AFP® ASSOCIATION FOR FINANCIAL PROFESSIONALS

2015 AFP

Liquidity Survey

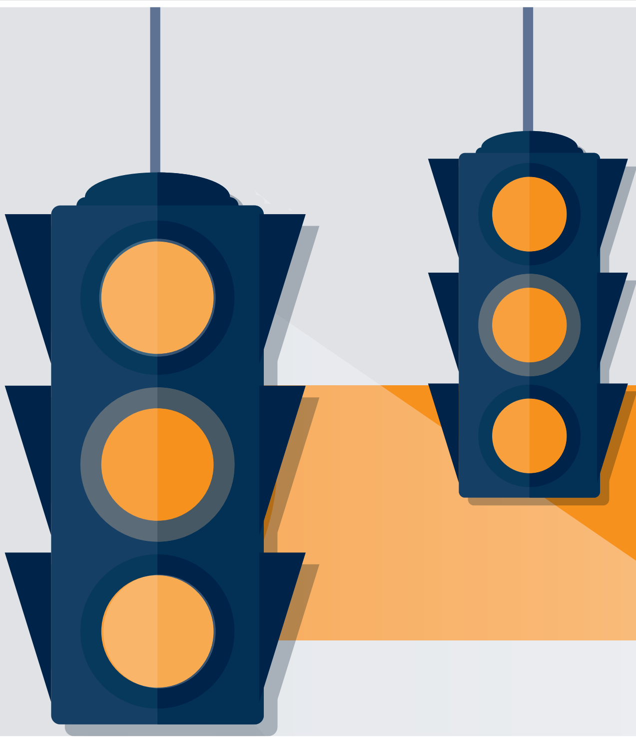
REPORT OF SURVEY RESULTS

Underwritten by
STATE STREET GLOBAL ADVISORS

KEY FINDINGS

AFP ASSOCIATION FOR FINANCIAL PROFESSIONALS

2015 AFP Liquidity Survey



Safety Still in the Driver's Seat

- Safety of principal again ranks first in investment objectives, but the share of finance professionals citing liquidity as the primary investment objective inched up to 31% in the past year.

And Banks Hold the Majority of Cash

- A majority of all corporate cash holdings are still maintained at banks.
- This is the largest share of cash holdings held at banks in the 10-year history of AFP's Liquidity Survey.

56%

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July 2015

Underwritten by

STATE STREET GLOBAL ADVISORS

ASSOCIATION FOR FINANCIAL PROFESSIONALS

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Dear Financial Professional/Corporate Practitioner:

State Street Global Advisors ("SSGA") is pleased to partner with the AFP to sponsor the tenth annual Liquidity Survey. The results highlight the approaches you and your peers are taking to understand and address the regulatory and market challenges currently facing cash investors.

Though the percentage continues to slowly decline, respondents still rank safety of principal as the most important objective when investing cash. Regulatory changes are making it increasingly difficult to meet that objective, at times even conflicting with that goal. Faced with increased complexity, competing priorities, and more choices, investors are being forced to reevaluate how they segment cash.

Interest rates are also complicating institutions' decisions on the best cash strategy, as economists anticipate a movement on interest rates later this year. However, regardless of when interest rate liftoff occurs, investors have options, and can adjust their cash strategies to optimize returns. In this year's survey, almost two-thirds of respondents indicated that they review their cash investment policies at least annually to prepare and position their investments for change and to take advantage of risk/return trade-offs that make sense for their portfolios. At SSGA, we strongly recommend a robust process to develop and regularly review your investment policy statement.

These survey results give you, the investor, a place to start. A partnership with an experienced provider of cash solutions can facilitate strategy and implementation decisions. We look forward to your feedback on the survey and to helping you translate the results into action.

I am confident the survey will positively impact your investment efforts and we look forward to assisting you in meeting your organization's objectives in 2015 and beyond.

Sincerely,

Barry FX Smith
Global Head of Cash

Investing involves risk including the risk of loss of principal.

State Street Global Advisors, One Lincoln Street, Boston, MA 02111-2900
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Introduction

Finance professionals responsible for Treasury functions continue to be optimistic but cautious with their organizations' short-term cash and investment holdings while still intent on ensuring the safety of principal and liquidity. Indeed, in late 2014 both economic and business indicators reflected a more optimistic perspective and growing confidence among U.S. businesses. Organizations were holding onto less cash; that translated into increased spending on capital investments, hiring workers, engaging in merger & acquisition activity, paying out dividends, etc.

However, data for the first quarter of 2015 indicate that some uncertainty and apprehension continued to prevail in the early part of this year. Many believe organizations have a "wait-and-see approach" in terms of their short-term investment strategy. The Association for Financial Professionals® (AFP) quarterly Corporate Cash Indicators®, released in April 2015, reveals that businesses—while ready to unleash their cash—are awaiting an economic trigger before doing so.

To assess the current and emerging trends in organizations' cash and short-term investment holdings, investment policies and strategies, the Association for Financial Professionals conducted its 10th annual *AFP Liquidity Survey* in May 2015. Survey results reveal that the short-term investment landscape continues to be characterized by low-return and a relatively flat yield in a continued low interest rate environment. Safety of principal remains paramount as an investment objective, as has been the case for most of the last decade. This year, the share of finance professionals ranking safety as the number one investment objective dropped three percentage points from last year to 65 percent. Liquidity offset that decline with 31 percent of survey respondents citing liquidity as the primary investment objective. Yield remains a distant third at 4 percent, unchanged from last year.

The survey results reveal other key findings. Seventy percent of organizations maintain written investment policies—six percentage points off the figure reported in the 2014 survey. Eighty percent of organizations with written investment policies review their policies on a regular basis. Organizations continue to place most of their short-term investment portfolios into instruments with very short maturities; two-thirds of all short-term investment holdings are in vehicles with maturities of 30 days or less. As finance professionals look ahead, over 80 percent anticipate their organizations will maintain the *status quo* with regard to their current profile for maturity.

Bank deposits continue to be the investment vehicles of choice, even though access to unlimited FDIC insurance under the Transaction Account Guarantee (TAG) program ended almost three years ago. Currently, 56 percent of all corporate cash holdings are still maintained at banks—the largest share reported in the 10-year history of the *Liquidity Survey*. More than ever before, an organization's short-term investment approach is driven by bank relationships. And with the SEC having moved ahead with its rules governing certain money market funds, there will likely be changes in the type and mix of vehicles in which companies invest.

AFP thanks State Street Global Advisors (SSGA) for its underwriting support of the *2015 AFP Liquidity Survey*. The Research Department of the Association for Financial Professionals designed the survey questionnaire, analyzed the survey results, produced the report and is solely responsible for its content. The survey generated 936 responses which are the basis of this report. More details regarding the survey methodology as well as respondent demographics can be found on page 29.

Holdings of Cash and Short-Term Investments

At most organizations, cash and short-term investment balances are dictated by business needs and objectives. Notably, nearly one-third of finance professionals report an increase in their organizations' cash holdings within the U.S. and 46 percent indicate no significant change in the same. Fifty-six percent of finance professionals report that in the past year their organizations' investments outside the U.S. were unchanged—higher than the 42 percent last year.

About half of corporate practitioners whose organizations have non-U.S. cash holdings report some changes in their companies' average balances since May 2014. A larger share of organizations increased their cash balances than decreased them. As business conditions continue to improve, more companies are increasing their cash balances for positive reasons, especially in non-U.S. markets that are seen as having stronger economic opportunities. The strength of the dollar has also been a factor.

But the global economic and regulatory environment also plays a role in where and how companies choose to invest. While a greater share of finance professionals report that their companies are increasing their cash holdings outside the U.S. (27 percent) than depleting them (17 percent), that percentage is far less than the 44 percent of finance professionals in last year's survey who reported that their organizations had increased their holdings outside the U.S. This shift likely reflects the impact of economic uncertainty in the Eurozone, sanctions imposed on Russia, and general business conditions in emerging markets.

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 Year: 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.	8%	23%	46%	13%	9%
Outside the U.S.	9	18	56	11	6

There are various factors that drive changes in overall cash balances. But the one having the greatest impact is operating cash flow. Similar to results in past surveys, most organizations that increased their cash holdings during the past 12 months did so because they were generating higher operating cash flow (cited by 72 percent of respondents). The second most commonly cited driver of greater cash holdings is generating additional revenues from the acquisition of a new company (25 percent) followed by a shortened/decreased working capital cash conversion cycle (21 percent).

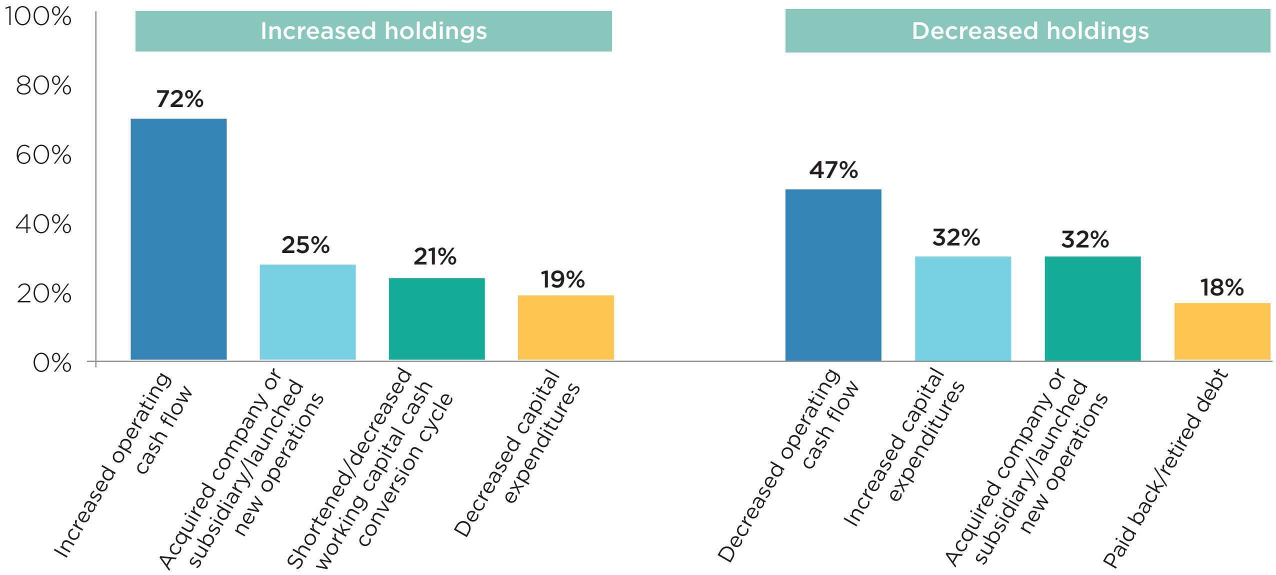
For those companies that had decreased cash holdings compared to a year ago, the primary reasons for those smaller cash holdings include:

- **Decreased operating cash flow** (cited by 47 percent of respondents)
- **Acquired company/subsidiary/and or closed operations** (32 percent)
- **Increased capital expenditures** (32 percent)
- **Paid-back retired debt** (18 percent)

In some cases, decreased operating cash flows could be a result of companies' geographical dispersion of business operations, especially those in or tied to economically distressed regions. At the same time, there could be positive reasons for decreased cash flows such as acquisitions and capital expenditures, both of which could return more value in the longer term.

Nearly **3/4ths** of organizations that increased their cash holdings during the past 12 months did so because they generated higher operating cash flow

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



Leading Causes of Net Changes in Organization's Cash Holdings Over the Previous 12 Months
(Percent of Organizations with Increased or Decreased Cash Holdings in the Past 12 Months)

	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	52%	72%	21%
Increased capital expenditures	26	18	32
Paid back/retired debt	17	11	18
Decreased operating cash flow	17	9	47
Acquired company/subsidiary and/or closed operations	16	25	32
Increased debt outstanding/accessed debt market	16	16	16
Decreased capital expenditures	15	19	5
Shortened/decreased working capital cash conversion cycle	13	21	13
Divested company/subsidiary and/or launched new operations	7	11	5
Lengthened/increased working capital cash conversion cycle	7	16	8
Issued equity	4	5	–

Nearly six out of ten (56 percent) finance professionals predict their organizations' average short-term cash balances and short-term investments will remain the same during the next 12 months. This is slightly higher than the 51 percent who held this view in last year's survey. A larger share of corporate practitioners (26 percent) anticipates their organizations will increase cash balances over the next 12 months; only 17 percent expect cash balances to decrease.

Expectations for growth in cash and short-term investment balances in the next 12 months are fairly consistent across organizational categories. With the U.S. economy improving, many finance professionals are optimistic about improvement in business conditions. How companies will spend the additional cash remains a question, but many will likely opt to reduce debt, make acquisitions, conduct share buy backs or pay dividends.

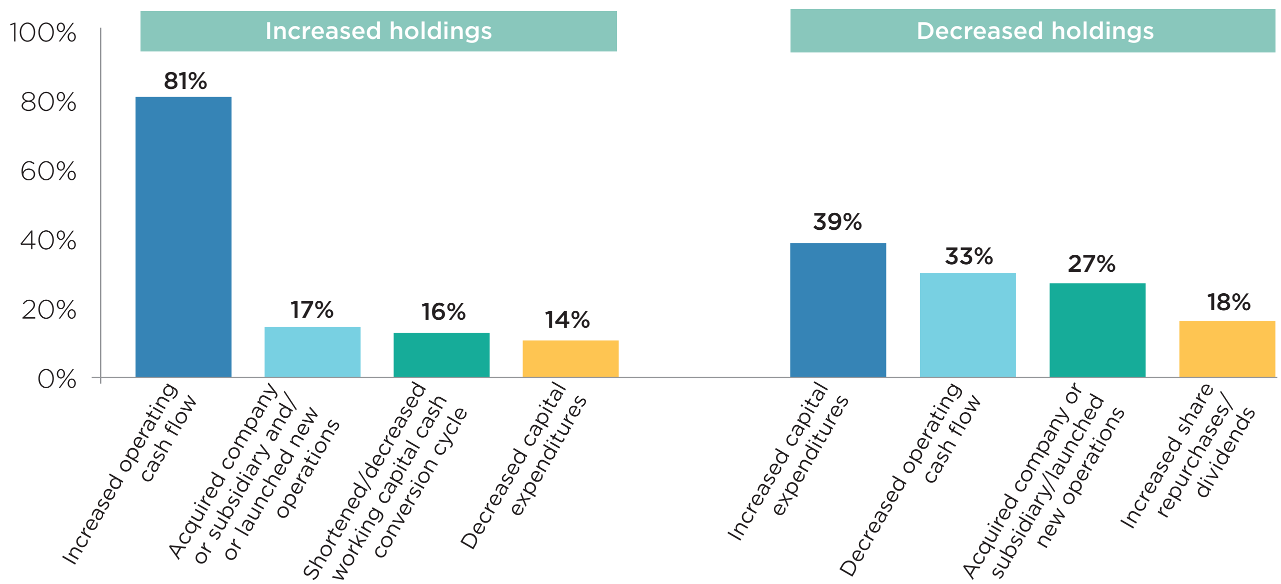
Expected Change in Cash and Short-Term Investment Balances Over the Next 12 Months
(Percentage Distribution of Organizations)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Larger	26%	25%	26%	24%	27%	26%	26%	26%	27%
About the same	56	58	55	60	52	57	53	54	58
Smaller	17	17	19	16	21	17	22	20	15

Over 80 percent of survey respondents from organizations that expect to increase their cash holdings in the next 12 months believe this will be the result primarily of increased operating cash flows. Among those finance professionals who anticipate their organizations will decrease cash holdings over the next 12 months, 39 percent see such action as a result of increased capital expenditures. In addition, one-third of those anticipating a decline in cash cite decreased operating cash flow as a reason for a decline in cash holdings. The offset in decreased operating cash flow could be the result of the time required to recapture deal synergies, the lag in monetary policy impacts, or less-than-favorable economic conditions that impact a particular country or region.

A vast majority of respondents anticipating an increase in their organizations' cash holdings in the next 12 months attribute the rise to increased operating cash flows

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	50%	81%	7%
Increased capital expenditures	25	12	39
Acquired company/subsidiary and/or launched new operations	17	17	27
Paid back/retired debt	17	12	17
Decreased operating cash flow	17	4	33
Shortened/decreased working capital cash conversion cycle	13	16	3
Decreased capital expenditures	13	14	5
Increased/accessed debt markets	12	13	5
Increased share repurchases or dividends	11	6	18
Lengthened/increased working capital cash conversion cycle	7	5	3
Divested company/subsidiary/ and/or launched new operations	6	11	3
Issued equity	4	8	5

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

Sixty percent of organizations hold some amount of their cash outside the U.S. The share increases to 77 percent for publicly owned organizations and over one-third of these companies hold at least 50 percent of their cash outside the U.S. Large organizations are also more likely than smaller ones to maintain cash in international investments. Seventy percent of large organizations—those with at least $1 billion in annual revenues—hold cash outside the U.S. versus just 51 percent of organizations with annual revenues less than $1 billion that do so. These divergent results highlight the focus of large, publicly-owned companies in developing and growing their businesses overseas.

3/5ths of organizations hold some amount of their cash outside the U.S.

Percent of Organization's Cash and Short-Term Investments Outside the U.S.
(Percentage Distribution of Organizations)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Zero percent	40%	49%	30%	40%	38%	39%	37%	23%	41%
Less than 10 percent	17	15	17	14	19	18	13	20	16
10-24 percent	11	10	12	11	12	10	13	13	12
25-49 percent	7	5	8	6	7	6	9	9	8
50-74 percent	9	5	15	10	9	11	9	17	6
At least 75 percent	17	16	17	19	15	16	18	18	18

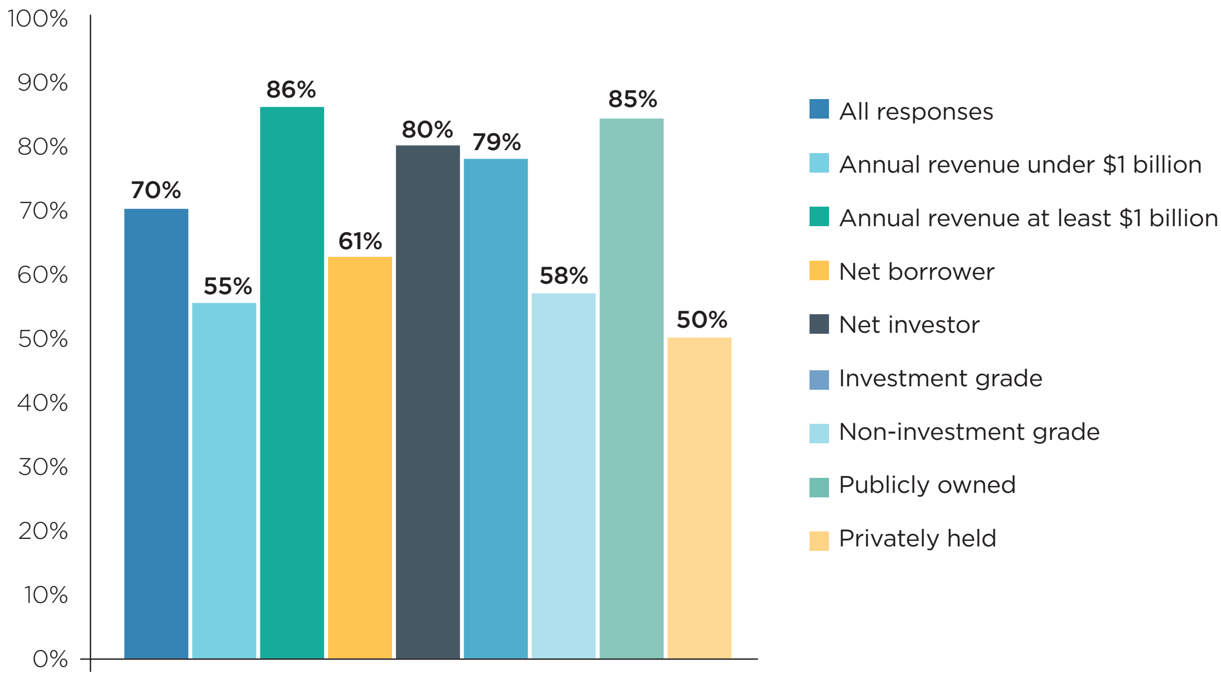
Investment Policies

Written investment policies are used extensively by most organizations to outline parameters for managing cash and short-term investments. These documents typically list permitted investment vehicles and the percentage of an organization's portfolio that may be allocated to those vehicles. They often also specify the maximum maturity and the minimum credit rating required for each investment vehicle. Maintaining a written investment policy is considered a best practice and often is part of an organization's efforts to comply with Sarbanes-Oxley regulations (SOX).

Seventy percent of organizations have a written investment policy that defines their short-term investment policies. That share is six percentage points off the figure reported in the 2014 survey. (In previous surveys the figure has typically hovered between 70 -80 percent.) The decline could be due to the greater number of survey responses received this year and the change in the mix of publicly owned and privately held companies. Organizations more likely to maintain written investment policies are those that are large, investment-grade and publicly owned. Fifty percent of privately held companies, 45 percent of organizations with annual revenues under $1 billion and 42 percent of non-investment grade organizations do not maintain written cash investment policies.

70% of organizations have a written investment policy that defines their short-term investment policies

Prevalence of Written Cash Investment Policies
(Percent of Organizations)



When laying out their investment policies, many organizations look to balance their desire for safety and liquidity against a competitive rate of return. Safety of principal continues to override other short-term investment objectives. Almost two-thirds (65 percent) of survey respondents indicate that safety is the most important short-term investment objective for their organizations. This share is a three-percentage point decline from the figure in the 2014 survey and a sharp decline from the 77 percent in 2012 and the 84 percent peak in 2009 (after and during the most recent recession), reflecting the flight to safety in the wake of the financial crisis.

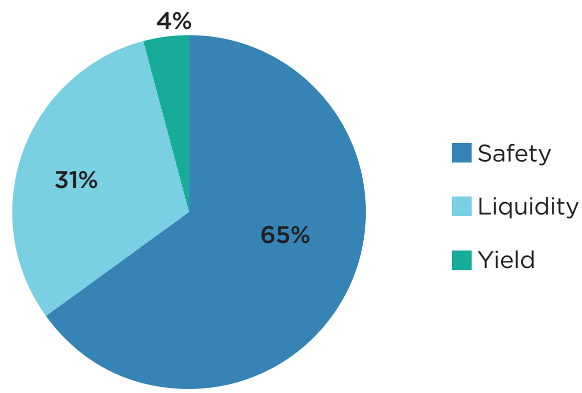
Nearly **2/3rds** of finance professionals indicate that safety is the most important short-term investment objective for their organizations

Thirty-one percent of survey respondents indicate that their organizations' most important cash investment policy objective is liquidity. This share is a three-percentage point increase from the 2014 survey results and significantly higher than the 21 percent and 18 percent reported in 2012 and 2011, respectively. Moreover, this is the largest share of survey respondents citing liquidity as the primary investment objective since AFP began tracking the importance of organizations' cash investment policies in 2008. This may be an indication that finance professionals are gaining confidence in the economy and are ready to deploy cash when needed.

One of the definitions of liquidity is having cash when an organization needs it in order to meet short-term obligations. As companies seek to position their cash holdings to respond to a changing business environment, many of the leading factors underlying increasing or decreasing cash balances may also be driving the increased importance of liquidity as an investment objective. For example, companies that are accessing debt markets, making acquisitions, paying dividends, exercising buybacks, increasing capital expenditures, and experiencing changes in operating cash flows are all potential candidates for a greater focus on liquidity, both domestically and internationally.

As the financial crisis slips further into memory, the role of a corporate Treasury department in managing liquidity is becoming more important. Organizations' CFOs, Boards and Senior Management have placed a much greater value on the importance of managing liquidity; that has elevated Treasury's profile in many companies. Keeping mindful of important cash flow dates, matching maturities, and ultimately providing funding when needed are typical demands now placed on corporate Treasury departments.

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



Even as liquidity has gained more importance as an investment objective for a significant share of organizations, yield remains a distant third as a short-term investing principle. Only four percent of corporate practitioners cite yield as the most important investment objective for their organizations. In the current investment environment, there tends to be very minuscule differences in yield across various investment options. Where there are differences in yield, the risk return tradeoff for those investments may not be worth the extra few basis points in order to justify such an investment to a Board or CFO.

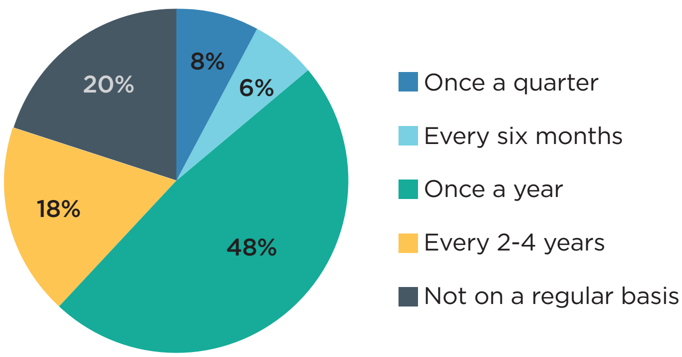
As the Federal Reserve continues to plan for an eventual interest rate increase, the issue is whether yield will become an important consideration if/when interest rates begin to rise. Organizations want to be well–positioned if and when rates do start to rise in order to take advantage of the business climate that offers the possibility of a return on investment. Such preparation includes reviewing their investment policies to ensure that the maturity and credit quality mix allow companies to generate the yield pickup accordingly. Planning ahead is also vital in a changing regulatory environment, and this is further explored in the money fund reform section on page 21.

Written investment policies are often subject to periodic review to adjust for many factors. Among them are changes in the financial condition of an organization, changes to an organization's risk tolerance, changes in overall market conditions, and evolving preferences of a company's Board of Directors and management. While 70 percent of organizations maintain written cash investment policies, not all of them review or update those policies regularly. However, the share of organizations that do regularly review them is increasing, and highlights the importance organizations place on monitoring those policies.

Eighty percent of organizations with written investment policies review their policies on a regular basis, up slightly from the 79 percent in 2014 although still less than the 84 percent reported in 2013. Sixty-two percent of organizations that do review their policies do so at least once a year. Nearly half of organizations—48 percent—review and/or update the policies annually. Fourteen percent of organizations with written investment policies review/update them even more frequently, including eight percent that do so every quarter.

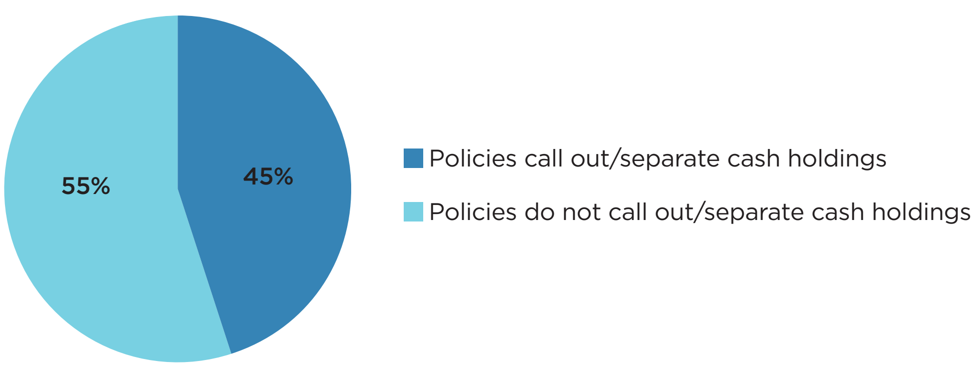
80% of organizations with written investment policies review their policies on a regular basis

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



At 45 percent of organizations with written investment policies, those policies call out and/or separate the 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. This is four percentage points less than the 49 percent reported in the 2014 survey. Smaller companies, those that are net investors, and those that hold an investment-grade credit rating are more likely than other organizations 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)



Nearly eight out of ten finance professionals report that their organizations' investment policies require money funds to be rated. The stipulations regarding ratings are fairly stringent: 35 percent indicate their policies require at least one rating agency assign an AAA rating and 27 percent indicate that money funds have to earn AAA ratings from at least two agencies. Investment policies at larger organizations, those with an investment grade rating, and those which are publicly owned are more likely than other companies to require money funds be rated. Those companies with more stringent money fund requirements are also more likely to have written investment policies.

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)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Does not require ratings	21%	29%	16%	19%	21%	17%	28%	15%	26%
One agency assigning AAA ratings	35	31	39	34	37	36	36	40	36
At least two agencies assigning AAA ratings	27	23	27	26	26	27	22	29	20
One agency assigning less than AAA ratings	5	3	4	4	4	5	1	4	4
At least two agencies assigning less than AAA ratings	5	4	5	6	4	4	6	3	8
Other	9	9	10	12	8	11	7	9	7

Current Allocations

Although the U.S. economy is growing at a moderate pace and continues on a path to recovery, a level of uncertainty continues to prevail. Businesses have remained relatively conservative with their short-term investment portfolios. Most telling, the typical organization currently keeps more than half—56 percent— of its short-term investment portfolio in bank deposits. That is an increase of four percentage points from the 52 percent reported in 2014 and the highest share reported in the 10-year history of the *AFP Liquidity Survey*.

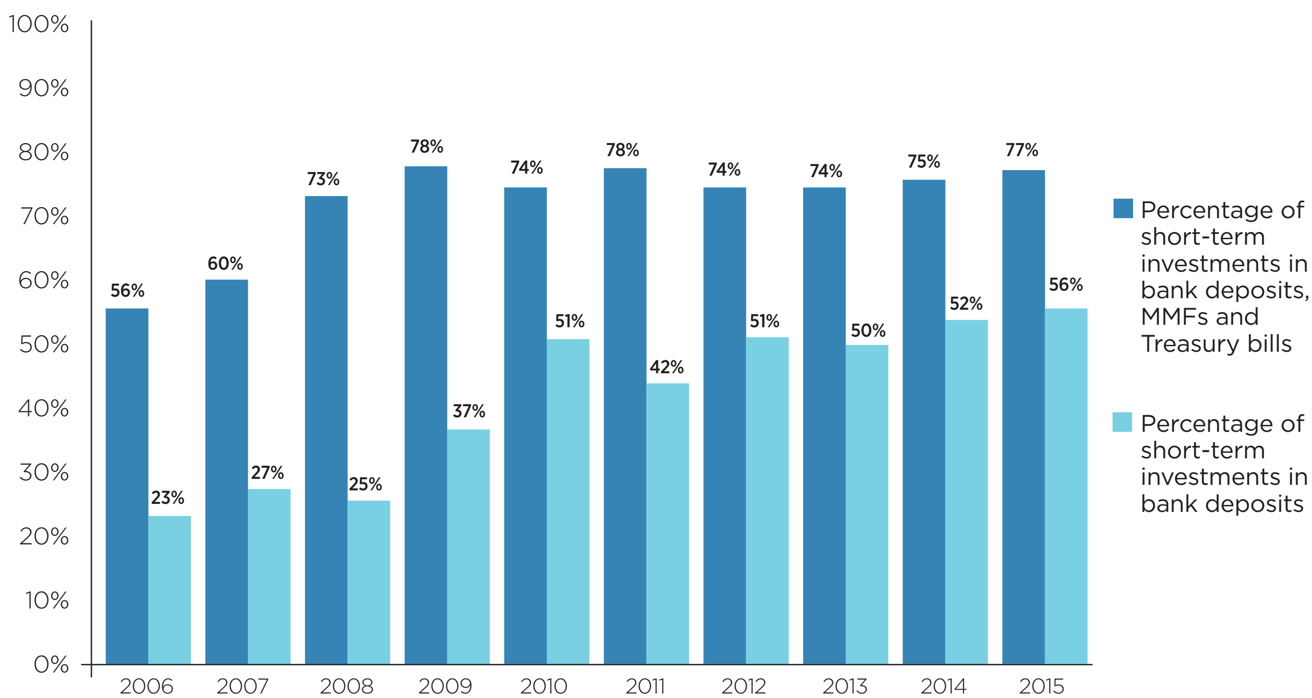
Companies tend to keep their cash and short-term investment holdings in relatively few investment vehicles. Organizations invest in an average of 3.2 vehicles for their cash and short-term investment balances, an increase from the average 2.7 investment vehicles reported in 2014 and 2013. Organizations that are net investors, those with investment grade credit ratings, and those that are publicly owned tend to place their cash and short-term investment portfolios in a greater number of investment vehicles than do other organizations.

The overall majority of organizations continue to allocate most of their short-term investment balances—an average of 77 percent—in three safe and liquid investment vehicles: bank deposits, money market funds (MMFs) and Treasury securities. But organizations are shifting away from MMFs: MMFs account for only 15 percent of organizations' short-term investment portfolios, off one percentage point from the 16 percent reported in both 2014 and 2013, below the 19 percent in 2012 and significant lower than the 30 percent in 2011. Larger organizations with at least $1 billion in annual revenues continue to allocate more of their short-term investments to money markets than do smaller ones (20 percent of portfolios versus 11 percent).

A typical organization currently keeps more than half—**56%**—of its short-term investment portfolio in bank deposits

Current Percentage of Organization's Short-Term Portfolio Allocated to Specific Investment Vehicles

(Mean Percentage Distribution of Cash and Short-Term Investment Holdings)



Current Percentage of Organization's Short-Term Portfolio Allocated to Specific Investment Vehicles
(Mean Percentage Distribution of Cash and Short-Term Investment Holdings)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held	2014 Survey All Respondents
Bank deposits (DDAs, Time Deposits, CDs, etc.)	56%	61%	51%	66%	47%	48%	71%	53%	68%	52%
Prime/Diversified money market mutual funds	9	8	12	7	12	12	6	13	7	9
Government/Treasury money market mutual funds[1]	6	5	8	4	9	8	4	8	4	–
Treasury bills	5	5	5	4	6	6	4	4	3	7
Commercial paper	4	3	5	4	4	4	2	4	2	4
Eurodollar deposits (U.S. dollar denominated time deposits at banks outside the U.S.)	3	3	3	3	3	4	2	5	2	4
Separately managed accounts	3	3	3	3	3	3	4	3	3	2
Repurchase agreements	2	2	2	1	2	2	1	2	–	2
Agency securities	2	3	3	2	3	3	1	1	1	4
Asset-backed securities	2	2	1	1	1	2	1	1	2	2
Municipal securities	1	1	1	1	1	1	0	0	1	2
Muni/Tax-exempt money market funds	1	1	1	1	1	1	4	1	1	2
Enhanced cash/Ultrashort Bond funds (e.g., cash plus)	1	1	1	–	1	1	–	–	–	2
Auction rate securities	–	–	–	–	–	–	–	–	–	–
Variable rate demand notes	–	1	–	1	–	–	–	–	–	–
Other	5	4	5	4	5	5	4	4	4	4
Mean number of investment vehicles used	3.2	3.1	3.2	2.9	3.5	3.5	2.6	3.2	2.8	2.7

Note [1]: The *2014 AFP Liquidity Survey* did not include Government/Treasury MMF but included Diversified MMF (2a-7) as an option.

Those organizations with cash and short-term investment holdings outside of the U.S. manage those cash and holdings similarly as they do their domestic holdings. That is, most of their cash and short-term investment holdings are maintained in banks, money market funds and government securities. Currently, 68 percent of non-U.S. cash holdings are maintained in bank-type investments (including certificates of deposit [CDs], time deposits, etc.). This is significantly higher than the 56 percent reported in last year's survey. Many organizations are more comfortable holding excess deposits in banks, either through direct deposit accounts (DDAs), time deposits or bank securities. As is often the case for U.S.-based cash and holdings, the mandate for high-quality, highly liquid and safety of principal are becoming part of the overall bank relationship picture as a result.

Another 14 percent of non-U.S. cash holdings are held in money market funds while five percent are held in government securities. Smaller organizations with annual revenues less than $1 billion, those without investment grade ratings, and those that are privately held keep a greater share of their non-U.S. holdings in banks than do other companies.

The most commonly used bank products are time deposits and non-interest bearing deposits

Current Percentage of Short-Term Portfolio Allocated to Specific Investment Vehicles—Outside of the U.S.
(Mean Percentage Distribution of Cash and Short-Term Investment Holdings Among Organizations with Cash Outside of the U.S.)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Bank-type investments (CDs, Time Deposits, etc.)	68%	73%	65%	76%	61%	64%	75%	65%	73%
Money market mutual funds	14	9	18	10	19	17	10	19	10
Government-type securities	5	5	5	2	8	6	2	4	4
Commercial paper	5	5	4	3	5	5	3	3	4
Other	8	8	8	9	7	7	9	8	8

As noted above, in recent years banks have become the dominant repositories where organizations place their cash and short-term investment holdings. This is likely because organizations continue to look for the safest option for their cash and short-term holdings, especially since the level of uncertainty about the business environment has not ebbed significantly since the end of the most recent recession. In addition, there remains a relative lack of investment opportunities that generate yield.

When finance professionals consider where to place their organizations' cash and short-term investments they consider a number of factors. The most important factor is an organization's relationship with its bank(s). This factor is cited by 85 percent of survey respondents and represents a 13-percentage point increase from last year. The result is not surprising, as short-term cash investing now focuses more on bank relationship management than it did in previous years. The second most important determinant is the credit quality of bank(s) (cited by 59 percent of respondents). Finance professionals from larger organizations, those that are net investors, and those that are publicly owned are more likely than those from other companies to cite credit quality as a major determinant in choosing a bank to hold their organization's cash and short-term investment holdings.

Other important factors considered when deciding on a bank are: compelling rates offered on deposits (35 percent) and earnings credit rates/interest rate environment (33 percent). Respondents from larger organizations, those that are net investors, and those that are publicly owned are more likely than their other peers to consider both factors as important determinants when choosing a bank to hold their cash and short-term holdings. One-fourth of survey respondents indicate that the simplicity of working with the bank is an important consideration.

It should be noted that for the past several years earnings credit rates (ECR) have paid an above-market rate over comparable investment products that provide protection of principal. In a low interest rate environment, earnings credit is seen as a safe place to invest excess cash. But that could change over the coming years with Basel III rules impacting bank balance sheets along with an expected rising interest rate environment, causing more yield disparity in comparable investments.

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Overall relationship with bank	85%	83%	88%	87%	85%	85%	86%	91%	82%
Credit quality of the bank	59	46	72	57	62	64	53	67	50
Compelling rates offered on deposits	35	29	41	31	39	38	29	42	32
Earnings credit rates (ECR)/Interest rate environment	33	27	40	30	37	38	27	36	29
Simplicity of working with bank	25	26	24	25	25	25	24	21	25
Basel III considerations	10	9	9	7	11	11	7	12	8
Ability to determine how to apply ECR	6	5	7	6	7	7	5	8	3
KYC process the bank uses	5	4	6	3	7	5	4	2	8
Other	2	2	2	3	2	2	3	2	2

Organizations rely on several bank instruments for cash and short-term investments which currently constitute more than half the typical organization's portfolio. The most commonly used bank products are time deposits and non-interest bearing deposits, cited by 54 percent and 40 percent of survey respondents, respectively. The percentage of organizations using time deposits in 2014—55 percent—was very close to this year's result, but the share of companies using non-interest bearing accounts declined by 11 percentage points since 2014 and is considerably lower than the 58 percent reported in 2012 before the ending of TAG (Transaction Account Guarantee) Program. Structured bank deposit products and other products are less commonly used vehicles with less than one in four organizations using each.

One of the notable differentiators this year is the shift within the bank deposit category. Survey results show organizations decreased their investments in direct deposit accounts (DDA), moving the cash into other bank products.

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held	2014 Survey All Respondents
Time deposits (e.g., CDs)	54%	47%	62%	52%	56%	57%	51%	61%	51%	55%
Non-interest bearing deposit accounts	40	40	38	41	38	40	38	35	45	51
Structured Bank Deposit Product (e.g., FICA)	24	26	24	21	29	27	21	27	24	26
Structured certificates of deposit (e.g., CDARS)	15	15	14	11	17	15	13	12	12	13

As noted earlier, the company-bank relationship is a vital piece of any organization's investment strategy. Organizations rely on their banks to keep them abreast of details regarding specific bank products. With various Basel III provisions soon to take effect and given the negative yield environment in the Eurozone, AFP asked survey participants about the attractiveness of bank deposits to discern if banks have started to segment customers based on their deposit attractiveness. A large majority of organizations (72 percent) have not been contacted by their primary deposit bank about a number of issues surrounding certain bank-related investment vehicles, including:

- **Deposit limitations** (cited by 17 percent of respondents)
- **ECR reductions** (11 percent)
- **Deposit returns** (10 percent)

Larger companies with annual revenues of at least $1 billion, along with those that are net investors, with an investment grade rating, and those that are publicly owned are more likely than other organizations to have been approached by their primary deposit banks regarding deposit limitations, ECR reductions and deposit returns.

It's surprising to see that the majority of companies have not been approached by their banks about deposit restructuring since lowering the new deposit regulations under Basel III will be implemented through 2019. Perhaps as that timeline gets closer, more clarity around how banks are expected to start segmenting their clients based on their operating deposits definitions will surface.

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues 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	72%	78%	65%	76%	68%	68%	77%	68%	79%
Deposit limitations	17	12	24	15	20	21	12	21	11
ECR reductions	11	8	16	8	15	13	10	13	8
Deposit returns	10	8	13	10	11	12	9	12	10

Maturity

Finance professionals report that their organizations continue to place most of their short-term investment portfolios into instruments with very short maturities. On average, 66 percent of all short-term investment holdings are in vehicles with maturities of 30 days or less. This is a four-percentage-point decrease from 2014 and a one-percentage point increase from 2013. Another 15 percent of short-term investments are held in instruments with maturities of between 31 and 90 days. Organizations that are net investors with investment grade credit ratings tend to manage their cash in instruments with longer maturity horizons.

Looking ahead through the first half of 2016, the vast majority of survey respondents—81 percent—expect their organizations to maintain the current profile for maturity within their short-term investment portfolios. The expected stability in the tenor of holdings within short-term investment portfolios appears to reflect the relative clarity regarding the likelihood of an interest rate increase sometime during the second half of this year. Only 11 percent of finance professionals report that their organizations expect to *lengthen* the average maturity of their short-term investment portfolios, a four-percentage-point decline from 2014; eight percent expect their organizations to further shorten the average maturity over the next year.

One reason companies are continuing to build cash balances and hold record levels of cash is their business prospects and economic uncertainty. With the likelihood that the Federal Reserve will start to raise interest rates sometime this year, holding maturity levels the same would make sense provided the weighted average maturity (WAM) is short. Shortening maturities would allow for a quicker yield pickup, but with safety of principal paramount and liquidity the second most important investment objective, most companies will take advantage of the rate pickup as their maturities roll off.

66% of

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
(Mean Percentage Distribution)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
0-30 days	66%	66%	68%	74%	60%	60%	78%	71%	69%
31-90 days	15	12	17	12	17	16	11	15	15
91-180 days	7	8	6	6	8	8	6	6	7
181-365 days	6	7	4	3	7	7	3	4	5
More than a year	6	7	4	4	7	8	2	3	5

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Lengthen	11%	11%	11%	8%	14%	13%	8%	12%	8%
Keep the same	81	80	83	85	78	80	83	81	85
Shorten	8	9	7	7	9	7	10	7	7

Survey respondents list various reasons why they expect their organizations to lengthen, shorten or maintain current maturity horizons. The reasons cited most often for lengthening maturity are increasing yield and increased cash flow. Those organizations choosing to shorten average maturity were doing so primarily because of their cash flow needs and increased capital expenditures. Some survey respondents also cite Federal Reserve interest rates as a rationale for shortening the average maturity of their companies' holdings.

Still, a large share of organizations (81 percent) looks to maintain the average maturity of their holdings. That approach is being driven primarily by the overall *status quo* in at their organizations; many survey respondents indicate that since there has been no change in circumstances, the best and most appropriate action is to maintain the average maturity of holdings at current levels.

Resources

The vast majority—87 percent—of finance professionals identify banks as resources their organizations use to access information about operating cash and short-term investment holdings. Information shared by banks to support organizations in their cash and short-term investment strategies includes economic indicators and trends, the direction of the bond market, yield-curve changes and credit ratings information. Large organizations typically have more cash and thus have access to more resources that can assist them in managing their cash; they are also more likely to use credit rating agencies, money market portals and investment research provided by brokers/investment banks than are other companies. Other information resources used include:

- **Investment research from brokers/investment firms** (cited by 35 percent of survey respondents)
- **Money market funds** (27 percent)
- **Credit rating agencies** (26 percent)
- **Money market portals** (25 percent)

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Banks	87%	88%	85%	90%	84%	84%	91%	87%	88%
Investment research from brokers/investment banks	35	30	37	30	39	39	25	33	28
Money market funds	27	21	34	22	32	31	22	34	19
Credit rating agencies	26	20	32	25	27	30	20	30	21
Money market portals	25	16	37	22	30	31	19	38	17
Data feeds from information sources	20	19	22	20	21	22	18	22	16
Custodians	11	9	14	6	16	14	6	9	9
Credit research firms or third party	10	9	10	9	11	11	7	11	9
Other	3	2	4	3	3	3	3	3	1

Money Market Funds (MMFs)

There are a variety of determinants organizations take into account when selecting a money market fund in which to invest. But selecting a money fund is becoming part of bank relationship management. In fact, for the majority of organizations (54 percent) the most important factor when selecting a fund was not the fund ratings as one might suspect, but rather the fund sponsor taking a role in the bank relationship mix and support. Forty-six percent of finance professionals rank fund ratings as the number one consideration when selecting a fund, while 37 percent rank counterparty risk of underlying instruments as the primary deciding factor.

The second most important factor in selecting a money market fund is yield (cited by 39 percent of practitioners), closely followed by both counterparty risk and diversification of underlying instruments. More than half of finance professionals cite ease of transacting with the fund and accounting treatment as the third most important criteria when selecting a fund.

In prior years, fund ratings and yield were the top two criteria. With changes in money market funds occurring in 2016, the determinants for selecting a fund could change as well.

A majority of finance professionals indicate that having a fund sponsor take a role in the bank relationship mix and support is the number one consideration when selecting a fund

Primary Drivers to Select a Money Market Fund
(Percent of Organizations that Permit MMFs as an Investment Vehicle)

	Most Important		
	One	Two	Three
Fund sponsor is part of our overall bank relationship mix and support	54%	26%	20%
Fund ratings	46	33	21
Counterparty risk of underlying instruments	37	38	25
Yield	30	39	30
Diversification of underlying instruments	23	38	40
Investment manager for separately managed accounts or manages other investment products for us	20	35	46
Accounting treatment of the fund	18	27	55
Ease of transaction process	17	27	56

SEC Ruling Money Market Reform

In July of last year, the SEC announced its final ruling on 2a-7 money funds. The result is that there will be a significant difference in how money funds will operate beginning October of 2016 when the ruling takes effect. The major changes impact 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 fees with proper notification. Prime funds will have a floating NAV and be subject to liquidity gates and fees at the 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 expect 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 (46 percent) anticipate their companies will either discontinue investing in prime funds altogether or move some or all their holdings out of those funds. Another 20 percent indicate that their organizations would move their money into government MMFs or into bank products to maintain stability.

Prime money funds currently account for nine percent of organizations' cash and short-term investments (vs. 56 percent for bank deposits). Many investors moved money out of prime funds during the financial crisis and some of that money has not yet come back. As funds start to make announcements about share class changes, fund changes and the like, the additional clarity around money fund options will help companies make their investment decisions and align their investment policies accordingly.

The majority of finance professionals expect their organizations will make significant changes in their approach to investing in prime money market funds as a result of new SEC rules

Anticipated Actions in Response to the SEC Rule that Prime MMFs Operate with a Floating NAV and Government MMFs Operate with a Stable NAV
(Percent of Organizations Currently Investing in Prime and Government MMFs)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues 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	37%	40%	35%	36%	39%	39%	32%	35%	37%
Not invest in prime funds altogether	29	29	28	31	26	27	35	28	28
Move money into government MMFs or bank products due to stability	20	19	20	19	20	20	22	22	19
Move money out of prime funds	17	13	20	15	18	18	12	20	15
Alter our investment policy to accommodate only stable NAV options	12	13	12	13	12	13	13	13	12
Other	9	6	11	10	26	9	7	9	7

As organizations prepare for the changes that will result from the SEC money market fund reform, finance professionals anticipate various changes in their organization's investment policies. One out of three organizations will likely implement changes in fund concentration risk if they have invested in prime funds. Companies will want to review their investment policies in terms of those changes that will impact their investments in money funds and evaluate the risks that might result come from those regulatory changes. Other changes survey respondents foresee as a result of the new SEC rules are:

- **Fund rating changes** (cited by 23 percent of survey respondents)
- **Adding separately managed accounts** (22 percent)
- **Defining counterparty limits for bank deposits** (22 percent)

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues 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	32%	31%	33%	36%	29%	29%	42%	40%	30%
Fund ratings changes	23	24	23	22	24	25	18	22	22
Adding separately managed accounts	22	18	25	21	24	24	21	19	30
Defining counterparty limits for bank deposits	22	21	24	23	23	24	19	21	30
Maturity changes	19	28	13	16	20	19	16	16	21
Adding in a position statement on negative yielding investments	16	13	16	16	14	15	15	15	12
Credit quality changes	16	20	13	18	14	14	21	14	20
Allowing direct repo	5	5	5	5	5	5	5	5	5

With the changes in 2a-7 funds now a certainty for 2016, one thing is clear: organizations still have a lot to prepare to meet the timeline for implementation of those changes. Organizations' accounting departments and systems will need to adjust their treatment of the funds. A company's investment policy may need to be adjusted to accommodate the new rules. There may also be a communication challenge in explaining the details of the new regulations to the Board and Senior Management.

The full "fallout" from the changes in money fund treatment won't be clear for some time. Many questions remain. Where will the money flow from in terms of money fund changes? The most likely answer (as of the writing of this report) is that money will flow out of bank deposits into Treasuries and money market funds if ratings, fund sponsorship and yield all fit within certain parameters. The most likely recipients of bank deposit outflows will be government securities or government money funds, assuming the Fed's Reverse Repo program remains intact and the supply of government securities post Quantitative Easing are absorbed.

For many, the floating NAV is simply a deal breaker. Forty-six percent of finance professionals indicate their organizations would not invest in prime funds or would move money out of prime funds altogether. Only 12 percent report that their companies would make changes to their investment policies to accommodate floating NAV funds. For those organizations that do decide to invest in prime funds, the number one factor to consider is concentration risk. Companies prefer not to be over-weighted in a certain fund if redemptions of the fund through announced changes occur. Companies will need to be proactive in managing their fund lineup to make sure they monitor fund changes and ratings.

Since organizations will face an environment in which interest rates are more optimal than they are currently, along with the SEC's 2a7 fund rule changes fully implemented, AFP asked survey participants about their organizations' appetite for prime funds vs. government funds given the expected yield differential based on the underlying securities. Regardless of the spread between government funds and prime funds, nearly half of the organizations would not invest in prime funds. Twenty percent of finance professionals report that their companies would invest in prime funds if the spread was at least 50 bps; an additional 19 percent would do so if the spread was at least 10 bps. Smaller companies, those that are net borrowers, and those that hold a non-investment-grade credit rating would be less likely than other organizations to invest in prime funds irrespective of the spread.

Regardless of the spread between government funds and prime funds, nearly **1/2** the organizations indicated they would not invest in prime funds

It is interesting to note that almost half of respondents indicate their companies would not invest in prime funds regardless of the yield differential. Remember that safety of principal is cited as the most important company investment objective. With a floating NAV, the ability to access cash at full value from one day to the next puts this objective at risk and thus is a major concern for some companies. Prime funds will operate their NAV at four decimal places and the likelihood of the NAV moving that much outside of a credit event is slim. Some funds are considering using a 60-day-or-less weighted average maturity so that they can utilize amortized cost accounting. The SEC clarified that these funds will still be subject to floating NAVs as well. One thing is certain: money market funds will continue to be part of the overall bank relationship mix as this year's and last year's survey indicated.

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 Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
5 bps or more	7%	6%	8%	6%	8%	8%	6%	8%	6%
10 bps or more	19	18	20	17	20	21	15	23	15
50 bps or more	20	15	25	20	20	22	18	22	19
100 bps or more	5	6	4	4	6	5	4	4	6
No amount would be worth the difference, we can't invest in prime/muni funds	49	55	44	53	45	44	57	43	54

As companies look for alternatives or new product development, the fund community is actively pursuing options for investors. The question is if those options are palatable and will protect principal, preserve liquidity and offer yield—in that order. The most likely candidate for an alternative option would be separately managed accounts.

Separately managed accounts is most often cited as an alternative organizations would consider in response to the money market reform implemented by the SEC (52 percent of survey respondents). Other options organizations would opt for are extending maturities (19 percent) and investing in money funds that have final maturity of 60 days or less that offers amortized cost treatment (17 percent). Separately managed accounts offer better transparency and an investment mandate unique to the company. The benefits of setting up a separately managed account are numerous, as long as they outweigh the costs of the added fees from custody, reporting and investment management.

Much of the discussion in the industry is about new product development and possible fund alternatives. As long as safety, liquidity and yield keep pace, the ability to implement new products will center on risk management and explaining any new alternatives to companies' Senior Management, since liquidity has proven vital to organizations throughout the past several years with the banking crisis. If those investments are hard to explain or if the risks versus the returns are unquantifiable, the likelihood they will be added to an investment policy remain elusive. Companies would rather give up yield to maintain safety of principal—a proven concept.

Alternative Investment Options Organizations Are Considering in Response to SEC's Money Market Reform Rule
(Percent of Organizations)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Separately managed accounts	52%	50%	54%	49%	56%	55%	47%	51%	52%
Extending maturities	19	20	18	18	20	21	17	20	17
Money funds that have final maturity of 60 days or less that offer amortized cost treatment	17	16	18	15	19	20	13	21	15
Doing direct Repo transactions	12	8	16	8	16	14	11	17	6
Extending credit risk	9	12	6	12	7	9	9	8	10
Investing in Tier 2 securities	8	7	9	7	9	11	3	11	7
Unregistered funds that have a stable NAV but no fees or gates	7	4	10	8	7	8	5	9	4
Promissory Notes/Demand Notes/Private Placements	6	7	5	6	6	6	7	4	10
Unrated funds	4	5	4	3	4	4	5	3	5
VRDN's	4	3	5	3	4	5	2	5	1
3(c)(7) private partnerships	1	–	1	–	1	1	1	1	–

Given the negative rate yield environment in the Eurozone (at the time of this writing) much discussion has centered on negative rates, the Fed's monetary policy, and the Basel III implications looming over the market. For Treasury departments in Europe or those based in the U.S. with deposits in Eurozone banks, this is a major concern. Money funds are not immune to the issue either; finding alternative depositories that don't charge fees or negative interest rates to hold a company's money is a concern. As the economy continues to improve, perhaps this issue won't materialize in the U.S.

If yields on cash investment securities were to go negative in the near term, 47 percent of organizations would choose to invest in alternative investments that don't have fees but offer similar safety and liquidity. Many finance professionals argue that having good banking relationships with several institutions would offer the best alternatives given that many company bank deposits are driven by the bank relationship along with selecting money market funds. Leveraging those relationships in times of stress would become even more valuable. Finance professionals indicate that other money funds would be considered (40 percent) and 38 percent of companies would invest in banks that don't charge either for deposits or bank products. The investment policy at 30 percent of companies would require those funds be divested. Larger companies, those that are net investors, and those with an investment grade rating are more likely than other organizations to seek investments without fees that offer safety and 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 Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Find alternative investments that don't have fees but offer same safety and liquidity	47%	42%	51%	43%	49%	51%	38%	47%	43%
Consider other money fund alternatives	44	40	46	42	44	45	40	45	45
Invest in banks that don't charge for deposits or bank products	38	34	41	41	35	37	38	42	36
Our investment policy doesn't allow it; we would divest those securities	30	34	26	33	27	29	34	29	30
It will depend on how negative the yield is and prevailing market conditions	25	22	27	19	29	28	18	27	21
Reinvest internally (Capital Expenditures, Share Repurchase, Dividends, etc.)	18	15	21	18	19	19	18	24	16
Spreads on prime funds might make a compelling proposition if offer a close-to-stable NAV	8	5	10	7	9	8	8	10	7
Other	2	1	2	1	2	2	1	1	1

Conclusion

Safety and liquidity of their cash and short-term investments continue to be paramount to organization's investment strategy. While nearly two-thirds of finance professionals consider safety a very important component of their organizations' cash investment policies, there is now a greater emphasis on liquidity with nearly a third of survey respondents citing it as the primary investment objective. This is the largest share citing liquidity as the primary investment objective since AFP began reporting it in 2008.

Corporate cash continues to be invested primarily in bank deposits. The expiration of TAG in 2012 has not led corporates away from their high level of reliance on bank deposits. However, this year's survey results do reflect a shift away from non-interest bearing deposit accounts.

Last July, 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. 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 is very comparable to last year's survey results in which 50 percent of finance professionals indicated their companies would not invest in prime funds or move money out of prime funds. With the regulation due to take effect in in October 2016, we see a high likelihood of further outflows from prime funds a result.

Also creating some level of uncertainty is whether the Federal Reserve will increase interest rates in the near term. In the current low interest rate environment, the yield curve has been relatively flat and there is a scarcity of opportunities to earn a significant return from investments. The Fed's challenge is to tighten monetary policy at the right time and with the right amount of tightening. While it is often said that a rising tide lifts all boats, in this instance a rising rate yield environment doesn't necessarily guarantee a normalized yield curve, but it may "yield" some optimism in the short run between Fed meetings and how the market could price in subsequent Fed actions. It is inevitable that there will be a rise in interest rates and it will be interesting to see if with a rate hike, yield becomes a greater priority.

Earlier this year corporate treasurers overwhelmingly expected their companies to deploy cash in the first quarter reflecting an optimistic business outlook. But in April AFP's quarterly index, *Corporate Cash Indicators®* noted there was some hesitancy among finance professionals to spend cash. This could be the effects from the severe winter weather and the strong U.S. dollar.

In the current business and regulatory environment, we cannot be completely sure what short-term cash and investment allocations will look like a year from now. Treasury and finance professionals will closely weigh their decisions based on their organizations' priorities and the business climate. The strength of the global economy will also play a significant role in determining the mix of investments for those companies with holdings outside the U.S.

Results from the *2015 AFP Liquidity Survey* convey a number of key messages:

- **Safety of principal again ranks first among investment objectives** as has been the case for most of the last ten years. But the share of finance professionals citing safety as the primary investment objective has shrunk slightly from 68 percent in 2014 to 65 percent in 2015.

- **The importance of liquidity as an investment objective has grown**; 31 percent of survey respondents cite liquidity as an objective this year compared to 28 percent in 2014.
- **A majority of all corporate cash holdings—56 percent—is still maintained at banks**. This is the largest share of cash holdings held at banks in the 10-year history of *AFP's Liquidity Survey.*
- While bank products remain the largest segment of investment options, current survey results show a significant change in the mix from previous years. **Time deposits are still the highest class within the bank product category**, but the share of non-interest bearing deposit accounts declined from 51 percent last year to 40 percent this year.
- With the **SEC having finalized new rules on certain money market funds**, how will companies accommodate those changes in their short-term investment objectives? **A majority of survey respondents indicate that their organizations are planning to make changes in how they invest in prime MMFs**.

About the Survey

In May 2015, 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 526 responses from its corporate practitioner members. After adjusting for undelivered emails, the response rate was approximately seven percent. An additional 410 responses were received from corporate practitioners who are not AFP members. The combined 936 responses are the basis of this report.

AFP thanks State Street Global Advisors for underwriting the *2015 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)

Under $50 million	12%
$50-99.9 million	5
$100-249.9 million	9
$250-499.9 million	10
$500-999.9 million	13
$1-4.9 billion	28
$5-9.9 billion	9
$10-20 billion	7
Over $20 billion	7

Ownership Type
(Percentage Distribution)

Publicly owned	39%
Privately held	41
Non-profit (not-for-profit)	10
Government (or government owned entity)	10

Industry
(Percentage Distribution of Organizations)

Manufacturing	20%
Retail (including wholesale/distribution)	11
Energy (including utilities)	10
Banking/Financial Services	6
Government	6
Health services	6
Insurance	6
Non-profit (including education)	6
Software/Technology	6
Business services/Consulting	5
Telecommunications/Media	5
Transportation	4
Hospitality/Travel	3
Real estate	3
Construction	2

Net Borrower or Net Investor
(Percentage Distribution of Organizations)

Net borrower	47%
Net investor	53

Organizations' Credit Ratings
(Percentage Distribution of Organizations)

Investment grade	66%
Non-investment grade	34

Appendix

Net Borrower or Net Investor
(Percentage Distribution of Organizations)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Investment Grade	Non Investment Grade	Publicly Owned	Privately Held
Net borrower	47%	49%	46%	37%	66%	50%	54%
Net investor	53	51	54	63	34	50	46

Organizations' Credit Ratings
(Percentage Distribution of Organizations)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Publicly Owned	Privately Held
Investment grade	66%	58%	73%	52%	78%	67%	54%
Non-investment grade	34	42	27	48	22	33	46

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Much larger	9%	8%	8%	8%	8%	7%	11%	9%	7%
Somewhat larger	18	15	21	18	18	18	18	23	15
No significant change	56	58	56	57	57	58	55	53	58
Somewhat smaller	11	10	11	11	10	11	11	9	13
Much smaller	6	9	4	6	7	6	7	5	7

Prevalence of Written Cash Investment Policies
(Percent of Organizations)

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Yes	70%	55%	86%	61%	80%	79%	58%	85%	50%
No	30	45	14	39	20	21	42	15	50

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Safety	65%	63%	68%	62%	69%	67%	65%	70%	54%
Liquidity	31	30	29	34	27	30	29	25	43
Yield	4	7	2	4	4	3	5	4	4

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Once a quarter	8%	10%	6%	5%	9%	8%	6%	5%	12%
Every six months	6	5	5	5	5	5	6	6	6
Once a year	48	48	49	48	49	48	48	53	43
Every 2-4 years	18	16	20	21	16	19	17	16	17
Not on a regular basis	20	21	20	21	20	19	22	19	22

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

	All Responses	Annual Revenues Under $1 Billion	Annual Revenues At Least $1 Billion	Net Borrower	Net Investor	Investment Grade	Non-Investment Grade	Publicly Owned	Privately Held
Yes	45%	47%	43%	41%	47%	46%	41%	44%	46%
No	55	53	57	59	53	54	59	56	54

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