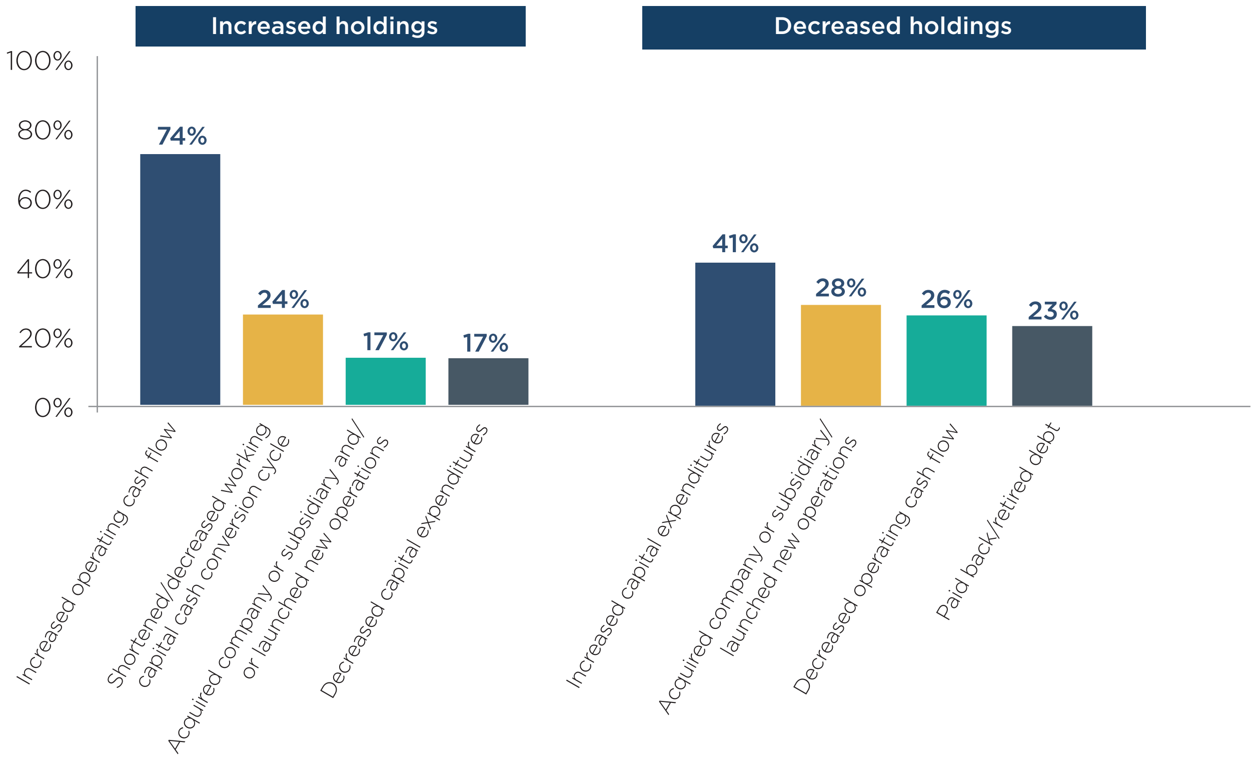
Finance professionals' expectations for cash balances/short-term investments in the next 12 months are fairly consistent across demographic categories, with the exception that companies which are net investors plan to increase cash balances more so than are their peers that are net borrowers. One reason for this result is that net investors generally are less-leveraged companies and thus typically have less debt service to support. They generate cash more quickly and tend to hold it as a liquidity buffer in times of uncertainty. Net debtors, on the other hand, typically focus on paying down debt as they generate cash.

Expected Change in Cash and Short-Term Investment Balances Over the Next 12 Months
(Percentage Distribution of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Larger	25%	28%	25%	22%	31%	27%	27%	27%	27%
About the same	55	54	50	55	49	52	50	49	50
Smaller	20	18	25	23	20	21	24	23	23

Nearly three-fourths of finance professionals from organizations that expect to increase their cash holdings in the next 12 months believe such an increase will be the result mainly of increased operating cash flows. As cash builds from stronger operating flows, it may be advantageous to put it back into the business through capital expenditures. Among those finance professionals who anticipate their organizations will *decrease* their cash holdings over the next 12 months, 41 percent see such action as a result of increased capital expenditures. In addition, 28 percent of those anticipating a decline in cash cite acquired company/subsidiary and/or launched new operations as a result of a decline in cash holdings. As cash decreases through acquisitions, it is still deployed back into the business to achieve synergies and ultimately results in higher shareholder returns. Finance professionals in any of these scenarios will need to plan and forecast accordingly, and knowledge of the cash flows and their expected chance of completion will be key.

Primary Drivers of Anticipated Change in Short-Term Cash Balances over the Next 12 Months
(Percent of Organizations Anticipating an Increase or Decrease in Cash Holdings)



Primary Drivers of Anticipated Change in Short-Term Cash Balances over the Next 12 Months
(Percent of Organizations Anticipating an Increase or Decrease in Cash Holdings)

	All Responses	Organizations Expecting U.S. Cash Holdings to Increase Over the Next 12 Months	Organizations Expecting U.S. Cash Holdings to Decrease Over the Next 12 Months
Increased operating cash flow	47%	74%	9%
Increased capital expenditures	25	8	41
Paid back/retired debt	19	11	23
Acquired company/subsidiary and/or launched new operations	19	17	28
Decreased operating cash flow	14	2	26
Shortened/decreased working capital cash conversion cycle	14	24	4
Decreased capital expenditures	14	17	4
Increased/accessed debt markets	9	13	7
Increased share repurchases or dividends	9	4	15
Divested company/subsidiary and/or closed operations	6	9	7
Lengthened/increased working capital cash conversion cycle	6	6	5
Issued equity	3	3	2

Cash and Short-Term Investment Holdings Outside the U.S.

Sixty-four percent of organizations hold some amount of cash outside the U.S. The share increases to 77 percent for publicly owned organizations and 31 percent of those companies hold at least 50 percent of their cash outside the U.S. Large organizations—those with annual revenue of at least $1 billion—are more likely than smaller companies to hold cash outside the U.S. (70 percent versus 50 percent). These diverse results underscore the focus of large, publicly owned companies in developing and building their businesses overseas.

64% of organizations hold some amount of cash outside the U.S.

Percent of Organizations' Cash and Short-Term Investments Currently Outside the U.S.

(Percentage Distribution of Organizations with Cash and Short-term Investments Outside the U.S.)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Zero percent	36%	50%	30%	34%	42%	41%	32%	23%	39%
Less than 10 percent	20	17	21	21	19	20	20	21	20
10-24 percent	8	7	10	9	9	8	10	11	8
25-49 percent	10	7	13	13	8	9	13	13	12
50-74 percent	7	4	9	7	7	7	7	10	5
At least 75 percent	17	15	17	18	15	15	18	21	15

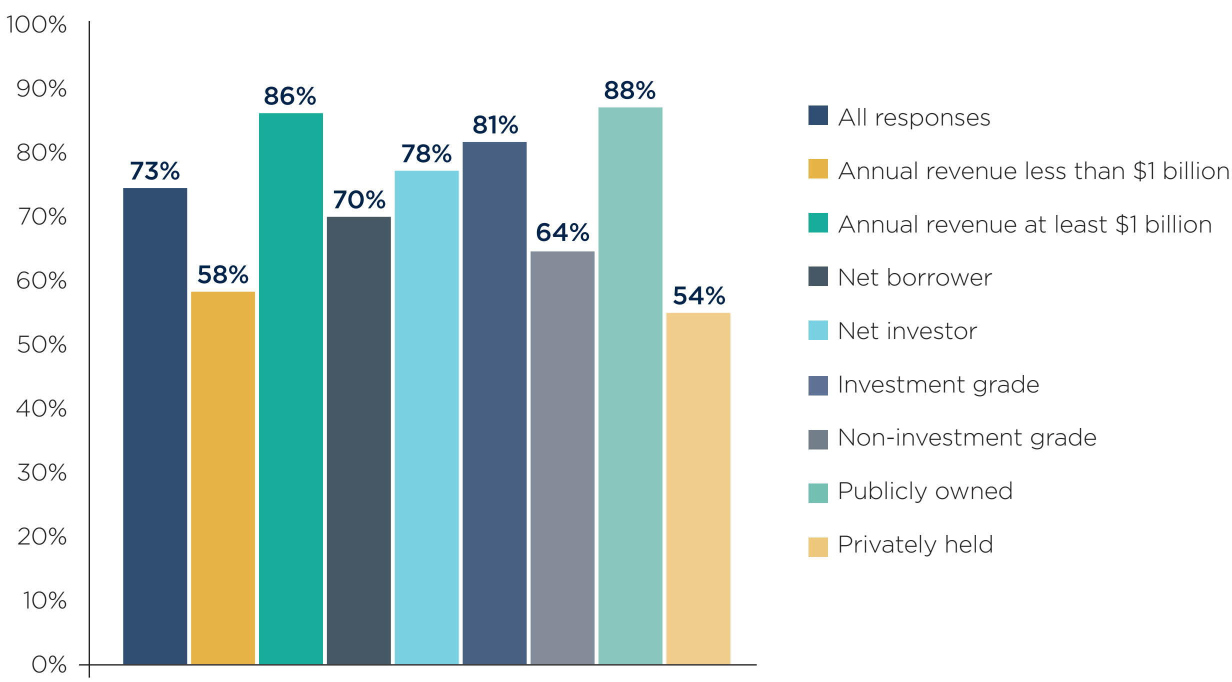
Investment Policies

Written investment policies are widely used at organizations to set the parameters for managing cash and short-term investments. These documents typically outline the permitted vehicles in which organizations may choose to invest and the percentage of an organization's portfolio that may be allocated to those vehicles. Such policies often also specify the maximum maturity and the minimum credit rating required for each investment vehicle. Maintaining a written investment policy is considered best practice and necessary for those organizations that strive to have written policies and procedures. For many companies, written investment policies may include not just an investment strategy but also a tactical approach to investing cash. They typically address many issues: the purpose (of an investment), who can invest, who approves changes, credit quality standards, approved investments, risk parameters and escalation process.

Seventy-three percent of organizations have a written investment policy that dictates their short-term investment strategy. This is three percentage points higher than the figure reported in the 2015 survey and three percentage points lower than the 76 percent share reported in 2014. Eighty-six percent of larger organizations with annual revenue of at least $1 billion have written investment policies compared to 58 percent of smaller organizations. Publicly owned organizations are far more likely to maintain written investment policies than are privately held ones (88 percent versus 54 percent).

73% of organizations have a written investment policy that dictates their short-term investment strategy

Prevalence of Written Cash Investment Policies
(Percent of Organizations)



Organizations strive to maintain a balance in their investment policy among safety, liquidity and a competitive rate of return (yield). Safety continues to be the most valued short-term investment objective for 68 percent of organizations. This is slightly higher than the 65 percent in last year's survey but significantly lower than the 84 percent in 2009. Prevailing uncertainty and volatility in the marketplace in a still-very-low interest-rate environment have spurred treasurers to seek safety over liquidity even as cash balances continue to increase. The slight uptick in the share of organizations valuing safety over other factors offset the decrease in the percentage of survey respondents citing yield as a factor—reflecting a focus on preservation over yield despite the first increase in the federal funds target rate in nine years.

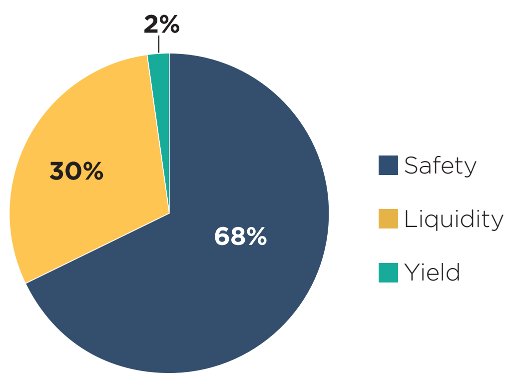
Thirty percent of survey respondents indicate that their organizations' most important cash investment objective is liquidity. This is the second-largest share of practitioners citing liquidity as the primary investment objective since AFP began tracking this trend in 2008. (The largest share—31 percent—was reported in 2015.) These figures suggest finance professionals continue to have confidence in the U.S. economy and are poised to deploy cash if they deem the circumstances appropriate. Liquidity is important for organizations and keys to success are maintaining good cash forecasting, timing operating investments with capital expenditures, debt buy-back and acquisitions; consequently, these were the major reasons why balances decreased over the past year.

As safety and liquidity remain the top two investment objectives for companies, yield continues to be a distant third. This year's survey results show that only two percent of survey respondents consider yield to be the most important investment objective for their organizations. The tradeoff for yield this year was a return to safety.

Written investment policies are subject to periodic review. Such reviews are necessary in order to adjust for various factors such as the financial condition of a company, risk tolerance, Board and senior management preferences and overall market conditions.

68% of finance professionals indicate that safety is their organization's most important short-term investment objective

The Most Important Objective of an Organization's Cash Investment Policy
(Percentage Distribution of Organizations with a Written Cash Investment Policy)

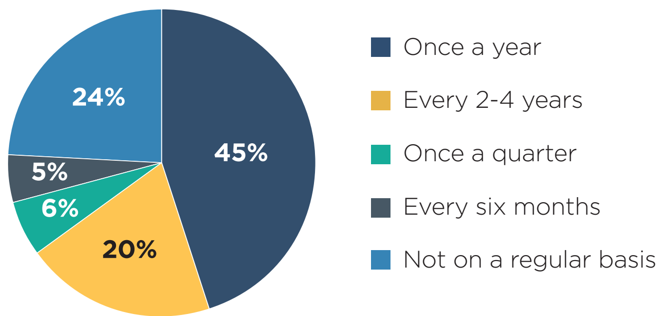


While 73 percent of organizations currently maintain written investment policies, not all consider it a priority to review and update them regularly. The majority of organizations with written policies (76 percent) reviews and updates them at various regular intervals. That is lower than the 80 percent in 2015 and the 79 percent in 2014.

Forty-five percent of organizations review their policies annually and 20 percent do so every two to four years. A few organizations are inclined to monitor their policies more frequently, with five percent doing so every six months and six percent every quarter.

76% of organizations with written investment policies review their policies on a regular basis

Frequency of Review/Update of Cash Investment Policy
(Percentage Distribution of Organizations with a Written Cash Investment Policy)



Forty-one percent of organizations with written investment policies have policies to call out and/or separate cash holdings used for day-to-day liquidity from the rest of a company's cash and short-term investment holdings. This includes a policy stipulating the *amount* of cash holdings that are set aside for day-to-day liquidity versus other uses. That share is four percentage points less than the 45 percent reported in 2015 and eight percentage points less than the 49 percent in 2014. One possible reason for the decrease in calling out cash holdings is that the definition of "cash holding" might have changed. A decision to move cash into an investment arrangement (i.e., a term ECR rate) might be viewed as invested cash vs. idle cash.

Smaller organizations, those that are privately held and net investors are more likely than other companies to have investment policies that separate the cash used for day-to-day liquidity.

Organizations With Investment Policies that Call Out/Separate Cash Holdings Used for Day-to-Day Liquidity
(Percentage Distribution of Organizations with a Written Cash Investment Policy)

Similar to last year's survey results, 79 percent of finance professionals report that their organizations' investment policies require money funds to be rated. Often those policies mandate fairly stringent rating requirements: 32 percent of respondents indicate that their organizations' policies require at least one agency assign an AAA rating and 28 percent report that their policies mandate money funds earn AAA ratings from at least two agencies. Investment policies at larger organizations, those that are publicly owned and those that are net borrowers are more likely than other companies to require their funds be rated.

Nearly **8** out of **10** finance professionals report that their organizations' investment policies require money funds be rated

Rating Requirements for Money Funds
(Percentage Distribution of Organizations with a Written Cash Investment Policy)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Does not require ratings	21%	28%	16%	18%	22%	20%	21%	14%	27%
One agency assigning AAA ratings	**32**	**34**	**32**	**31**	**34**	**32**	**35**	**33**	**30**
At Least two agencies assigning AAA ratings	28	18	**32**	**31**	24	27	28	**34**	23
One agency assigning less than AAA ratings	4	2	6	5	4	4	5	3	7
At least two agencies assigning less than AAA ratings	5	7	4	4	7	6	4	3	8
Other	10	11	10	11	8	11	7	12	4

Current Allocations

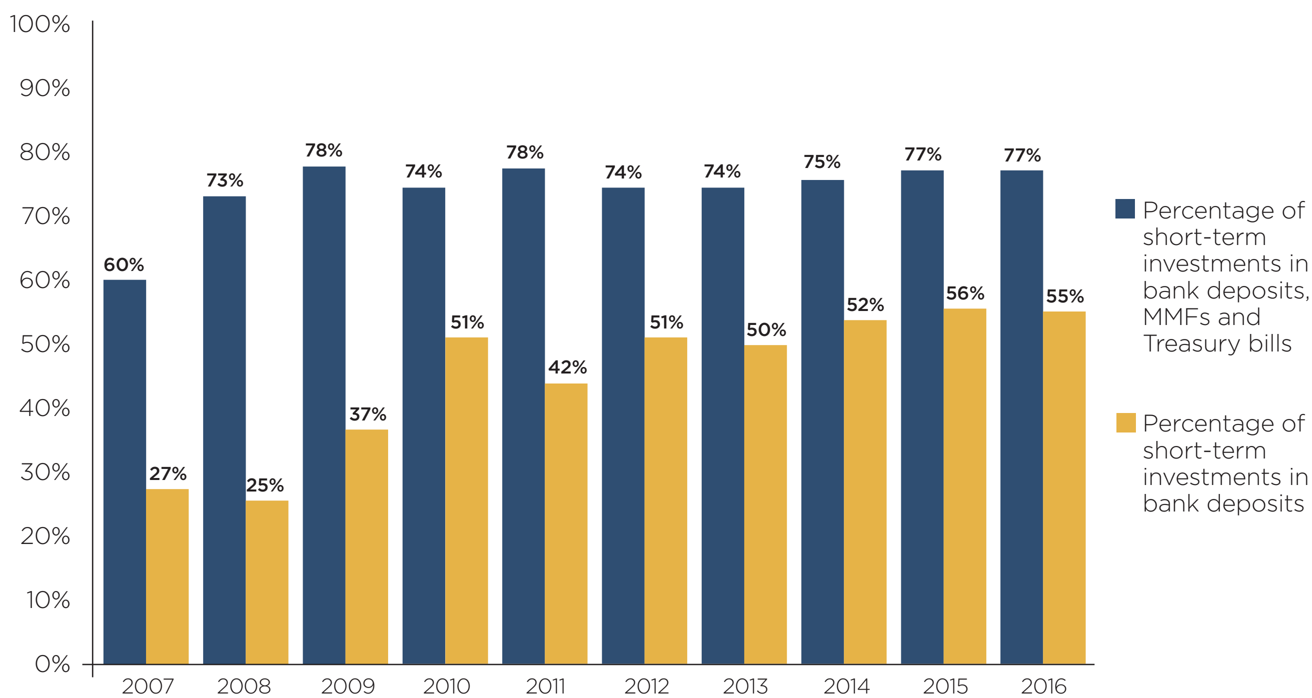
Because finance professionals anticipate a year of tepid growth in 2016 and remain guarded about their deployment of cash, they are fairly conservative in their actions for their organizations' short-term investment portfolios. Organizations are maintaining over half their short-term investments in bank deposits (55 percent). This is just one percentage point lower than last year's record-breaking 56 percent.

Companies continue to keep their short-term investment holdings in a relatively small number of investment vehicles. Organizations invest in an average of 2.4 vehicles for their cash and short-term investment balances, a decrease from the 3.2 investment vehicles reported in 2015 and slightly less than the 2.7 reported in both 2014 and 2013. Larger organizations that are net investors and those with investment grade ratings tend to place their cash and short-term investment portfolios in a greater number of investment vehicles than do other organizations.

Over three-fourths (77 percent) of organizations continue to allocate most of their short-term investment balances in three safe and liquid investment vehicles: bank deposits, money market funds (MMFs) and Treasury securities. This year, MMFs account for 17 percent of organizations' short-term investment portfolios, up two percentage points from the 15 percent reported last year and close to the 16 percent reported in both 2014 and 2013. Larger organizations with annual revenue of at least $1 billion, those that are net investors and those that are publicly owned are more likely to allocate their short-term investments in MMFs than are other organizations.

A typical organization currently keeps **55%** of its short-term investment portfolio in bank deposits

Percentage of Organizations' Short-Term Portfolios Allocated to Specific Investment Vehicles
(Mean Percentage of Cash and Short-Term Investment Holdings)



Percentage of Organizations' Short-Term Portfolios Currently Allocated to Specific Investment Vehicles*
(Mean Percentage of Cash and Short-Term Investment Holdings)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held	2015 Survey All Respondents
Bank deposits (DDA's, Time Deposits, CD's, etc.)	55%	62%	50%	63%	47%	47%	69%	53%	66%	56%
Prime/Diversified money market mutual funds	9	7	12	7	13	13	5	13	7	9
Government/Treasury money market mutual funds	7	5	10	7	8	8	6	9	6	6
Eurodollar deposits (U.S. dollar denominated time deposits at banks outside the United States)	4	3	4	5	3	4	3	5	4	3
Treasury bills	4	4	4	3	5	5	2	3	2	5
Commercial paper	4	2	6	3	6	5	3	6	2	4
Agency securities	3	3	3	3	3	4	2	2	1	2
Separately managed accounts	3	2	3	1	3	3	1	3	1	3
Repurchase agreements	1	2	1	2	1	2	1	2	1	2
Asset-backed securities	1	2	1	–	2	2	–	–	1	2
Municipal securities	1	1	1	1	1	1	1	1	1	1
Municipal/Tax-exempt money market funds	1	1	–	1	1	–	2	1	1	1
Enhanced cash/Conservative income/Ultrashort bond funds (e.g., cash plus)	1	1	1	1	1	1	1	1	1	1
Variable rate demand notes	1	1	–	1	–	1	–	1	1	–
Variable rate demand notes	1	1	–	1	–	1	–	1	1	–
Other	5	5	4	4	6	5	3	3	5	5
Mean number of investment vehicles used	2.4	2.1	2.5	2.0	2.6	2.6	1.9	2.4	2.0	3.2

*as of May 2016

Organizations with cash and short-term investment holdings outside the U.S. manage those holdings similarly as they do their holdings within the U.S. That is, most of their holdings (71 percent) are maintained in bank-type investments (including certificates of deposits [CDs], time deposits, etc.). This is three percentage points higher than the 68 percent reported in last year's survey and significantly higher than the 56 percent reported in 2014. One possible reason for the small uptick this year is that negative interest rates in Europe are encouraging organizations to leverage their stronger bank relationships and, as a result, utilize bank products associated with those relationships.

Another 10 percent of non-U.S. cash holdings are held in money market mutual funds while seven percent are in government securities. Smaller organizations with annual revenue of less than $1 billion, those that are net borrowers, those without an investment grade and privately held companies are more likely than other companies to keep a greater percentage of their non-U.S. cash holdings in banks.

71% of organizations with short-term holdings outside the U.S. typically maintain them in bank-type investments

Percentage of Organizations' Short-Term Portfolios Currently Allocated to Specific Investment Vehicles—Outside the U.S.*

(Mean Percentage of Cash and Short-Term Investment Holdings Among Organizations with Cash Outside of the U.S.)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Bank-type investments (CDs, Time deposits, etc.)	71%	77%	70%	75%	71%	71%	76%	70%	80%
Money market mutual funds	10	5	13	9	10	10	8	11	7
Government-type securities	7	8	3	6	7	6	8	7	5
Commercial paper	4	2	4	3	4	4	1	5	1
Other	8	9	7	7	8	8	6	7	6

*as of May 2016

As the survey results show, banks are solidifying their role as the dominant repository in which organizations place their cash and short-term investment holdings. Finance professionals continue to seek the safest option for their cash and investment holdings, a result of the prevailing levels of uncertainty and volatility in both the domestic and global economies and a dearth of investment opportunities that generate a healthy rate of return.

Finance professionals consider a number of factors when determining the banks at which they will place their organization's cash and short-term investments. An overwhelming majority of survey respondents (90 percent) indicates their overall relationship with the bank is of utmost importance when selecting their banking partner. In fact, the share of finance professionals citing their overall relationship with their bank as an important determinant in their cash/short-term investment decisions has been steadily increasing—from 72 percent in 2014 to 85 percent in 2015 and at 90 percent in 2016. In a more competitive scenario, finance leaders are more discerning and want their banking partners to work with them in achieving their business objectives.

90% of survey respondents indicate their organization's overall relationship with their bank is of utmost importance when selecting a banking partner

The second most important factor considered by corporate practitioners when choosing their banks is the credit quality of the bank (cited by 67 percent of survey respondents). While that is an eight-percentage point increase from the 2015 survey result, it is similar to the 65 percent reported in 2014. Finance professionals at smaller organizations and those companies which are privately held are more likely than those from other organizations to consider the credit quality of a bank as an important reason to do business with the bank.

Other important factors organizations consider when selecting a bank are:

- Compelling rates offered on deposits (cited by 43 percent of respondents)
- Earnings credit rates/Interest Rate Environment (37 percent)
- Simplicity of working with bank (32 percent

Bank relationships are currently exceedingly important since the majority of cash is held in banks and the company/bank relationship is the primary driver in the selection of the placement of investments. Organizations need to have confidence in their banks in terms of counterparty risk and credit risk. Banks are able to provide their clients with solutions they need. In addition, finance professionals are faced with having to think longer term. Organizations seek to maximize their opportunities and bank products offer the safety they need. This approach may be an unintended consequence of post-banking crisis regulatory reforms. But as long as the environment is healthy and robust, organizations will gravitate to those solutions that help them maintain the preservation of principal and the liquidity to meet those needs.

Major Determinants for Which Banks to Use When Investing in Bank Deposits
(Percent of Respondents)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Overall relationship with bank	90%	86%	94%	93%	88%	89%	95%	93%	90%
Credit quality of the bank	67	55	77	67	69	72	60	78	58
Compelling rates offered on deposits	43	39	49	41	47	45	45	54	36
Earnings credit rates/Interest rate environment	37	33	41	36	39	38	37	41	31
Simplicity of working with bank	32	35	30	31	34	32	31	27	34
Basel III considerations	12	9	13	9	14	12	10	13	10
KYC process the bank uses	10	9	11	9	11	10	10	9	12
Ability to determine how to apply ECR	8	7	10	7	11	8	10	9	7
Other	2	4	1	2	3	2	2	–	2

Organizations rely on many bank instruments for their cash and short-term investments. The most commonly used bank products are time deposits and non-interest bearing accounts. Fifty-seven percent of finance professionals report their organizations use time deposits while 42 percent use non-interest bearing deposits. Both these figures are very close to those reported in 2014—55 percent for time deposits and 40 percent for non-interest bearing deposits.

The most commonly used bank products for cash and short-term investments are time deposits and non-interest bearing accounts

Instruments Used When Investing in Bank Deposits
(Percent of Organizations that Maintain Cash and Short-Term Investment Holdings at Banks)

	All Responses	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Time deposits (e.g., CDs)	57%	54%	59%	54%	61%	59%	55%	69%	49%
Non-interest bearing deposit accounts	42	43	44	47	40	41	46	41	43
Structured bank deposit product (e.g., FICA)	23	18	25	18	27	22	23	20	24
Structured certificates of deposit (e.g., CDARS)	16	17	15	14	19	17	15	16	16
Other bank products	10	10	11	8	12	11	9	10	9

As noted earlier, the relationship between the bank and organization is critical to an organization's investment strategy. Organizations look to their banking partners to keep them aware of specific banking products. To gauge whether banks are segmenting their customers based on their attractiveness of bank deposits, AFP asked survey respondents whether they had been contacted by their primary deposit bank about deposit fees, deposit limitations, deposit returns, ERC reductions and ECR product coverage expansion. Almost half (45 percent) have been contacted by their primary deposit bank.

Organizations have been approached by their banking partners about the following:

- **Deposit fees** (cited by 23 percent of survey respondents)
- **Deposit limitations** (16 percent)
- **Deposit returns** (14 percent)
- **ECR reductions** (14 percent)

Larger companies with annual revenue of at least $1 billion and those that are publicly owned are more likely than other companies to have been contacted by their primary deposit bank regarding deposit fees.

45% of organizations have been contacted by their banks regarding bank-related issues

Contact with Primary Deposit Bank Regarding Issues Surrounding Certain Bank-Related Issues
(Percent Distribution of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
We have not been contacted about any issues	54%	58%	52%	59%	50%	50%	62%	51%	59%
Deposit fees	23	24	20	19	24	24	18	17	25
Deposit limitations	16	12	20	17	16	18	15	18	13
Deposit returns	14	15	10	12	13	13	12	12	14
ECR reductions	14	12	15	11	17	15	14	16	13
ECR product coverage expansion	9	5	11	7	10	10	7	10	6

Maturity

Organizations continue to deploy most of their short-term investments portfolios within instruments with very short maturities. On average, 69 percent of all short-term investment holdings are in vehicles with maturities of 30 days or less. This is a three-percentage point decrease from the share reported in 2015 and a one-percentage point decrease from 2014. Another 13 percent of short-term investments are held in maturities of between 31 and 90 days.

Looking ahead through the first half of 2017, over three-fourths of survey respondents—78 percent—expect their organizations to maintain the current profile of maturity within their short-term investment portfolio. Only 13 percent expect their organizations to lengthen the average maturity of their short-term investment portfolios, a two-percentage point increase from 2015. Nine percent expect their organizations to further shorten the average maturity over the next year.

The maturity of short-term investments is often dictated by an organization's investment policy. In a rising—or potentially rising—interest-rate environment, many organizations may revisit their maturity schedules in light of revised yield curve movements for cash that might be more strategic. In a continued low interest-rate environment, operating cash is more likely to be invested in short-term maturities (0-30 days) and is expected to do so in the future to help meet an organization's operating needs.

On average, **69%** of all short-term investment holdings are in vehicles with maturities of 30 days or less

Organization's Short-Term Investment Portfolio in Terms of Maturity
(Percentage Distribution of Organizations)

	All Responses	Annual Revenues Less Than $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
0-30 days	69%	67%	71%	76%	62%	65%	78%	72%	76%
31-90 days	13	11	14	12	14	14	10	14	10
91-180 days	7	8	6	5	9	8	5	7	5
181-365 days	5	6	4	3	7	6	4	3	4
More than a year	6	8	4	4	8	7	3	4	5

Expected Change in Average Maturity of Holdings Over the Next 12 Months*
(Percentage Distribution of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Lengthen	13%	11%	14%	10%	16%	14%	11%	11%	12%
Keep the same	78	77	80	81	76	79	77	81	77
Shorten	9	12	7	10	8	7	12	9	11

*as of May 2016

Survey respondents list various reasons why they expect their organizations to lengthen, shorten or maintain current maturity horizons. The two reasons cited most often for lengthening maturity are (1) to benefit from a higher yield and (2) invest excess cash. Those organizations choosing to shorten average maturity do so primarily because of plans to increase capital expenditures and liquidity needs.

More than three-quarters—78 percent—of organizations are looking to maintain the average maturity of their holdings. Survey respondents offer various reasons for following that approach, including (primarily) unchanged cash and liquidity requirements, a *status quo* in short-term objectives and policies, safety and liquidity as companies' priorities, and the organization adopting a conservative approach.

Resources

A large majority of practitioners (85 percent) cites banks as resources their organizations use to access information about operating cash and short-term investment holdings. Banks support organizations in their cash and short-term investment strategies by providing them with information on economic indicators and trends, the direction of the bond market, yield-curve changes and credit ratings information. In the current environment of extreme uncertainty and volatility, finance professionals are more likely to seek this type of support from their banking partners. Practitioners from larger organizations with annual revenue of at least $1 billion are more likely to use credit rating agencies, investment research from brokers and investment banks, money market portals and money market funds than are their counterparts at other organizations.

Other information resources include:

- Investment research from brokers/investment banks (cited by 38 percent of survey respondents)
- Credit rating agencies (29 percent)
- Money market portals (23 percent)
- Money market funds (22 percent)

85% of practitioners cite banks as resources their organizations use to access information about operating cash and short-term investment holdings

Resources Organizations Utilize to Access Operating Cash and Short-Term Investment Holdings Information
(Percent of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Banks	85%	87%	83%	89%	81%	80%	93%	83%	90%
Investment research from brokers/investment banks	38	33	40	34	40	41	31	36	35
Credit rating agencies	29	23	35	32	28	32	27	36	26
Money market portals	23	13	33	21	28	26	21	33	18
Money market funds	22	15	27	22	22	24	18	26	18
Data feeds from information sources	19	21	17	14	24	21	15	19	15
Custodians	13	12	14	8	18	15	9	9	10
Credit research firms or third party	10	6	12	8	11	10	8	11	9
Other	5	3	7	4	6	6	3	4	5

Money Market Funds (MMFs)

There are a variety of factors finance professionals consider when selecting a MMF in which their organizations should invest. Nearly half (48 percent) of survey respondents indicate that a fund's rating was the most important determinant when selecting a fund. Forty percent of finance professionals rank counterparty risk of underlying investments as the primary deciding factor. Yield and the fund sponsor taking a role in the bank relationship mix and support were each ranked number one by 34 percent of survey respondents.

The second most important factor in selecting a MMF is diversification of underlying investments (cited by 42 percent of respondents) closely followed by fund ratings (39 percent). A majority (59 percent) of finance professionals cites ease of transacting with the fund and accounting treatment as the third most important criterion when selecting a fund.

In the *2015 AFP Liquidity Survey Report*, fund sponsor as a part of their bank's overall relationship mix and support was rated the highest by over half of survey respondents, followed by fund ratings. In prior years (as in 2016), the most often cited factor was fund ratings. There seems to be a trend over the past several years where the ranking of fund ratings, yield, and sponsor support seem to ebb and flow. Perhaps a retreat towards perception of quality is the explanation for selecting fund ratings as the most important factor in this year's survey.

Primary Drivers When Selecting a Money Market Fund

(Percent of Organizations that Permit MMFs as an Investment Vehicle)

	Most Important		
	One	Two	Three
Fund ratings	48%	39%	13%
Counterparty risk of underlying instruments	40	28	32
Yield	34	35	31
Fund sponsor as part of our overall bank relationship mix and support	34	30	36
Investment manager for separately managed accounts or manages other investment products	33	25	42
Diversification of underlying instruments	20	42	38
Accounting treatment for the fund	19	34	47
Ease of transaction process	15	27	59

SEC Ruling Money Market Reform

In July 2014, the SEC announced its final ruling on 2a-7 money funds. There will be a significant difference in how money funds will operate beginning October 2016 when the ruling takes effect. The major changes impact both government and prime funds. Government funds will have a stable net asset value (NAV), and have the ability to opt in for liquidity gates and redemption fees with proper notification. Prime funds will have a floating NAV and be subject to liquidity gates and redemption fees at the (fund's) Board's discretion based on weekly liquidity levels. Municipal funds will operate under the same rules as prime funds. Retail funds will have a different structure, primarily reserved for natural persons instead of corporations, have a stable NAV, but could be subject to gates and fees at the discretion of the board.

The majority of finance professionals (62 percent) anticipate that their organizations will make significant changes in their approach to investing in prime money market funds as a result of the new SEC rules. Nearly half (47 percent) anticipate their companies will either discontinue investing in prime funds altogether or move some or all their holdings out of those funds. Thirty-seven percent plan to move their money into government MMFs or into bank products to maintain stability—a 17 percentage-point increase from last year. Fifteen percent of respondents report that their organizations will alter their investment policy to accommodate only stable NAV options and another 15 percent will alter their investment policy to accommodate floating NAV products.

The majority of organizations will make significant changes in their prime money market funds investments as a result of the new SEC rules

As the end point (i.e., when the rule goes into effect) becomes more certain, the default selection seems to be to move from prime into government funds. The U.S. Treasury, through the use of the Reverse Repo Program, plans to support the anticipated movements to provide liquidity in the marketplace. It is also the perception of many asset managers that organizations will move from prime to government funds, but the real question is one of timing—prior to October 15, or the first week, first day, or first month when the changes come into play. The decision about where to invest may ultimately be made when the informed options present themselves.

Over half of finance professionals from smaller organizations with annual revenue of less than $1 billion report they will make no significant changes to how their organizations invest in prime MMFs. Additionally, those from privately held organizations report they are less likely to plan to move money into government MMFs or bank products, invest in prime funds or move money out of prime funds in response to the SEC Ruling.

Anticipated Actions in Response to SEC Rule that Prime Money Market Funds Operate with a Floating Net Asset Value (NAV) and Government MMFs Operate with a Stable NAV
(Percent of Organizations Currently Investing in Prime and Government MMFs)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Make no significant changes to how my organization invests in prime MMFs	38%	51%	30%	46%	31%	35%	43%	31%	29%
Move money into government MMFs or bank products due to stability	37	35	37	31	41	38	34	38	19
Not invest in prime funds altogether	24	17	29	31	21	24	27	29	14
Move money out of prime funds	23	18	26	18	29	24	24	24	14
Alter our investment policy to accommodate only stable NAV options	15	15	14	17	12	13	18	17	8
Alter our investment policy to accommodate floating NAV products	15	9	18	9	20	16	14	17	8

Finance professionals anticipate other changes in their organizations' investment policies as their companies plan for the changes resulting from SEC money market fund reform. Twenty-four percent of survey respondents indicate they will implement changes in fund concentration risk if they have invested in prime funds and another 24 percent report they will likely add floating NAV options to their investment policy.

Other changes survey respondents foresee as a result of the new SEC rules are:

- **Defining counterparty limits for bank deposits** (cited by 22 percent of survey respondents)
- **Rating changes to Funds** (19 percent)
- **Credit quality changes** (17 percent)
- **Adding separately managed accounts** (16 percent)

Since the new MMF rules have not yet taken effect, many organizations are currently taking a "wait and see" approach. Most organizations with which AFP has spoken anticipate they will at least review their investment policies and, as the survey results show, some do anticipate making changes if the money fund reforms impact them. While it is prudent for an organization to review its investment policy at least once a year, in this case, it is probably wise to address these changes ahead of time and be prepared for money fund reform before it takes effect.

Anticipated Changes in Organization's Investment Policy in Response to SEC's Changes in Money Fund Rules
(Percent of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Fund concentration risk changes if invested in prime funds	24%	25%	24%	26%	24%	23%	29%	24%	29%
Adding floating NAV	24	16	29	23	25	25	22	13	25
Defining counterparty risk limits for bank deposits	22	18	24	29	17	19	29	26	23
Ratings changes to funds	19	24	15	21	16	15	26	16	25
Credit quality changes	17	20	15	18	16	15	21	17	18
Adding separately managed accounts	16	16	17	13	21	16	18	12	19
Cash segmentation with specific policy parameters for each bucket of cash	15	14	18	12	22	17	16	15	16
Maturity changes	15	22	13	13	19	17	15	12	17
A position statement on negative yielding investments	15	15	13	15	13	14	13	13	17
Adding fees and gates provision	13	10	15	13	14	14	12	17	9
Offshore cash investments and parameters	7	9	5	6	7	6	9	7	7
Spread duration risk	6	7	4	4	7	6	5	3	9
Allowing direct repo	4	5	4	5	4	4	4	3	7
Other	16	15	19	23	13	17	17	19	14

Putting an estimated dollar figure on the allocations under the new rules

Based on money market fund data from the Investment Company Institute (ICI), as of the end of May 2016 there was approximately $765.85 billion in prime institutional money market funds and $948.64 billion in institutional government money market funds. Based on the current allocation from the table on page 12, a nine percent allocation to prime funds would equate to approximately $68 billion for survey respondents. Likewise, the current allocation of seven percent in government institutional funds would be approximately $66 billion for the same group.

There are many industry reports speculating how much money will *move* from prime to government funds. Amounts have ranged between $200 and $800 billion on average. Our estimate is that it would be much less—approximately 60 percent of survey respondents indicate they would move funds in some fashion (move out of prime or move into government funds). This equates to approximately $40 billion, considerably less than other estimates. This conservative estimate also assumes that the majority of survey responses are classified as institutional vs. retail at the time of this writing.

How much money will finally be shifted between types of MMFs is still undetermined, but the large portion of money in prime funds has already been moved—and indeed, has yet to come back since the financial crisis. The allocation is about half of what it was in 2008.

Fund companies are still in the process of making fund changes, announcing NAV strike times and settling their funds lineup. More clarity around this issue will be solidified closer to October. Meanwhile money funds are investing short to accommodate changes in the marketplace come October.

AFP asked survey participants what spread between government funds and prime funds would be necessary for their organizations to stay invested in or return to investing in prime funds. Thirty percent of finance professionals indicate that regardless of the spread, their organizations would not invest in prime funds. This is 20 percentage points less than those who held this view last year and suggests that organizations are becoming more comfortable with floating NAV products.

Some complications still exist: identifying and explaining investment policy changes, accounting treatment and internal buy-in remain for some companies that plan to adopt floating NAV options. Over the past three years, AFP has seen a warming trend towards floating NAV products. One-fourth of finance professionals reports that their companies would invest in prime funds if the spread were at least 50 (basis points) bps; an additional 25 percent would invest in those funds if the spread were at least 25 bps. Practitioners from smaller companies indicate their organizations would be less likely to invest in prime/municipal funds regardless of the spread between government and prime funds.

Using the same calculation with ICI's numbers at the end of May, a $68 billion allocation in prime funds currently would indicate that approximately 60 percent of organizations' MMF investments would move from prime to government funds, and that 60 percent of those funds—or $24 billion—would come back again assuming the spread was at least 50 bps. This represents a net flow out of prime funds in the amount of $16 billion, all else being equal. [Note that this example is for illustrative purposes only from extrapolating data and comparing to market expectations.]

For organizations that do not plan on investing in prime funds at all, there are other factors at play. For some, the floating NAV violates at least two tenets of short-term investing: safety and liquidity. Despite the funds having a very short duration and maturity structure, the risk of having a floating NAV is too great for some. The risk of having gates and fees is also a concern for many companies and violates the liquidity principal: having funds available when needed.

Depending on which group you are in, for the majority of AFP members the gates and fees are the major concern. Some finance professionals have not completely understood the floating NAV concept and accounting treatment. On one hand, the marketplace already has floating NAV products in ultra-short bond funds. On the other hand, the accounting treatment for them will be different for prime money market funds going forward. This increases the administrative burden for some and reduces the likelihood of adoption.

Spread Between Government Funds and Prime Funds Necessary to Incentivize Organizations to Stay Invested in or Return to Investing in Prime Funds
(Percentage Distribution of Organizations)

Basic Points (bps)	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
10 bps or more	11%	10%	11%	12%	10%	11%	12%	10%	14%
25 bps	25	19	30	23	29	25	27	29	26
50 bps or more	25	20	30	26	25	27	24	25	22
75 bps or more	4	4	3	3	5	3	5	4	6
100 bps or more	5	6	3	4	5	4	7	6	5
No amount would be worth the difference, we can't invest in prime/muni funds	30	41	22	32	28	30	24	25	28

As organizations plan to expand their operations, develop new products, etc., investors are actively pursuing alternative options for investors in response to the SEC's money market reform rule. A priority for fund managers would be that the options selected would need to protect principal, preserve liquidity and offer yield—in that order.

The most-preferred alternative that organizations would consider in response to the SEC MMF ruling appears to be separately managed accounts (cited by 44 percent of respondents). Other options cited by finance professionals are 2a7-like funds with stable NAV (21 percent) and extending maturities (18 percent). Privately held companies are more likely to opt for separately managed funds than are other organizations.

Among the benefits of separately managed accounts is that one can structure a portfolio any way one likes, choosing to continue to manage the portfolio without 2a7 money fund changes, extend maturities, alter credit quality, expand asset classes, etc. All of these options are completely customizable. But they do come at a cost that can be significantly more than bank deposits, money funds and Treasury securities. More internal staff expertise is often needed to manage the process through "managing the manager(s)," extracting reporting and monitoring compliance with the investment policy. In the current ultra-low yield environment, separately managed accounts appear to be expensive when comparing fees, but the outsourced investment oversight and credit research is often a skillset some organizations feel is better left to professionals that have that core capability.

Alternative Investment Options Organizations Considered in Response to SEC's Money Market Reform Rule
(Percentage Distribution of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Separately managed accounts	44%	44%	44%	43%	46%	47%	38%	36%	51%
2a7-like funds with stable NAV (pre-money fund reform basis)	21	17	24	18	23	23	17	25	13
Extending maturities	18	20	17	16	20	17	21	15	19
Direct Repo transactions	13	8	17	15	11	11	16	17	10
Ultrashort funds	13	11	15	7	19	15	10	15	10
Extending credit risk	8	10	7	8	9	7	11	6	9
Tier 2 securities	6	1	10	5	7	7	4	8	5
Proprietary products currently being developed in the industry	6	4	7	7	6	6	5	7	5
Unregistered funds that have a stable NAV but no fees or gates	5	4	6	6	4	5	6	8	2
VRDN's	5	3	7	6	5	5	6	6	5
Promissory notes/Demand notes/Private placements	5	6	4	7	4	5	6	6	6
Unrated funds	4	5	3	3	5	3	4	3	5
3(c)(7) private partnerships	3	4	2	2	3	2	4	3	4

Impact of Negative Interest Rates

We again reviewed the topic of negative interest rates this year given the current negative rates in the Eurozone. Despite two rate decreases this year, some organizations are not seeing the cost of carrying deposits passed on to them. This illustrates how important managing bank relationships has become. It is also important to note that banks with a wider global footprint have improved their ability to review cash balances across many bank accounts/entities and net the balances together, something that organizations have been able to take advantage of in the U.S. for quite some time.

The threat of negative interest rates has been a longer-term concern for Federal Reserve policymakers, against the backdrop of Brexit[2] and amid sluggish global economic growth. There are some analysts who think the next Fed rate increase, though not expected in the immediate time-frame, could occur in the next couple of months, depending on how the Fed interprets the tracking of leading indicators. For many that have cash balances in Europe, the key will be to move those balances to more relationship-specific banks or into money market funds that have a lag effect due to their weighted average maturity.

If yields on cash investment securities were to go negative in the near term, 42 percent of organizations would choose alternative money fund options and 38 percent would invest in banks that do not charge for deposits or bank products. For one-third of companies, their investment policy would require them to divest them from those securities. Larger companies and those that are publicly owned are more likely than their counterparts to invest in banks that do not charge for deposits or bank products.

The U.S. Department of the Treasury has stated it would make sure there is ample liquidity in the marketplace around October when those SEC money fund reform changes take effect. With the large amount of speculation expected in the prime to government money market fund flows, this will act as a safety valve to maintain market liquidity.

Alternatives Organizations Would Consider if Yields on Cash Investment Securities Were to Go Negative in the Near Term

(Percent of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Consider other money fund alternatives	42%	38%	45%	39%	43%	41%	41%	42%	43%
Invest in banks that do not charge for deposits or bank products	38	34	42	36	41	38	40	42	38
Our investment policy does not allow it; we would divest those securities	34	34	34	40	29	34	35	32	35
Reinvest internally (capital expenditures, share repurchase, dividends, etc.)	24	21	27	26	22	24	23	29	26
It will depend on how negative the yield is and prevailing market conditions	21	17	24	17	25	23	18	20	20
Spreads on prime funds might make a compelling proposition if offer a close to stable NAV	11	9	13	9	14	12	9	14	9
Other	5	5	5	6	4	4	6	7	3

2. Note that this survey was conducted before the Brexit vote in the U.K.

Conclusion

The majority of corporate cash holdings continue to sit as bank deposits and there are few signs that organizations' reliance on bank deposits as their primary investment vehicle will change, at least in the near future. A large share of finance professionals continues to emphasize that safety is their organizations' primary investment goal, followed by liquidity; yield continues to be a distant third.

In July of 2014, the SEC adopted amendments to the rules governing money market funds (MMFs). These amendments address risks of investor runs in MMFs while continuing to preserve the benefits of the funds. The new rules require a floating net asset value (NAV) for institutional prime money market funds as well as the possibility of liquidity gates and redemption fees. In light of the new rules, nearly half of finance professionals anticipate their companies will either discontinue investing in prime funds altogether or move some or all of their holdings out of prime funds. This result is very comparable to last year's survey results in which 46 percent of finance professionals indicated their companies would not invest in prime funds and/or move money out of prime funds. With the regulation due to take effect in the next few months, we see a high likelihood of further outflows from prime funds a result. While the Federal Reserve did increase the federal funds interest rate target slightly in December last year, that decision has yet to result in any noticeable shift in investment allocations.

In wrapping up last year's survey results we concluded that there was some uncertainty regarding what short-term cash and investment allocations would look like in the fall of 2016. However, it appears that this year's results very closely mirror those of last year, indicating that despite the interest-rate increase in December and another expected increase later this year, finance professionals are exhibiting extreme signs of caution and are not yet ready to make significant changes in their organizations' investment strategies.

Bank relationships continue to grow in strategic importance for organizations. They are the primary driver in choosing where to hold bank deposits and play a role in sponsor-selected money market funds both onshore and offshore. The mere fact that organizations value the relationships with their banks above the banks' credit ratings (for the first time since AFP began conducting the Liquidity Survey) indicates much stronger confidence in the banking industry. Organizations also utilize their banking partners predominantly as the most important information source for short-term investment information—a further endorsement of confidence in their banking partners.

However, if the volatility in the global economy begins to show signs of dissipating and the U.S. economy continues to show signs of growth, these might be the triggers treasury and finance professionals are waiting for to take the necessary steps to make the investments they need to grow their organizations' businesses. In that case, we might possibly see some changes in priorities and investment allocations.

Key takeaways from the report:

- **Safety of principal continues to be a top priority among investment objectives.** The share of finance professionals reporting safety as a top objective increased from 65 percent in 2015 to 68 percent in 2016.
- **Liquidity continues to be of top importance for at least 30 percent of finance professionals,** slightly less than the 31 percent that reported the same in 2015.
- **A majority of corporate cash holdings in the U.S. continues to be maintained at banks**—55 percent. This share increases to 71 percent for cash and short-term holdings outside the U.S.
- With the SEC Money Market Fund reform rule due to be implemented this October, **62 percent of organizations plan to make changes in how they invest in prime funds, but it is unclear how much will move and when**. Our findings indicate that a much smaller amount than others predict will move from prime to government funds.
- An overwhelming majority of respondents (90 percent) cite their **overall relationship with their bank as an important determinant when choosing a bank to invest in**.
- A large majority of practitioners (85 percent) **cited banks as resources their organizations use to access information about operating cash and short-term investment holdings**.

About the Survey

In May 2016, the Association for Financial Professionals® (AFP) conducted a 32-question survey on current and emerging trends in organizations' cash and short-term investment holdings, investment policies and strategies. AFP received 480 responses from its corporate practitioner members. After adjusting for undelivered emails, the response rate was approximately seven percent. An additional 307 responses were received from corporate practitioners who are not AFP members. The combined 787 responses are the basis of this report.

AFP thanks State Street Global Advisors for underwriting the *2016 AFP Liquidity Survey*. The survey questionnaire and report were produced by the Research Department of the Association for Financial Professionals which is solely responsible for the content of the report. The demographic profile of the survey respondents mirrors that of AFP's membership. The following tables summarize the characteristics of the survey respondents where organization-level demographics are provided.

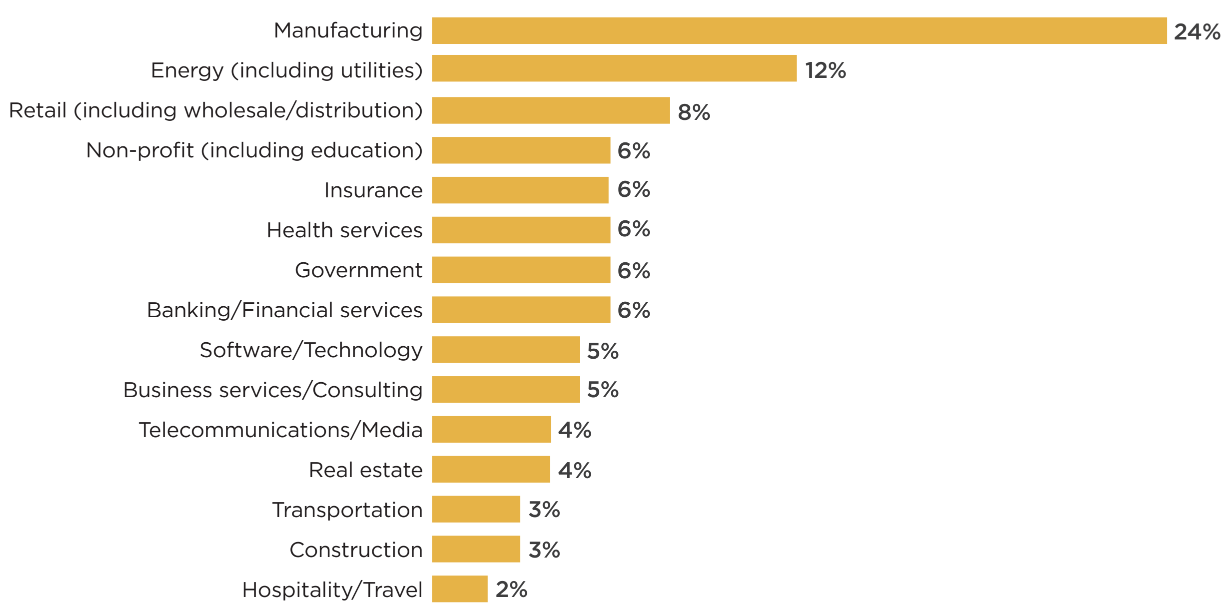
Annual Revenues (USD)

(Percentage Distribution of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Under $50	11%	24%	–	7%	14%	8%	15%	1%	20%
$50-99.9 million	3	8	–	4	3	2	5	2	6
$100-249.9 million	10	23	–	10	11	11	8	5	12
$250-499.9 million	8	17	–	7	8	8	7	5	10
$500-999.9 million	12	28	–	13	11	11	14	13	12
$1-4.9 billion	35	–	62	39	31	35	37	39	31
$5-9.9 billion	9	–	16	9	9	10	7	13	5
$10-20 billion	6	–	10	6	5	6	5	10	1
Over $20 billion	6	–	12	5	8	9	2	12	1

Industry

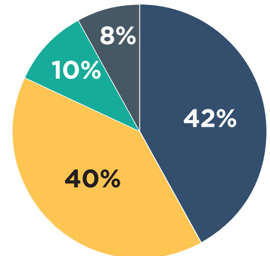
(Percentage Distribution of Organizations)



Ownership Type
(Percentage Distribution of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade
Publicly owned	42%	24%	56%	49%	35%	43%	43%
Privately held	40	54	28	40	39	33	51
Non-profit (not-for-profit)	10	12	8	5	15	14	3
Government (or government-owned entity)	8	10	8	6	10	11	3

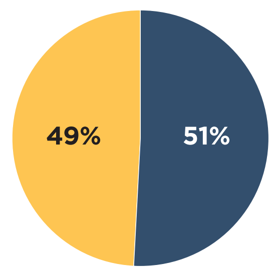
Ownership Type
(Percentage Distribution of Organizations)



Net Borrower or Net Investor
(Percentage Distribution of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At least $1 Billion	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Net borrower	51%	47%	54%	42%	68%	59%	51%
Net investor	49	53	46	58	32	41	49

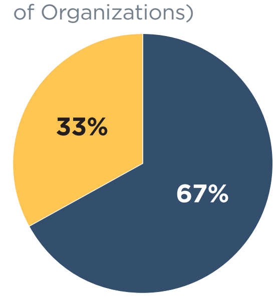
Net Borrower or Net Investor
(Percentage Distribution of Organizations)



Organizations' Credit Ratings
(Percentage Distribution of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At least $1 Billion	Net Borrower	Net Investor	Publicly Owned	Privately Held
Investment grade	67%	63%	70%	56%	78%	67%	57%
Non-investment grade	33	37	30	44	22	33	43

Organizations' Credit Ratings
(Percentage Distribution of Organizations)



Appendix

Change in Cash and Short-Term Balances Over the Past 12 Months: U.S. and Non-U.S. Cash Holdings
(Percentage Distribution of Organizations with Cash and Short-Term Investments Outside the U.S.)

	Much Larger	Somewhat Larger	No Significant Change	Somewhat Smaller	Much Smaller
Within the U.S.	10%	22%	47%	14%	7%
Outside the U.S.	10	17	58	9	6

Change in Cash and Short-Term Balances Over the Past 12 Months: U.S. Cash Holdings
(Percentage Distribution of Organizations with Cash and Short-Term Investments Within the U.S.)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Much larger	10%	11%	8%	9%	10%	10%	8%	8%	10%
Somewhat larger	22	22	23	20	26	22	23	19	27
No significant change	46	50	44	51	42	46	47	44	49
Somewhat smaller	14	9	18	14	15	15	14	19	10
Much smaller	7	7	7	6	8	7	8	10	4

The Most Important Objective of an Organization's Cash Investment Policy
(Percentage Distribution of Organizations)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Safety	68%	68%	72%	72%	69%	69%	76%	72%	69%
Liquidity	30	29	26	26	28	29	22	26	30
Yield	2	3	1	1	3	2	2	2	1

Frequency of Review/Update of Cash Investment Policy
(Percentage Distribution of Organizations with a Written Cash Investment Policy)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Once a quarter	6%	9%	3%	5%	6%	5%	5%	4%	9%
Every six months	5	3	5	4	5	5	1	6	4
Once a year	45	34	53	44	47	46	46	48	36
Every 2-4 years	20	21	20	19	23	20	20	17	25
Not on a regular basis	24	34	20	29	20	23	28	25	25

Organizations With Investment Policies that Call Out/Separate Cash Holdings Used for Day-to-Day Liquidity
(Percentage Distribution of Organizations with a Written Cash Investment Policy)

	All Responses	Annual Revenue Less Than $1 Billion	Annual Revenue At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Yes	41%	44%	40%	35%	46%	43%	37%	37%	47%
No	59	56	60	65	54	57	63	63	53

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