Maintaining Liquidity in Corporate Cash Accounts

How to achieve a portfolio with higher credit quality *and* higher return potential than a money market fund.

Abstract

Separate accounts may offer greater return and reduced credit risk compared to prime money market funds. By examining current and future liquidity needs and the potential for significant deviations from cash flow projections, corporate treasurers may construct portfolios with direct investments in high-quality credits that provide current, future and emergency liquidity – and still may achieve higher returns than money market funds.

Introduction

Events of the past three years have shriveled yields for deposit and money market products, while at the same time increasing investors' risk of both principal loss and interruption in liquidity. Corporate treasurers who traditionally have maintained all of their cash in bank deposits or overnight products may be forced to examine other options to maintain a competitive (or merely positive) return without incurring inappropriate credit risk. A major hurdle in this process is satisfying the need for daily liquidity given businesses' varying degrees of clarity with respect to future cash needs. Fortunately, with a carefully planned maturity structure and organized strata of liquid investment vehicles, separately managed account portfolios (SMAs) can offer a high degree of liquidity that may satisfy most treasurers' requirements.

Types of Liquidity

For some corporate treasurers, liquidity is a term reserved for bank deposits or money market fund shares, and they consider other investment vehicles to be illiquid by comparison. Such a definition is needlessly limiting. Furthermore, as we saw in 2008, this definition is not uniformly true for all banks or money market funds. Three years removed from the peak of the crisis, the pace of bank failures continues, with 84 so far this year[1], while money market fund reform efforts remain unresolved. For any corporate cash instrument, from bank deposits to mutual funds to direct investments, a close examination is required to understand liquidity characteristics.

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Leaving analysis of banks and money market funds for other discussions, let's consider them liquid for our purposes here. In addition to the organic liquidity that may be accessed by withdrawals from a bank account or redemptions from money market investments, future organic liquidity may be maintained in securities with scheduled maturities that correspond to forecasted liquidity needs, whether overnight or months down the road. Unfortunately, perfect predictions of future cash needs are rare in many

businesses, so a simple ladder of maturities to correspond with forecasted spending plans may not resolve many treasurers' liquidity requirements.

The SEC was faced with this same dilemma when considering how to avoid future liquidity crises. In 2008, the aftermath of the Lehman failure caused a tidal wave of money market fund redemption requests that required a blanket government guarantee to save the money market fund industry. The SEC's 2010 revisions to rule 2a-7 sought to fortify liquidity protection through secondary sources of liquidity, in addition to the organic liquidity found in same-day cash holdings. Unlike a money fund, separately managed accounts are not at risk of liquidity interruptions due to shareholder runs, as a sole investor controls all of the assets directly. On the other hand, SMAs are in some ways akin to custom money market funds; with this in mind, the 2010 amendments to money market fund rules that sought to build liquidity protection provide us with a useful definition when considering additional liquidity in SMAs:

> Weekly Liquid Assets means:
> (i) Cash;
> (ii) Direct obligations of the U.S. Government;
> (iii) Government Securities that are issued by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States that:
> (A) Are issued at a discount to the principal amount to be repaid at maturity; and
> (B) Have a remaining maturity date of 60 days or less; or
> (iv) Securities that will mature or are subject to a Demand Feature that is exercisable and payable within five Business Days.[2]

Logically, the SEC's Weekly Liquid Asset definition includes any securities that mature or are put-able within five business days, but it also includes Treasury securities of *any* maturity, as well as government agency securities with maturities up to 60 days.

The inclusion of securities longer than one week in a definition of weekly liquidity may seem curious. U.S. Government backed debt qualifies nevertheless because secondary markets for such holdings are extremely liquid; that is, the bid-to-ask spread or the difference in price at which an investor could buy and sell the same security, is extremely small. Chart 1 shows the bid and ask yields for two-year Treasury notes for the past six months, with an average bid-to-ask spread of just half of one basis point[3]:

Chart 1

Bid Yields. 2-Year T-Note

Ask Yields. 2-Year T-Note

This high degree of trading efficiency confirms what many treasurers instinctively know already – that U.S. Treasury securities are among the most liquid instruments in the world. Just as money market funds do, separately managed accounts can build additional liquidity in the form of weekly maturities, securities with a demand (put) feature and U.S. Government debt that can be sold easily and efficiently should unexpected liquidity needs arise.

Clarity from the Fed: "Exceptionally Low Rates"

Despite the high degree of efficiency that U.S. Treasury debt markets offer investors, treasurers also must be mindful of interest rate risk. In most economic environments, predictions on the direction of interest rates may be difficult and inconsistent. While today's historically low short-term rates are excruciating from an interest income perspective, U.S. central bankers' explicit intentions to maintain rates at current levels through 2013 leave us an important upside. The Fed's transparency on future rate expectations affords treasurers a valuable opportunity to extend maturities without credible fears of upward interest rate pressures. With risks of market value declines due to significant increases in interest rates effectively eliminated, U.S. Government debt – even debt with maturities as long as 2013 – can appropriately be considered a reliable source of liquidity in cash investment portfolios.

Other Secondary Liquidity Sources

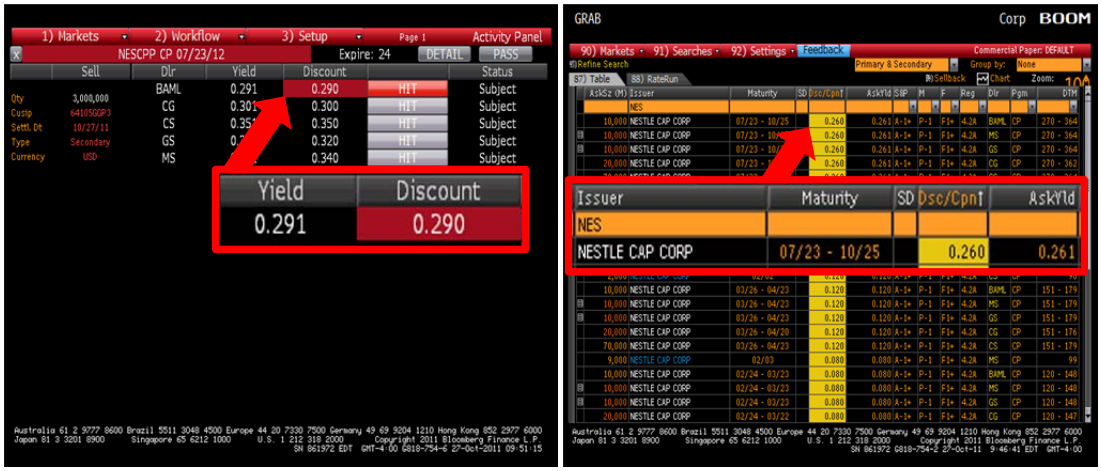
Treasuries aren't the only source of secondary liquidity – there also are other types of debt that exhibit the same efficient secondary markets, and moreover, a tendency to appreciate during times of severe market stress, as Treasuries tend to do. Since 2008, the housing GSEs Fannie Mae and Freddie Mac have benefited from explicit capital support from the U.S. Treasury. With *unlimited* support committed through 2012 to maintain their solvency, and perpetual access to $200B each thereafter[4], secondary market characteristics for GSEs are

nearly identical to Treasuries. Therefore, GSEs should logically be included as a secondary liquidity option along with other types of government-backed securities.

In addition to U.S. government debt, debt issued by the largest, highest quality non-financial issuers also exhibits strong secondary market liquidity characteristics. Chart 2 shows bid and ask levels for Nestle paper maturing in nine months. For Nestle paper, a suitable proxy for the universe of the strongest non-financial issuers, the bid-to-ask spread of just three basis points highlights that buying and selling Nestle is nearly as efficient as buying and selling Treasuries. As a result, we can characterize debt of the highest quality non-financial issuers as a secondary liquidity source on which we can draw should cash flow requirements surpass previous forecasts; these debts could be easily and efficiently liquidated should the need arise.

Again, we have the Fed to thank for their explicit intentions to keep short-term rates low; with overnight rates pegged at current levels, there is very little likelihood that an early sale of paper like this Nestle piece could lead to a principal loss.

Chart 2



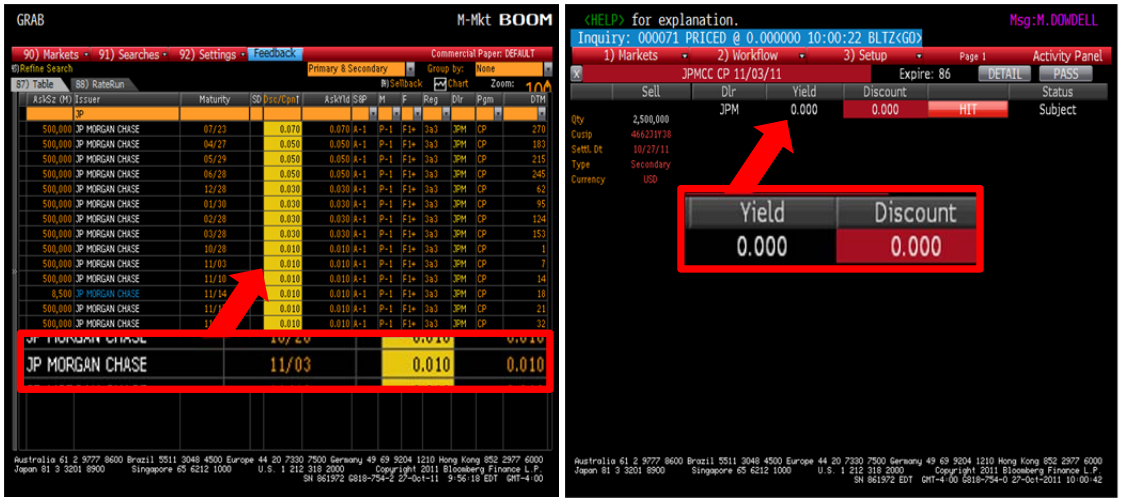
Liquidity for Different Lengths to Maturity

Debt of other types of issuers, such as banks, brokerages, insurance companies, finance companies or structured products, may trade less efficiently in secondary markets. Corporate treasurers should view such investments through a different lens to determine the ability for such vehicles to provide backup and emergency liquidity in separately managed accounts – because they often cannot.

However, some of the largest, strongest banks domiciled in certain stable countries, even during episodes of market duress, do offer efficient secondary market trading characteristics with tight bid-to-ask spreads for shorter maturities. But as maturities lengthen, even for the very strongest banks, the bid-to-ask tends to widen. While the credit

strength of a small group of very large banks is not in question (a very small group indeed), careful attention must be paid to the potential for future liquidity needs and the ability to easily and efficiently liquidate holdings before maturity. Chart 3 shows a bid-ask spread for seven-day JPMorgan Chase commercial paper of effectively zero, a degree of secondary market efficiency equal to Treasuries:[5]

Chart 3



As maturities extend longer on the yield curve, bid-to-ask spreads indicate that broker-dealers are somewhat more hesitant to take longer bank bonds onto their inventories. Bloomberg's generic pricing information suggests an extremely wide bid-to-ask spread for a high-quality Wells Fargo note maturity in 10 months in Chart 4. Capital Advisors Group's traders were able to get considerably better bids than Bloomberg's generic data suggest, but the bid-to-ask spread was considerably wider than for a high-quality non-financial note, at 0.16% (for a Wells Fargo 5.5% coupon note maturing 8/1/12, offered at 0.68% on 10/12/11, with the best bid received by our traders at 0.84%).[6]

Chart 4

The 0.16% bid-to-ask spread is a typical trading cost and is not indicative of any particular stresses to Wells Fargo – in fact it suggests considerable strength when compared to bid-to-ask levels for other banks. Still, this serves as a reminder that if an investor needs to liquidate notes of even the highest quality financial issuers before maturity, they almost certainly will be faced with some degree of market inefficiency. Fortunately, given the positive slope of the yield curve, if an investor can hold a note for just a few months before having to liquidate they often will be afforded the opportunity to sell without any loss despite trading inefficiencies.

Less Liquid Names

Logically, bid-to-ask spreads widen considerably as we move down the credit spectrum to financial issuers with lower credit ratings from Moody's or Standard & Poor's, to those financial issuers with weaker underlying asset quality or weaker access to capital markets during periods of stress. A careful analysis may deliver issuers whose debt is "money good" and provides the necessary capital preservation characteristics for a cash portfolio. However, secondary market trading activity is sufficiently weakened in today's tenuous market that such investments should be considered only if a treasurer is 100% certain of not needing that cash before maturity. In our view, it is the rare treasurer who can be so certain. Furthermore, any modicum of secondary market activity that may exist today for weaker issuers could vanish entirely should the sovereign debt situation in Europe worsen.

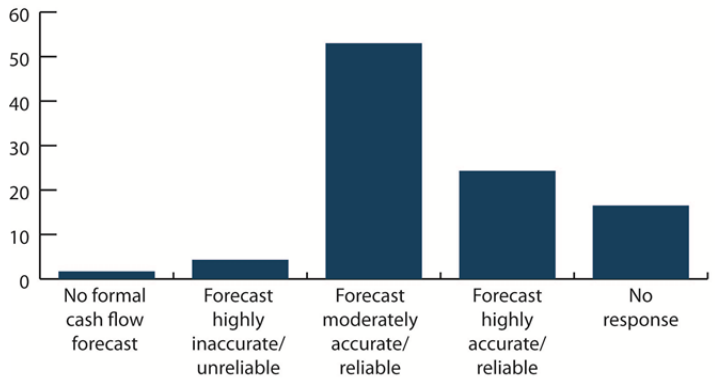
Constructing a Portfolio

Lengthening the maturity ladder beyond the same-day horizon of bank accounts or money market funds may offer measurably higher returns without sacrificing safety of principal (or even increasing safety) and still allow us to meet current, future and emergency liquidity demands. Reviewing the categories of liquidity layers reviewed above, we have the following tiers available to construct a custom portfolio:

Organic Liquidity	Deposits in bank accounts and MMF shares
Weekly Liquidity	The "Weekly Liquid Assets" definition borrowed from the SEC: holdings that are due/putable in 5 days, Agencies due in 60 days, and all Treasuries.
Secondary Liquidity	Agency securities longer than 60 days and debt of the strongest non-financial companies. Both tend to appreciate in times of stress.
Emergency Liquidity	A very small selection of the strongest banks. Short maturities trade very efficiently…longer maturities somewhat less efficiently.
Other	Securities that are "money good", but that don't provide any liquidity advantages

With an understanding of market liquidity characteristics, a savvy treasurer may construct a cash portfolio that offers several layers of liquidity protection depending on varying business requirements.

Cash requirements vary significantly from one business to the next, as substantiated by a joint survey that Capital Advisors Group and Strategic Treasurer conducted earlier this year:[7]



Just over 50% of respondents indicated that their cash forecasts are moderately accurate/reliable and more than 20% indicated that forecasts are highly accurate or reliable, which leaves nearly 30% of those surveyed who have forecasts that are something other than reliable. We'll offer three portfolio examples that could be suitable for these three major categories of cash flow reliability:

Example 1[8]: Cash Forecasts Moderately Accurate/Reliable[8]

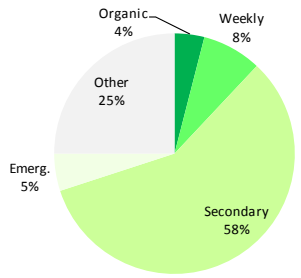
In our first example, monthly cash demands for the company are consistent, but other large cash requirements are a perpetual possibility as the business' cash flows can fluctuate. Uncertainty over the amount of future cash needs pushes the structure to maintain more available cash as time goes on by building an ever-increasing buffer in excess of anticipated cash needs, and by maintaining a significant percentage in highly liquid government-backed investments.

SAMPLE PORTFOLIO #1
10/27/2011

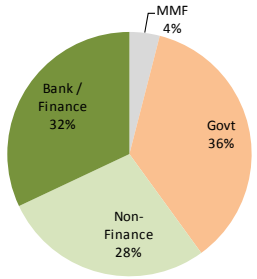
	TYPE	% OF HOLDINGS	INSTRUMENT	INVESTMENT COST	YIELD TO MATURITY	MATURITY DATE	PURCHASE DATE	DAYS TO MATURITY
	MMF	4.00%	PRIME MONEY MARKET FUND (AAA/AAA)	$4,000,000	0.05%	N/A	N/A	OVERNIGHT
*(1)	Govt	6.00%	MUNICIPAL TCLP NOTES (Multiple Issuers)	$6,000,000	0.15%	11/3/2011	10/27/2011	7
	Bank	2.00%	LARGE BANK COMMERCIAL PAPER	$2,000,000	0.15%	11/3/2011	10/27/2011	7
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.33%	1/31/2012	10/27/2011	96
	Non-Financial	5.00%	NON-FINANCIAL COMMERCIAL PAPER	$5,000,000	0.19%	3/31/2012	10/27/2011	156
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.38%	4/30/2012	10/27/2011	186
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.40%	5/31/2012	10/27/2011	217
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.42%	6/30/2012	10/27/2011	247
	Non-Financial	5.00%	NON-FINANCIAL COMMERCIAL PAPER	$5,000,000	0.36%	7/31/2012	10/27/2011	278
	Bank	5.00%	LARGE BANK CORPORATE NOTE	$5,000,000	0.65%	8/31/2012	10/27/2011	309
	Non-Financial	8.00%	NON-FINANCIAL CORPORATE NOTE	$8,000,000	0.50%	9/30/2012	10/27/2011	339
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.62%	10/31/2012	10/27/2011	370
	Govt	12.00%	US AGENCY NOTE (CALLABLE)	$12,000,000	0.36%	11/30/2012	10/27/2011	400
	Non-Financial	5.00%	NON-FINANCIAL CORPORATE NOTES	$5,000,000	0.73%	6/15/2013	10/27/2011	597
	Non-Financial	5.00%	NON-FINANCIAL CORPORATE NOTES	$5,000,000	0.78%	9/15/2013	10/27/2011	689
	Govt	18.00%	US AGENCY NOTE (CALLABLE)	$18,000,000	0.65%	10/27/2013	10/27/2011	731
			TOTAL	**$100,000,000**	**0.46%**			**365**

(1) Fully guaranteed under the Treasury Department's Temporary Credit and Liquidity Program

Liquidity Types



Asset Types



Cash Flow Projection Planner

DATE	BALANCE (TOTAL FROM TOP)	CASH OUTFLOW	RECOMMENDED PURCHASES	EXCESS LIQUIDITY	REPOSITION AVAILABILITY
	$100,000,000			$4,000,000	
Nov-11	$100,000,000	($2,000,000)	**$8,000,000**	$10,000,000	10.20%
Dec-11	$98,000,000	($2,000,000)		$8,000,000	8.33%
Jan-12	$96,000,000	($2,000,000)	**$5,000,000**	$11,000,000	11.70%
Feb-12	$94,000,000	($2,000,000)		$9,000,000	9.78%
Mar-12	$92,000,000	($2,000,000)	**$5,000,000**	$12,000,000	13.33%
Apr-12	$90,000,000	($2,000,000)	**$5,000,000**	$15,000,000	17.05%
May-12	$88,000,000	($2,000,000)	**$5,000,000**	$18,000,000	20.93%
Jun-12	$86,000,000	($2,000,000)	**$5,000,000**	$21,000,000	25.00%
Jul-12	$84,000,000	($2,000,000)	**$5,000,000**	$24,000,000	29.27%
Aug-12	$82,000,000	($2,000,000)	**$5,000,000**	$27,000,000	33.75%
Sep-12	$80,000,000	($2,000,000)	**$8,000,000**	$33,000,000	42.31%
Oct-12	$78,000,000	($2,000,000)	**$5,000,000**	$36,000,000	47.37%
Nov-12	$76,000,000	($2,000,000)	**$12,000,000**	$46,000,000	62.16%
Dec-12	$74,000,000	($2,000,000)		$44,000,000	61.11%
Jan-13	$72,000,000	($2,000,000)		$42,000,000	60.00%
Feb-13	$70,000,000	($2,000,000)		$40,000,000	58.82%
Mar-13	$68,000,000	($2,000,000)		$38,000,000	57.58%
Apr-13	$66,000,000	($2,000,000)		$36,000,000	56.25%
May-13	$64,000,000	($2,000,000)		$34,000,000	54.84%
Jun-13	$62,000,000	($2,000,000)	**$5,000,000**	$37,000,000	61.67%
Jul-13	$60,000,000	($2,000,000)		$35,000,000	60.34%
Aug-13	$58,000,000	($2,000,000)		$33,000,000	58.93%
Sep-13	$56,000,000	($2,000,000)	**$5,000,000**	$36,000,000	66.67%
Oct-13	$54,000,000	($2,000,000)	**$18,000,000**	$52,000,000	100.00%
Nov-13	$52,000,000	($2,000,000)		$50,000,000	100.00%
Dec-13	$50,000,000	($2,000,000)		$48,000,000	

Weighted Average Maturity: 365 Days
Weighted Average Yield: 0.46%

Example 2[8]: Cash Forecasts Less Than Accurate/Reliable[8]

In our second example the company has no specific monthly cash needs, but there is a perpetual possibility that M&A activity or other capital spending could require large sums from the portfolio. The portfolio structure provides for unknown potential liquidity needs

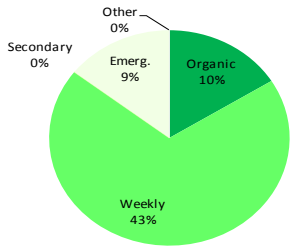
by maintaining a significant amount of the holdings in maturities coming due in five business days and in Treasuries, with the remainder coming due in 90 days or less. This structure creates a considerably more conservative credit profile than the most conservative prime fund, yet still provides excess yield.

SAMPLE PORTFOLIO #2
10/27/2011

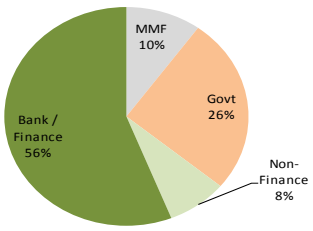
	TYPE	% OF HOLDINGS	INSTRUMENT	INVESTMENT COST	YIELD TO MATURITY	MATURITY DATE	PURCHASE DATE	DAYS TO MATURITY
	MMF	10.00%	PRIME MONEY MARKET FUND (AAA/AAA)	$10,000,000	0.05%	N/A	N/A	OVERNIGHT
*(1)	Govt	6.00%	MUNICIPAL TCLP NOTES (Multiple Issuers)	$6,000,000	0.15%	11/3/2011	10/27/2011	7
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.15%	11/3/2011	10/27/2011	7
	Bank	4.00%	LARGE BANK COMMERCIAL PAPER	$4,000,000	0.10%	11/3/2011	10/27/2011	7
	Bank	4.00%	LARGE BANK COMMERCIAL PAPER	$4,000,000	0.12%	11/3/2011	10/27/2011	7
	Bank	4.00%	LARGE BANK COMMERCIAL PAPER	$4,000,000	0.17%	11/3/2011	10/27/2011	7
	Bank	4.00%	LARGE BANK COMMERCIAL PAPER	$4,000,000	0.20%	12/31/2011	10/27/2011	65
	Bank	4.00%	LARGE BANK COMMERCIAL PAPER	$4,000,000	0.24%	12/31/2011	10/27/2011	65
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.27%	12/31/2011	10/27/2011	65
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.32%	12/31/2011	10/27/2011	65
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.31%	12/31/2011	10/27/2011	65
	Non-Financial	4.00%	NON-FINANCIAL COMMERCIAL PAPER	$4,000,000	0.10%	1/31/2012	10/27/2011	96
	Non-Financial	4.00%	NON-FINANCIAL COMMERCIAL PAPER	$4,000,000	0.12%	1/31/2012	10/27/2011	96
	Bank	4.00%	LARGE BANK COMMERCIAL PAPER	$4,000,000	0.28%	1/31/2012	10/27/2011	96
	Bank	4.00%	LARGE BANK COMMERCIAL PAPER	$4,000,000	0.32%	1/31/2012	10/27/2011	96
	Bank	4.00%	LARGE BANK COMMERCIAL PAPER	$4,000,000	0.35%	1/31/2012	10/27/2011	96
	Bank	4.00%	LARGE BANK COMMERCIAL PAPER	$4,000,000	0.38%	1/31/2012	10/27/2011	96
	Govt	5.00%	US TREASURY NOTE	$5,000,000	0.08%	4/30/2012	10/27/2011	186
	Govt	5.00%	US TREASURY NOTE	$5,000,000	0.16%	10/31/2012	10/27/2011	370
	Govt	5.00%	US TREASURY NOTE	$5,000,000	0.23%	4/30/2013	10/27/2011	551
	Govt	5.00%	US TREASURY NOTE	$5,000,000	0.30%	10/31/2013	10/27/2011	735
			TOTAL	**$100,000,000**	**0.21%**			**132**

(1) Fully guaranteed under the Treasury Department's Temporary Credit and Liquidity Program

Liquidity Types



Asset Types



Cash Flow Projection Planner

DATE	BALANCE (TOTAL FROM TOP)	CASH OUTFLOW	RECOMMENDED PURCHASES	EXCESS LIQUIDITY	REPOSITION AVAILABILITY
	$100,000,000			$10,000,000	
Nov-11	$100,000,000	?	$23,000,000	$33,000,000	33.00%
Dec-11	$100,000,000	?	$23,000,000	$56,000,000	56.00%
Jan-12	$100,000,000	?	$24,000,000	$80,000,000	80.00%
Feb-12	$100,000,000	?		$80,000,000	80.00%
Mar-12	$100,000,000	?		$80,000,000	80.00%
Apr-12	$100,000,000	?	$5,000,000	$85,000,000	85.00%
May-12	$100,000,000	?		$85,000,000	85.00%
Jun-12	$100,000,000	?		$85,000,000	85.00%
Jul-12	$100,000,000	?		$85,000,000	85.00%
Aug-12	$100,000,000	?		$85,000,000	85.00%
Sep-12	$100,000,000	?		$85,000,000	85.00%
Oct-12	$100,000,000	?	$5,000,000	$90,000,000	90.00%
Nov-12	$100,000,000	?		$90,000,000	90.00%
Dec-12	$100,000,000	?		$90,000,000	90.00%
Jan-13	$100,000,000	?		$90,000,000	90.00%
Feb-13	$100,000,000	?		$90,000,000	90.00%
Mar-13	$100,000,000	?		$90,000,000	90.00%
Apr-13	$100,000,000	?	$5,000,000	$95,000,000	95.00%
May-13	$100,000,000	?		$95,000,000	95.00%
Jun-13	$100,000,000	?		$95,000,000	95.00%
Jul-13	$100,000,000	?		$95,000,000	95.00%
Aug-13	$100,000,000	?		$95,000,000	95.00%
Sep-13	$100,000,000	?		$95,000,000	95.00%
Oct-13	$100,000,000	?	$5,000,000	$100,000,000	100.00%
Nov-13	$100,000,000	?		$100,000,000	100.00%
Dec-13	$100,000,000	?		$100,000,000	

Weighted Average Maturity: 132 Days
Weighted Average Yield: 0.21%

Example 3[8]: Cash Forecasts Highly Accurate/Reliable[8]

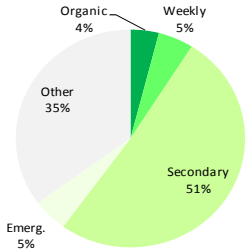
It is rare for a company to lack any potential for future demands on cash balances, but when some small portion of the cash is not needed for the foreseeable future, a company may look to add a layer of less-liquid investments to an already diversified portfolio to increase interest income. Example 3 looks at a portfolio similar to Example 1, but with the addition of longer maturities of non-financial issuers and the strongest banks. Note the larger slice of "Other," which provides little liquidity benefit in cash emergencies.

SAMPLE PORTFOLIO #3
10/27/2011

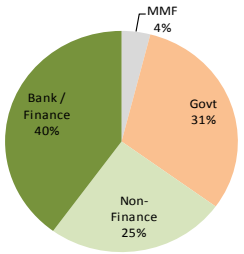
	TYPE	% OF HOLDINGS	INSTRUMENT	INVESTMENT COST	YIELD TO MATURITY	MATURITY DATE	PURCHASE DATE	DAYS TO MATURITY
	MMF	4.00%	PRIME MONEY MARKET FUND (AAA/AAA)	$4,000,000	0.05%	N/A	N/A	OVERNIGHT
*(1)	Govt	5.00%	MUNICIPAL TCLP NOTES (Multiple Issuers)	$5,000,000	0.15%	11/3/2011	10/27/2011	7
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.33%	1/31/2012	10/27/2011	96
	Non-Financial	5.00%	NON-FINANCIAL COMMERCIAL PAPER	$5,000,000	0.19%	3/31/2012	10/27/2011	156
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.40%	5/31/2012	10/27/2011	217
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.42%	6/30/2012	10/27/2011	247
	Non-Financial	5.00%	NON-FINANCIAL COMMERCIAL PAPER	$5,000,000	0.36%	7/31/2012	10/27/2011	278
	Bank	5.00%	LARGE BANK CORPORATE NOTE	$5,000,000	0.65%	8/31/2012	10/27/2011	309
	Non-Financial	5.00%	NON-FINANCIAL CORPORATE NOTE	$5,000,000	0.50%	9/30/2012	10/27/2011	339
	Bank	5.00%	LARGE BANK COMMERCIAL PAPER	$5,000,000	0.62%	10/31/2012	10/27/2011	370
	Govt	5.00%	US AGENCY NOTE (CALLABLE)	$5,000,000	0.36%	11/30/2012	10/27/2011	400
	Non-Financial	5.00%	NON-FINANCIAL CORPORATE NOTES	$5,000,000	0.73%	6/15/2013	10/27/2011	597
	Non-Financial	5.00%	NON-FINANCIAL CORPORATE NOTES	$5,000,000	0.78%	9/15/2013	10/27/2011	689
	Bank	5.00%	LARGE BANK CORPORATE NOTE	$5,000,000	1.09%	3/15/2013	10/27/2011	505
	Bank	5.00%	LARGE BANK CORPORATE NOTE	$5,000,000	1.38%	9/15/2013	10/27/2011	689
	Bank	5.00%	LARGE BANK CORPORATE NOTE	$5,000,000	1.45%	10/15/2013	10/27/2011	719
	Govt	21.00%	US AGENCY NOTE (CALLABLE)	$21,000,000	0.65%	10/27/2013	10/27/2011	731
			TOTAL	**$100,000,000**	**0.61%**			**434**

(1) Fully guaranteed under the Treasury Department's Temporary Credit and Liquidity Program

Liquidity Types



Asset Types



Cash Flow Projection Planner

DATE	BALANCE (TOTAL FROM TOP)	CASH OUTFLOW	RECOMMENDED PURCHASES	EXCESS LIQUIDITY	REPOSITION AVAILABILITY
	$100,000,000			$4,000,000	
Nov-11	$100,000,000	($2,000,000)	$5,000,000	$7,000,000	7.14%
Dec-11	$98,000,000	($2,000,000)		$5,000,000	5.21%
Jan-12	$96,000,000	($2,000,000)	$5,000,000	$8,000,000	8.51%
Feb-12	$94,000,000	($2,000,000)		$6,000,000	6.52%
Mar-12	$92,000,000	($2,000,000)	$5,000,000	$9,000,000	10.00%
Apr-12	$90,000,000	($2,000,000)		$7,000,000	7.95%
May-12	$88,000,000	($2,000,000)	$5,000,000	$10,000,000	11.63%
Jun-12	$86,000,000	($2,000,000)	$5,000,000	$13,000,000	15.48%
Jul-12	$84,000,000	($2,000,000)	$5,000,000	$16,000,000	19.51%
Aug-12	$82,000,000	($2,000,000)	$5,000,000	$19,000,000	23.75%
Sep-12	$80,000,000	($2,000,000)	$5,000,000	$22,000,000	28.21%
Oct-12	$78,000,000	($2,000,000)	$5,000,000	$25,000,000	32.89%
Nov-12	$76,000,000	($2,000,000)	$5,000,000	$28,000,000	37.84%
Dec-12	$74,000,000	($2,000,000)		$26,000,000	36.11%
Jan-13	$72,000,000	($2,000,000)		$24,000,000	34.29%
Feb-13	$70,000,000	($2,000,000)		$22,000,000	32.35%
Mar-13	$68,000,000	($2,000,000)	$5,000,000	$25,000,000	37.88%
Apr-13	$66,000,000	($2,000,000)		$23,000,000	35.94%
May-13	$64,000,000	($2,000,000)		$21,000,000	33.87%
Jun-13	$62,000,000	($2,000,000)	$5,000,000	$24,000,000	40.00%
Jul-13	$60,000,000	($2,000,000)		$22,000,000	37.93%
Aug-13	$58,000,000	($2,000,000)		$20,000,000	35.71%
Sep-13	$56,000,000	($2,000,000)	$10,000,000	$28,000,000	51.85%
Oct-13	$54,000,000	($2,000,000)	$26,000,000	$52,000,000	100.00%
Nov-13	$52,000,000	($2,000,000)		$50,000,000	100.00%
Dec-13	$50,000,000	($2,000,000)		$48,000,000	

Weighted Average Maturity: 434 Days
Weighted Average Yield: 0.61%

Conclusion

An understanding of the reliability of cash flow forecasts, coupled with an understanding of secondary sources of liquidity beyond bank deposits and money market funds, may provide a comfortable liquidity buffer for future cash requirements whether they are predictable or not. With well-designed liquidity buffers to resolve changing cash needs, SMAs can offer treasurers increased yield potential as well as more precise control of credit risk as compared to bank accounts and money market funds.

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[1] Source: http://www.fdic.gov/bank/individual/failed/banklist.html

[2] Amended SEC Rule 2a-7(a)(32), http://www.sec.gov/rules/final/2010/ic-29132.pdf

[3] Source: Bloomberg

[4] Source: FHFA and U.S. Treasury. http://www.fhfa.gov/Default.aspx?Page=364

[5] Source: Bloomberg

[6] Source: Bloomberg

[7] Source: Joint CAG and Strategic Treasurer 2011 Liquidity Risk Survey

[8] Sample purchases do not represent actual market offerings. Securities typify those in which Capital Advisors Group invests and may differ from purchased securities. The yield presented for each security represents estimates of attainable yield levels as of 10/26/11 and may not reflect your account's results were CAG actually managing your money. Account structure may differ from the sample structures included. All information is subject to change without notice.