Liquidity and Cash Flow Management in a Changing World

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Agenda

- Mastering Cash Flow
- Tools to Manage Cash Flow
- Aligning Liquidity Solutions with Cash Dynamics
- Today’s Changing Environment
- Liquidity Management Solutions
- Investment Policies
Cash Flow

Cash flow planning involves three elements:

1. The amount of cash coming in
2. The amount of cash going out
3. The cash you have on hand
7 Steps to Mastering Cash Flow Management

1. Understand your sales cycle
2. Control your purchases and manage your assets
3. Optimize your collection policy
4. Pace other payments
5. Use your bank
6. Plan for taxes
7. Balance cash flow and profitability
Building Your Business Plan

1. Profit and Loss Forecast
2. Assumptions
3. Cash Flow Budget Planner
Key Concepts in Preparing a Cash Flow Budget

Receipts (cash in)
- Automated Clearing House — ACH
- Cash
- Checks – Remote Deposit Capture
- Electronic Data Interchange — EDI

Outflows (cash out)
- Automated Clearing House — ACH
- Checks
- Corporate Card
- Incoming Wires
- Merchant Services — Credit Cards
- Lockbox
- Electronic Data Interchange — EDI
- Tax & Bill Payments
- Wire Payments
**Aligning Liquidity Solutions with Cash Dynamics**

*Strategic evaluation of cash trends provides an optimized yield structure without operational impacts*

- **Total Cash Balance $**
  - **Operating Cash**
    - DDA W/ECR
    - DDA W/Interest
    - Hybrid DDA
  - **Reserve Cash**
    - Money Market Deposit Account
    - Commercial Certificate of Deposit
  - **Strategic Cash**
    - Global Asset Management
    - Capital Markets

- **Expected Yield**
- **Cash Behavior**
  - Lower
  - Higher
  - Volatile
  - Stable

- **Time**
The times they *have changed*

Fed Funds Rate history

- Decade long low-rate environment translated into limited liquidity options
- Businesses can now use DDA balances to generate interest income, not just offset fees. This is becoming a fast growing focus.
- Regulatory changes have affected how deposits are treated and interest is earned
- Rising Fed Funds rate creates new liquidity management opportunities
Why segment Cash?

To maximize potential return, segment cash into categories with similar risk and stability profiles.
Position & Approach, Qualifying Questions

- Are you using bank deposits for purely transactional purposes (i.e. payments and collections) or income generation as well? Is your preference to offset fees or generate income?

- What is your confidence level in predicting your cash flows? Do you manage daily, weekly, monthly, liquidity requirements systemically?

- Is excess cash invested in short term options like money market funds, repos, commercial paper, other? Do you have investment policies about acceptable options and risks?
### Asset Management
- Passive Investor
- Near term liquidity is secondary
- Optimize returns from stable balances

### Fixed Income & Govt. Securities
- Active investor
- Higher risk and higher return
- Flexibility to sell

### On-line Liquidity Portal
- Active Investor
- Understands Prime & Tax Exempt MMFs
- Needs online risk monitoring tools

### Demand Deposit Accounts
- Passive investor
- Fee offset or investment income from excess
- Automatic Sweeps

### Asset Management
- Professionally managed and customized investment portfolios

### Capital Markets Fixed Income Trading
- Commercial Paper, Institutional CDs, REPOs, U.S. Government Treasuries and Agencies

### Liquidity Portal
- Businesses have ability to purchase and redeem shares of money market funds, Actively monitor performance, run risk management and investment compliance reports

### Treasury & Payment Solutions
- Deposit products: transactional ECR deposit accounts, interest bearing accounts, money market deposits and short term CDs
Reinvestment Opportunity

- Level of Corporate Liquidity
- Liquidity Portfolio: Investments and Bank deposits
- Factors affecting corporate evaluation and decisions:
  - Investment Opportunities
  - Long term rates
  - Corporate Investment Policy Constraints
  - Bank Deposits and Regulation
  - Unemployment and Human capital
  - U. S. Economy
  - OTC Commodities Trading / Impacts on Supply Chain Costs
  - Tax Changes and Political Climate
  - Regulatory Changes and Uncertainty
- Key takeaways
Investment Policy

- **Investment Policy Statement (IPS) Considerations**
  - Provides guidance on portfolio construction and ongoing asset management
  - Focus on corporate mandate and assist in avoiding investment deviations due to changing market conditions
  - Serve as critical tool in keeping entity focused on stated portfolio objectives

- **IPS Missteps**
  - Written solely for compliance purposes
  - Vague and not fully incorporated into day to day management of portfolio
  - Comparing performance to benchmarks that don’t fit portfolio stated objective or asset classes
  - Failure to update as portfolio objectives and market conditions dictate
# Bank Deposits vs Short Term Investments

## Product matrix for cash and short term investments

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>Operating</th>
<th>Reserve, Restricted, Strategic, Short Term Investments</th>
<th>Separately Managed Portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DDA Products No Interest (ECR)</td>
<td>DDA Interest-bearing</td>
<td>DDA Hybrid</td>
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<tr>
<td>Bank</td>
<td>Bank</td>
<td>Bank</td>
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<tr>
<td>Large Corporate Financial Institution Public Funds Small Business</td>
<td>Large Corporate Financial Institution Public Funds Small Business</td>
<td>Large Corporate Financial Institution Public Funds Small Business</td>
<td>Non-profit Public Funds</td>
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<tr>
<td>Segment</td>
<td>Liquidy / Duration</td>
<td>FDIC Coverage</td>
<td>Yield Type</td>
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<tr>
<td></td>
<td>Daily</td>
<td>Yes</td>
<td>Earning credits</td>
</tr>
<tr>
<td></td>
<td>Daily</td>
<td>Yes</td>
<td>Bank interest</td>
</tr>
<tr>
<td></td>
<td>Daily</td>
<td>Yes</td>
<td>Earnings credit &amp; bank interest</td>
</tr>
<tr>
<td></td>
<td>Daily</td>
<td>Yes</td>
<td>Bank interest</td>
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<tr>
<td></td>
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<td>Bank interest</td>
</tr>
<tr>
<td></td>
<td>Daily</td>
<td>Yes</td>
<td>Earnings credit on DDA balance and dividend yield on investment</td>
</tr>
<tr>
<td></td>
<td>Daily</td>
<td>Yes</td>
<td>Bank interest</td>
</tr>
<tr>
<td></td>
<td>Daily</td>
<td>Yes</td>
<td>Interest, sale of securities</td>
</tr>
<tr>
<td></td>
<td>Daily</td>
<td>Yes</td>
<td>Interest, capital gain, dividends</td>
</tr>
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</table>

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<thead>
<tr>
<th>Cash Profile</th>
<th>Operating cash</th>
<th>Operating cash</th>
<th>Operating cash</th>
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<th>Operating or Reserve</th>
<th>Reserve Restricted Strategic</th>
<th>Reserve Restricted Strategic</th>
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</thead>
<tbody>
<tr>
<td>Liquidity / Duration</td>
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<td>Daily</td>
<td>Daily</td>
<td>Daily</td>
<td>Daily - subject to withdrawal limitation (6/month)</td>
<td>Daily</td>
<td>Daily</td>
<td>Various tenors</td>
<td>Overnight to various tenors</td>
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<td>Yield Type</td>
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<td>Earnings credit &amp; bank interest</td>
<td>Bank interest</td>
<td>Bank interest</td>
<td>Earnings credit on DDA balance and dividend yield on investment</td>
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<td>Interest, sale of securities</td>
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<td>1099 D IV, INT &amp; Other</td>
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<td>None</td>
<td>Limited to non-profit and public funds depositors</td>
<td>Subject to regulatory withdrawal limitations</td>
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