PART 2

CORPORATE CASH INVESTMENT STRATEGIES

STRUCTURING LIQUIDITY ACROSS PORTFOLIOS

A Practical Guide for CFOs and Treasury Teams Managing Institutional Cash

CAPITAL ADVISORS GROUP

Corporate Cash Investment Strategies
Structuring Liquidity Across Portfolios

Corporate treasury management has entered a demanding era. Regulatory changes, evolving money market structures, interest rate uncertainty, and larger cash balances have reshaped how institutions manage short-term cash.

What was once a straightforward decision between bank deposits and money market funds has become a strategic exercise requiring active management, portfolio diversification, and disciplined investment policies.

WHY CORPORATE CASH MANAGEMENT HAS CHANGED



Since the 2008 global financial crisis, the risk profile of short-term investments has fundamentally changed. Instruments once considered routine—especially prime money market funds—may now introduce unexpected volatility.

POLICY RESPONSE

1	2	3
Strengthened bank capital rules	Restructured money market fund frameworks	Increased transparency requirements across financial markets

In this environment, relying exclusively on bank deposits or money market funds may overlook other cash management strategies. A more comprehensive toolkit of cash investment options may help institutions balance safety, liquidity, and portfolio efficiency while enhancing overall corporate cash management.

The Three Core Corporate Cash Investment Strategies

Despite the market's complexity, the core objectives of corporate cash investment remains consistent: preserve principal, maintain reliable liquidity, and achieve competitive risk-adjusted returns.

Cash investment options generally fall into three categories:

1
BANK DEPOSITS

2
ASSET POOLS

3
DIRECT PURCHASES OF SHORT-TERM ASSETS

Structuring cash investment portfolios with those categories in mind may help treasury teams strike an appropriate balance between liquidity, risk, and yield.

Evaluating Corporate Cash Investment Options



1. BANK DEPOSITS: THE OPERATIONAL FOUNDATION

Bank deposits remain the starting point for most corporate treasury organizations. They are central to banking relationships, provide ready access to funds for operational needs, and simplify daily cash operations.

DEPOSITS MAY BE HELD AT:



Domestic Institutions



Foreign banks



U.S. branches of foreign banks



Offshore branches of U.S. banks



This structure may offer stability and administrative ease.

However, institutional investors should recognize that deposits are not without risk:

INSURANCE LIMITS

FDIC insurance up to $250,000 per taxpayer ID in combined deposit exposure per bank typically protects only a small fraction of corporate balances, leaving most funds exposed as unsecured bank credit.

CONCENTRATION RISKS

Holding deposits at only one or two banks may increase vulnerability if a bank experiences financial problems.

YIELD

Interest rates paid on bank deposits may lag market returns, which could affect income potential.

While bank deposits provide operating liquidity and near-term cash needs, they may not be sufficient for optimizing broader portfolio objectives. For this reason, corporations may turn to capital markets instruments to supplement traditional liquidity tools.

2. ASSET POOLS: DIVERSIFICATION AND PROFESSIONAL MANAGEMENT

Asset pools provide corporate treasuries with access to managed funds that may offer higher yield potential. Instead of holding individual securities, investors own shares in a portfolio of short-term instruments managed by professional third parties.

THIS COMMINGLED APPROACH MAY OFFER:

ENHANCED DIVERSIFICATION

DEEPER RESEARCH

OPERATIONAL & ADMINISTRATIVE EFFICIENCIES

However, it may also expose cash investors to shared risks.

Pooled investments most familiar to corporate cash managers are likely money market funds (MMFs), such as government money market funds and prime money market funds:

GOVERNMENT MMFS

Invest only in high quality government securities that seek to maintain a stable dollar-in, dollar-out share price. However, they may offer lower yields relative to other pooled asset investments.

PRIME MMFS

May offer higher yields by investing in short-term instruments such as commercial paper and certificates of deposit. However, the net asset values of prime MMFs fluctuate daily to reflect the volatility of the underlying assets they hold. They may also be subject to “dynamic” liquidity fees of up to 1% on withdrawn funds when daily redemption requests exceed 5% of total assets.

The asset pool landscape has expanded over the years, giving institutional investors more, but not necessarily better options for short-term cash management given their additional complexity or fluctuating share price:

ULTRA-SHORT BOND FUNDS

Mutual funds or ETFs investing in high-quality, short duration, fixed-income securities that may offer higher yield potential than traditional MMFs.

PRIVATE LIQUIDITY POOLS (SEC 3C-7 FUNDS)

Privately offered funds targeting low-volatility short-term investments with the goal of maintaining a stable net asset value (NAV). These funds are generally subject to less regulatory oversight than registered funds.

LOCAL GOVERNMENT INVESTMENT POOLS (LGIPS)

Pooled cash investment vehicles for eligible government and public agencies, administered by state and local governments under rules separate from SEC and Fed/FDIC regulations, typically with a focus on principal safety and daily liquidity.

A key advantage of pooled investment vehicles may be professional management. Third-party managers may:

- Execute portfolio transactions
- Ongoing monitoring of credit risk
- Access certain markets that may be more difficult for some investors to access directly

However, pooling investments may also introduce shared liquidity risk. Liquidity depends on the behavior of all shareholders, and market stress may create redemption pressure. Additionally, these strategies may be managed with a “one size fits all” approach which may not be fully aligned with an organization’s individual needs and objectives.

For institutional treasuries and cash portfolio managers, asset pools may be better suited for core liquidity reserves, where diversification, professional oversight, and operational efficiency are priorities, especially where internal investment infrastructure is limited or the investing time horizon is very short.



3. DIRECT PURCHASES: CONTROL AND CUSTOMIZATION

Direct purchases offer a more hands-on approach to cash investing, giving institutional investors full ownership and control over portfolio construction. This strategy allows treasury teams to align investments with specific liquidity needs, risk tolerances, and return objectives.

COMMON INSTRUMENTS IN DIRECT INVESTMENT PORTFOLIOS INCLUDE:

U.S. Treasury bills, notes, and other agency securities

Treasury Repurchase Agreements (Treasury Repos)

Agreements between a cash borrower (typically a broker-dealer) and a cash lender (an investor) that function like short-term secured loans—often overnight repos settled within 24 hours. In these transactions, the broker-dealer temporarily sells Treasury securities to the investor and agrees to repurchase them at a slightly higher price to reflect interest.

Commercial Paper

Unsecured short-term notes issued by corporations.

Asset-Backed Securities (ABS)

Interest bearing bonds on various forms of non-mortgage debt.

Brokered certificates of deposit

Direct investing may be an effective tool to support strategic liquidity management and yield enhancement while maintaining a strong focus on capital preservation.

ADVANTAGES INCLUDE:

OWNERSHIP
Investors hold securities directly, rather than owning shares in a pooled vehicle.

CONTROL
Treasury teams can define issuer exposure, maturity structure, sector allocation, and credit standards—aligning portfolios with internal policies and cash flow forecasts to help meet liquidity needs.

TRANSPARENCY
Security-level visibility helps support more active risk management and clearer governance oversight.

EFFECTIVE IMPLEMENTATION GENERALLY DEPENDS ON:

- **ISSUER DIVERSIFICATION**
- **MATURITY LADDERING**
- **LIQUIDITY BUFFERS**
- **DEFINED CREDIT QUALITY THRESHOLDS**
- **ONGOING CREDIT MONITORING AND RISK MANAGEMENT**

Because direct investments are not bound by the structural constraints of pooled vehicles, they may be customized to capture market opportunities and improve portfolio efficiency. However, this approach requires greater engagement.

These principles help ensure that yield enhancement never compromises capital preservation. Investment policies should be defined, managers selected and monitored, and cash flow forecasts maintained with discipline.

To execute this strategy, many institutions implement a direct investment strategy through Separately Managed Accounts (SMAs). Treasury teams without in-house investment capabilities may retain third party managers, such as independent Registered Investment Advisors (RIAs) to provide investment policy strategy, credit research, risk management, and day-to-day trade execution for their SMA investment portfolios.



Capital Advisors Group has supported institutional cash investment managers in building and managing separately managed accounts for more than three decades—helping organizations implement customized strategies with the goal of balancing liquidity, risk, and return.

The Bottom Line:
Building a Strategic Corporate Cash Investment Portfolio

Corporate cash management has evolved into a strategic function, shaped by market structures, regulatory requirements, and growing balance sheet complexity. As a result, liquidity investing requires a more intentional approach.

Institutional cash investors now have an array of tools to build effective portfolios:
- Bank deposits help support daily operations and provide ready liquidity.
- Asset pools provide diversified core reserves with professional management.
- Direct investments enable customized strategies and targeted yield optimization.

By thoughtfully allocating across these options—and reinforcing decisions with strong governance—treasury teams may be well positioned to support preservation of capital, liquidity management, and optimized risk-adjusted returns.

With the right framework in place, cash can shift from a passive holding to a more strategic component of corporate financial management.



Key Insight for CFOs and Treasury Leaders

An effective corporate cash strategy isn't just about choosing a single investment vehicle—it's about structuring a diversified approach that aligns liquidity needs, risk tolerance, and return objectives across multiple instruments.



Next Step For Finance Teams

Assess how your current cash allocations are distributed across deposits, pooled vehicles, and direct investments—and identify opportunities to rebalance toward a more diversified, policy-driven portfolio strategy.

About Us

Capital Advisors Group, Inc. is an independent SEC-registered investment advisor specializing in institutional cash investments, risk management, and debt finance consulting. Our clients range from venture capital-funded startups and emerging growth companies to Fortune 100 companies.

Drawing upon more than a quarter of a century of experience through varied interest rate cycles, the firm has built its reputation upon deep, research-driven investment strategies and solutions for its clientele.

Capital Advisors Group manages customized separately managed accounts (SMAs) that seek to protect principal and maximize risk-adjusted returns within the context of each client's investment guidelines and specific liquidity needs. Capital Advisors Group also provides FundIQ® money market fund research; CounterpartyIQ® aggregation and credit analysis of counterparty exposures; risk assessment on short-term fixed income securities and portfolios; and independent debt finance consulting services.

Headquartered in metropolitan Boston, Capital Advisors Group maintains multiple U.S. regional offices.

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CAPITAL ADVISORS GROUP

Capital Advisors Group, Inc.
One Federal Street, Suite 2200
Boston, MA 02110
Tel: 617.630.8100 ~ Fax: 617.630.0023
www.capitaladvisors.com
info@capitaladvisors.com