PART 5

SECURITY SELECTION FOR CORPORATE CASH

MOVING FROM LIQUIDITY TO STRATEGY

How CFOs and Treasury Teams Optimize Risk, Liquidity, and Return

CAPITAL ADVISORS GROUP

Security Selection for Corporate Cash
Moving from Liquidity to Strategy

CFOs, treasury professionals, and finance leaders may benefit from evaluating cash investment strategies beyond bank deposits and money market funds. In today's market environment—defined by evolving regulations, fluctuating interest rates, and expanding credit opportunities—organizations have access to a broader range of short-term investment strategies.

Common cash investment options include:

- **Bank Deposits and Money Market Funds:** These options may provide simplicity, liquidity, and operational ease but may fall short of targeted yields.
- **Direct Investments in Short-Term Securities:** Instruments such as Treasuries, commercial paper, corporate bonds, asset-backed securities may provide greater flexibility in addressing liquidity needs, risk tolerance, and return objectives.

As a result, organizations may consider incorporating direct investments in short-term assets through separately managed accounts (SMAs) to build more customized cash portfolios.

Learn more about how SMAs support advanced cash management strategies in our guide to institutional liquidity management.

Shifting From Traditional Cash Management to Strategic Investing

Whether managing a fast-growing company with a high cash burn rate or an institution with larger balances and longer liquidity horizons, the core principles of cash investing typically remain the same:

- Preserve principal
- Maintain liquidity
- Optimize risk-adjusted return

Building an effective cash investment portfolio starts with aligning investment choices to these objectives. Generally, organizations can think about cash investments in these three categories:

1.

FOUNDATIONAL CASH INVESTMENTS

Traditional “vanilla” instruments such as bank deposits, government money market funds, Treasury bills, and other government securities that seek to provide strong principal protection and overnight liquidity.

2.

POOLED INVESTMENT VEHICLES

Prime money market funds and other pooled investment products may offer convenience, professional management, and liquidity. But they may also involve different risk and yield characteristics than bank deposits or directly owned securities.

3.

DIRECT INVESTMENTS

Direct investments in corporate debt, asset-backed securities, and other short-term instruments may offer higher yield potential. While these investments require more active portfolio management, they may expand the cash investment toolkit and help organizations pursue targeted return objectives.

When implemented thoughtfully, taking incremental risk may be beneficial in pursuing additional yield while maintaining a focus on principal preservation.

Building the Liquidity Foundation: Core Cash Investment Vehicles

Bank deposits, government money market funds, and U.S. Treasury bills serve as the foundation of many corporate cash portfolios. These traditional investment vehicles seek to provide principal preservation, same-day liquidity, and operational simplicity—though = potentially with more limited yield opportunities.

BANK DEPOSITS

Demand deposits, savings accounts, term instruments like certificates of deposit (CDs), and time deposits may provide:

- Immediate liquidity
- Operational simplicity
- Principal stability
- Support for broader banking and treasury services

CONSIDERATIONS:

- FDIC insurance is limited to $250,000 per depositor, per institution
- Deposit rates may offer lower yields than certain other short-term securities

GOVERNMENT MONEY MARKET FUNDS

Government money market funds are pooled investment vehicles that invest exclusively in U.S. government securities and repurchase agreements (repos).

BENEFITS MAY INCLUDE:

- Seeking to maintain a stable net asset value (typically $1.00)
- Same-day liquidity (subject to cutoff times)
- Goal of strong principal stability

TYPICAL UNDERLYING HOLDINGS:

- U.S. Treasury bills
- U.S. government agency securities
- Government-backed repurchase agreements

CONSIDERATION:

Yields may be lower than those available through certain other short-term securities

U.S. TREASURY BILLS

Treasury bills are short-term debt obligations issued by the U.S. Department of the Treasury with maturities typically ranging from four to 52 weeks.

BENEFITS MAY INCLUDE:

- Backed by the full faith and credit of the U.S. government
- A high degree of perceived safety relative to many other securities. Generally, highly liquid and actively traded

CONSIDERATION:

Return potential may be more limited compared to other direct investment options.

WHY THE LIQUIDITY FLOOR MATTERS

Together, these vehicles typically provide a “liquidity floor” for a cash portfolio—the portion of assets that must remain readily accessible to meet immediate operational needs.

Within a separately managed account (SMA), this foundational tier may help:



Support principal preservation objectives



Maintain adequate liquidity



Address daily cash requirements

From there, organizations may layer in additional investment tiers to pursue higher yields and enhanced portfolio returns while maintaining an appropriate risk profile.

Explore more in our overview of institutional cash investment strategies and liquidity management approaches.

Rethinking Pooled Asset Funds: No Longer the Default Choice

Prime money market funds are professionally managed investment vehicles owned by shareholders and overseen by third-party managers. Once considered a mainstay of corporate cash portfolios, their role has shifted in recent years as investors reassess their risks and limitations.

WHY PRIME MONEY MARKET FUNDS LOST FAVOR

The vulnerabilities of prime money market funds became apparent during the 2008 financial crisis, prompting significant regulatory reforms that changed how these funds operate.



KEY CHALLENGES INCLUDE:

- Reduced liquidity flexibility during periods of market stress
- Less assurance around maintaining a stable $1.00 net asset value
- Increased complexity from post-crisis regulatory requirements



HOW CORPORATE INVESTORS ARE ADAPTING

As a result, many organizations no longer view prime money market funds as the default option for excess cash.

Instead, corporate cash investors are increasingly adopting strategies that combine:

- Government money market funds for daily liquidity and principal stability objectives
- Directly purchased corporate securities for pursuing enhanced yield potential and greater portfolio customization

This evolving approach may allow organizations to manage liquidity needs while seeking more control over risk exposure, security selection, and return objectives within their cash investment portfolios.

Direct Investing Through Separately Managed Accounts (SMAs)

Direct investments in short-term securities—often held within a separately managed account (SMA)—may help organizations pursue an appropriate balance of liquidity, capital preservation, and yield within their cash portfolios.

COMMON DIRECT INVESTMENT OPTIONS

CORPORATE BONDS

Corporate bonds are debt securities issued by companies to help fund operations, expansion, and strategic initiatives.

BENEFITS MAY INCLUDE:

- Higher yield potential than certain government securities
- Enhanced credit quality when issued by highly rated corporations
- Broad availability across credit tiers and maturities

STRATEGIC CONSIDERATION

Many treasury investors use BBB-rated corporate bonds to pursue incremental yield while still maintaining investment-grade credit quality.

COMMERCIAL PAPER

Commercial paper consists of high-quality, short-term unsecured loans issued by corporations to help meet operational funding needs.

POTENTIAL BENEFITS INCLUDE:

- Higher yield potential than many government-backed investments
- Short maturities that align l with liquidity needs
- Higher credit quality when issued by highly rated corporations

STRATEGIC CONSIDERATION

Investors with slightly higher risk tolerance may consider A2/P2 commercial paper, a mid-tier, investment-grade short-term debt instrument, which may offer additional yield potential while remaining investment grade.

ASSET-BACKED SECURITIES (ABS)

Asset-backed securities are bonds backed by pools of underlying debt, such as:

- Auto loans
- Credit card receivables
- Residential mortgages

BENEFITS MAY INCLUDE:

- Diversified collateral backing
- Attractive income potential
- Many structures carry AAA credit ratings

ADDITIONAL DIRECT INVESTMENT OPPORTUNITIES

Organizations may also incorporate other securities into their cash strategies depending on liquidity, tax, and risk objectives, including:

- **Floating Rate Notes**: may help mitigate interest rate risk during periods of rising rates

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Why Many Investors Use Separately Managed Accounts (SMAs)

As cash portfolios grow more sophisticated, institutional investors may choose to partner with registered investment advisors to build and manage separately managed accounts (SMAs).

An experienced advisor may help support the full cash management process, including:



For organizations seeking greater control, customization, and yield potential, direct investments through an SMA may provide a more strategic alternative to traditional cash vehicles and pooled funds.

Learn more in our guide to SMAs and how they enhance transparency and flexibility in corporate cash management.

Crafting a More Intentional Cash Investment Portfolio

Selecting the right securities is no longer about picking individual instruments in isolation. It is about constructing an intentional cash investment portfolio—one designed to align with an organization's liquidity needs, risk tolerance, and return objectives.



A MORE STRATEGIC APPROACH

Today's expanded cash investment toolkit offers treasury professionals increased flexibility in managing short-term portfolios.

But with that flexibility comes responsibility.

Establishing an effective portfolio means identifying the right mix of investments to support your organization's ideal balance of:

- Liquidity to meet operational cash needs
- Risk management to preserve capital
- Yield objectives aimed at enhancing risk adjusted return potential



WHY PORTFOLIO CONSTRUCTION MATTERS

A well-structured portfolio can help organizations move beyond basic cash management and toward a more strategic investment approach.

Rather than relying solely on traditional cash vehicles, many corporate cash managers are working to build portfolios that are intentionally designed to optimize:

- Investment diversification
- Risk-adjusted returns
- Liquidity segmentation
- Overall portfolio efficiency



WORKING WITH AN ADVISOR

To support these objectives, organizations may work with a registered investment advisor to establish and manage a separately managed account for institutional cash investments.

An experienced advisor can help organizations:

- Design customized investment strategies
- Construct and rebalance portfolios
- Manage ongoing credit and interest rate risk
- Maintain policy and regulatory compliance

The Bottom Line

In today's market where even small yield differentials may have a meaningful financial impact, security selection may no longer be just an operational decision—it may become a strategic one.



Key Insight for CFOs and Treasury Leaders

Effective cash portfolio construction isn't about selecting individual securities in isolation, but rather intentionally structuring a diversified mix of investments designed to align with the liquidity needs, risk tolerance, and return objectives within a disciplined investment framework.



Next Step For Finance Teams

Review your current cash investment structure to assess whether your security selection and allocation approach are fully aligned with your liquidity profile and policy objectives—and identify opportunities to enhance efficiency through a more intentional, strategy-driven portfolio design.

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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