



## **Topic – Global insights and best practices in short-term investment policies and thinking**

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# Global Events Impacting Liquidity Management

## Macro Economic Drivers

40 Year High Inflation Data

Monetary Policy

Political Change / Fiscal Policy

Ukraine Conflict / Energy Disruption

Regulatory Reform

Currency Volatility / Repatriation

Normalization post Covid

## Navigating the Market Environment

- Investment Policy
  - Considerations for Safety, Liquidity, Yield
  - Investment policy methodology
- Strategies
  - Understanding Working Capital and Reserve Cash
  - Pooling and Forecasting Cash Flows
- Opportunities
  - Consideration for Yield and Diversification
  - Liquidity for Internal Capital Projects
  - Optimizing Trade Finance Programs

## Other Treasury Considerations

### Investment Considerations

Data and Reporting

Systems / Integration / Automations

Cyber Security – Fraud Mitigation

Partner services and programs

ESG goals and opportunities

### Tax / Regulations

Cross Border Intercompany lending

US / Global Tax Reform

SEC 2a-7 Money Funds

EU Money Fund regulation

Corporations and institutions face a rapidly changing landscape for liquidity management as a result of the pandemic, central bank policies and regulations and other market considerations.

# Audience Polling Question 1

What will be the Fed Target rate by December 2023

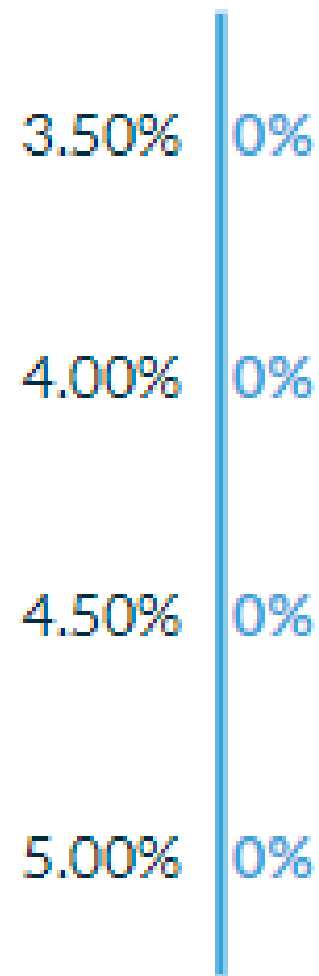
1.3.50%

2.4.00%

3.4.50%

4.5.00%

# What will be the Fed Target rate by December 2023



# Audience Polling Question 2

**How often do you update your investment policy?**

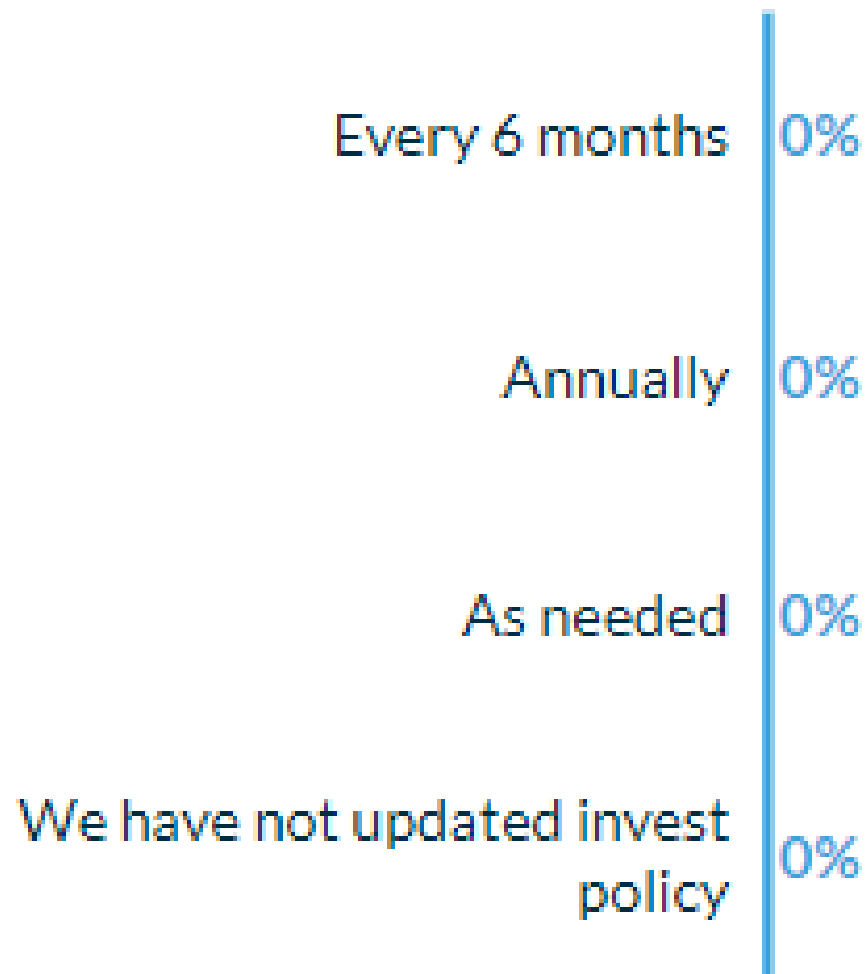
**1. Every 6 months**

**2. Annually**

**3. As needed**

**4. We have not updated invest policy**

# How often do you update your investment policy?

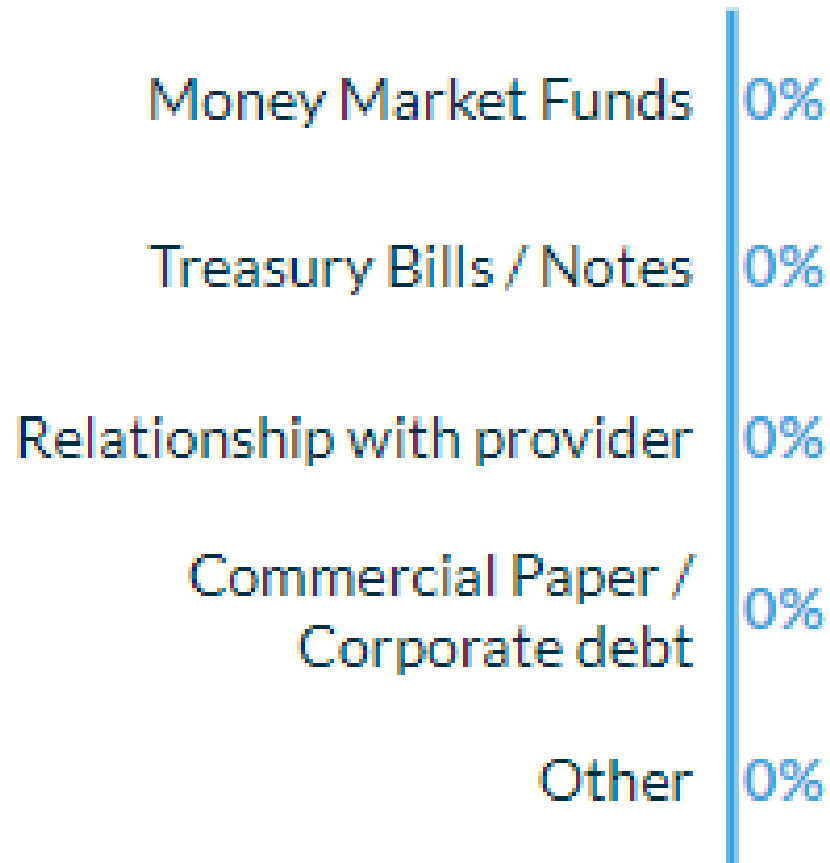


# Audience Polling Question 3

**What asset classes other than bank deposits do you most frequently utilize**

- 1. Money Market Funds**
- 2. Treasury Bills / Notes**
- 3. Commercial Paper / Corporate debt**
- 4. Other**

# What asset classes other than bank deposits do you most frequently utilize



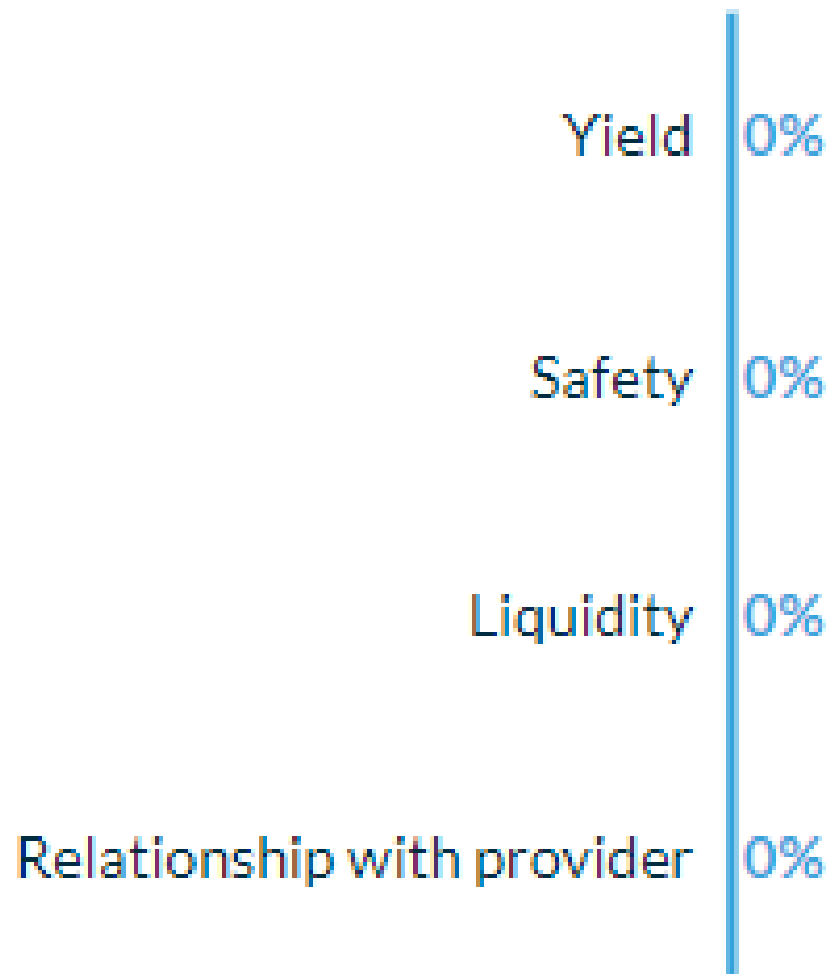


# Audience Polling Question 4

**When investing which is more important?**

- 1.Yield**
- 2.Safety**
- 3.Liquidity**
- 4.Relationship with provider**

# When investing which is more important?

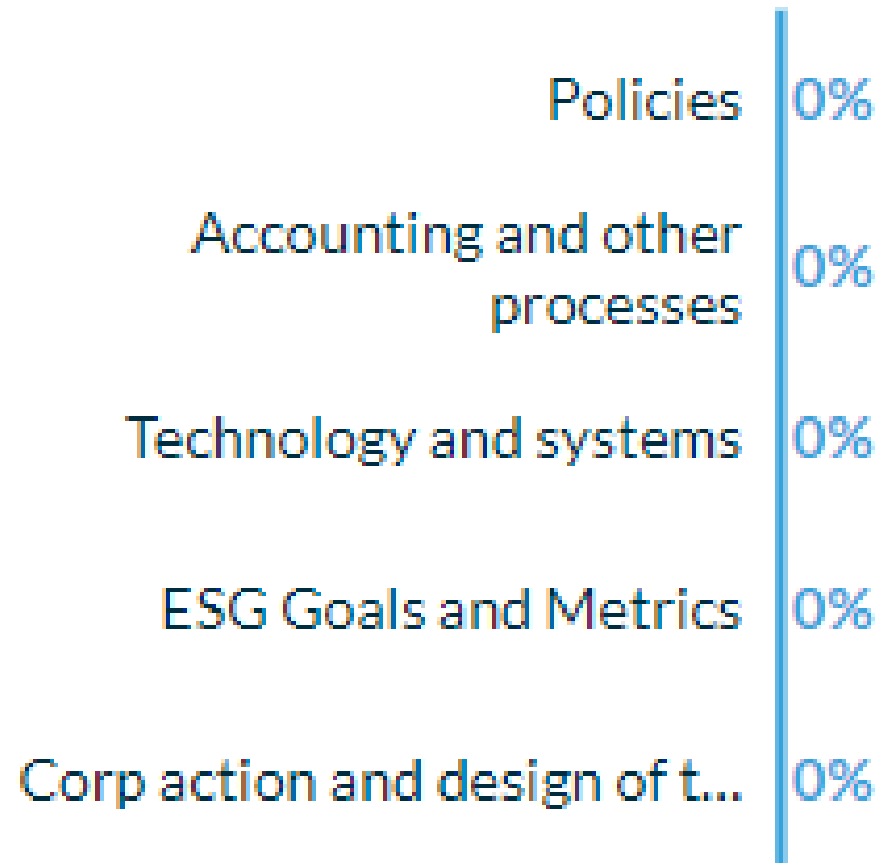


# Audience Polling Question 5

**What internal factors impact the design of your liquidity structure?**

- 1.Policies**
- 2.Accounting and other processes**
- 3.Technology and systems**
- 4.ESG Goals and Metrics**
- 5.Corp action and design of the liquidity structure /  
setup**

# What internal factors impact the design of your liquidity structure?



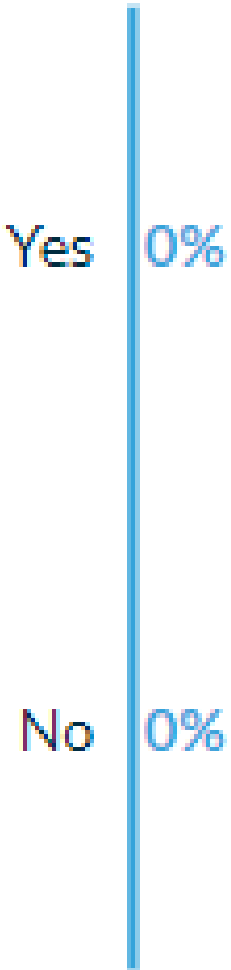
# Audience Polling Question 6

**Will the Fed Tame inflation and avoid a recession**

**1.Yes**

**2.No**

# Will the Fed Tame inflation and avoid a recession



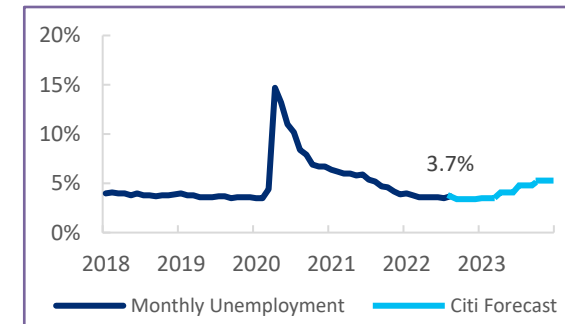
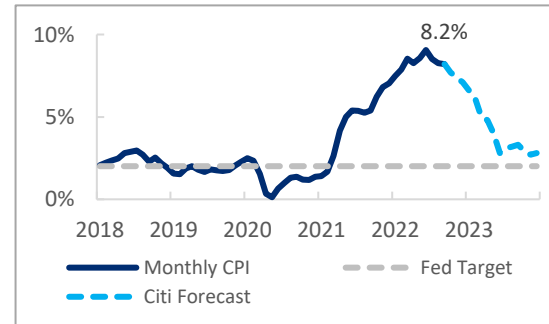
# U.S. Economic and Rate Forecast

High inflation and low unemployment have driven recent US rate increases.

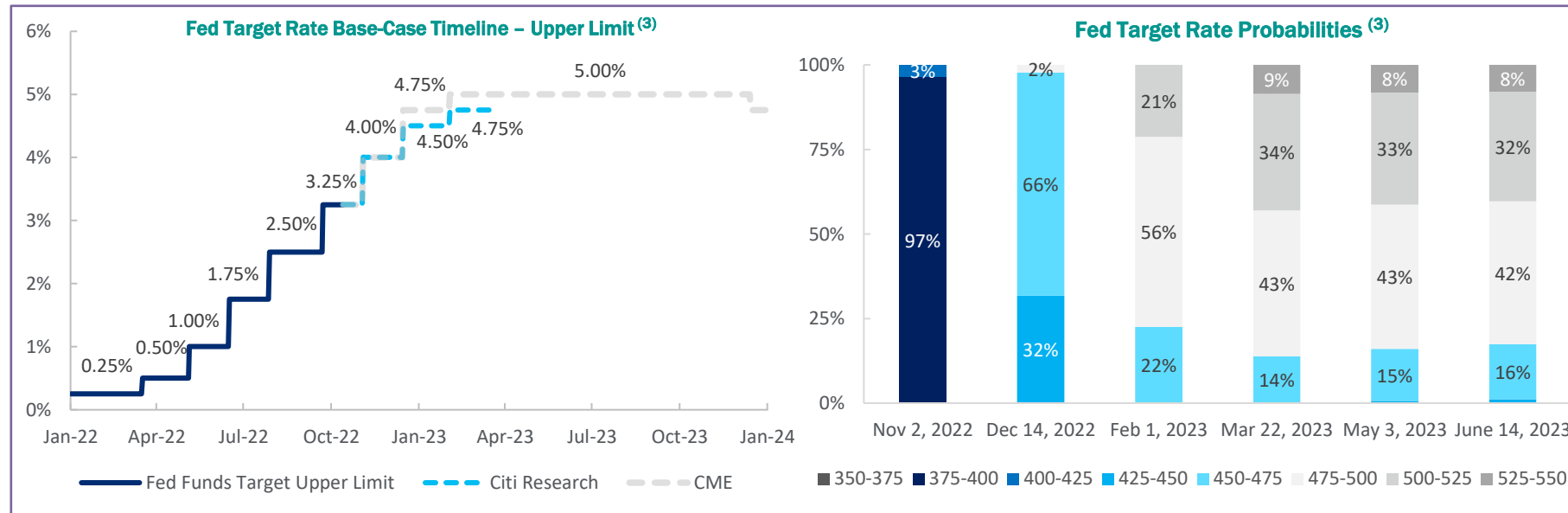
With GDP <sup>(1)</sup> growth stabilizing,

September 2022 headline inflation <sup>(2)</sup> at 8.2%

and low unemployment <sup>(2)</sup>



The Fed began raising rates in March and initiated QT in June, ramping up to \$95Bn/mo pace in September. The next FOMC market expectation is a 75bp hike on November 2<sup>nd</sup>, increasing the Fed Funds Target to 375-400bps.



(1) U.S. Federal Open Market Committee, Federal Reserve Bank of St. Louis/FRED and Citi Research Quarterly Forecast as of 9/21  
 (2) U.S. Bureau of Labor Statistics/FRED and Citi Research Quarterly Forecast as of 10/13  
 (3) Board of Governors of the Federal Reserve System (US)/FRED, Citi Research as of 9/21, CME FedWatch as of 10/13 (Fed Target thresholds displayed in bps) – graph assumes highest probability pathway  
 (4) CME FedWatch probabilities as of 10/13

# Amg - at a Glance



## WHAT AMG DOES

- Expert global value chain manager in sourcing critical materials from complex locations, providing value-add processing, and serving Fortune 100 customers
- Produces market-leading vacuum furnaces for specialized alloying applications and provides heat treatment services

## AMG PORTFOLIO

- Consists of nine niche value-added businesses with low competition, high market share, and barriers to entry
- Most with 100+ years of operating history
- Mission-critical status for end-use served
- Aligned to global mega trends for CO<sub>2</sub> reduction

AMG IS A GLOBAL SUPPLIER OF CRITICAL MINERALS TO:



ENERGY



TRANSPORTATION



INFRASTRUCTURE



SPECIALTY METALS AND CHEMICALS

Market leading producer of highly engineered specialty metals and vacuum furnace systems

**~3,300**  
Employees  
**Corp Offices**  
USA (PA) and  
Amsterdam



**~\$1.2 billion**  
Annual Revenues

At the forefront of  
**CO<sub>2</sub>**  
**Reduction**





# Hitachi Vantara

Turn data-rich businesses into data-driven ones.

**HITACHI**  
Inspire the Next

## Our People

**12,000** Technology, Industry & Co-Creation experts

**2022 Best places to work** by Human Rights Campaign Foundation

## Role at Hitachi

Global multi-cloud, infrastructure, digital engineering and data software company.

## Customers & Partners

- 80% Global Fortune 100
- Investment in Global Partners

## Portfolio Awards & Recognition

- Market leader in Storage, Cloud Services, Industrial Software, IoT platforms & Innovation from Gartner, Forrester, IDC and GigaOm
- Leading provider on Americas Leaderboard 3Q 2021 Global ISG Index™
- One of CRN's "50 Coolest Software-Defined Storage Vendors of 2022"
- 2021 Gartner® Magic Quadrant™ leader for Industrial IoT Platforms (2<sup>nd</sup> consecutive year)

## Guiding Principles

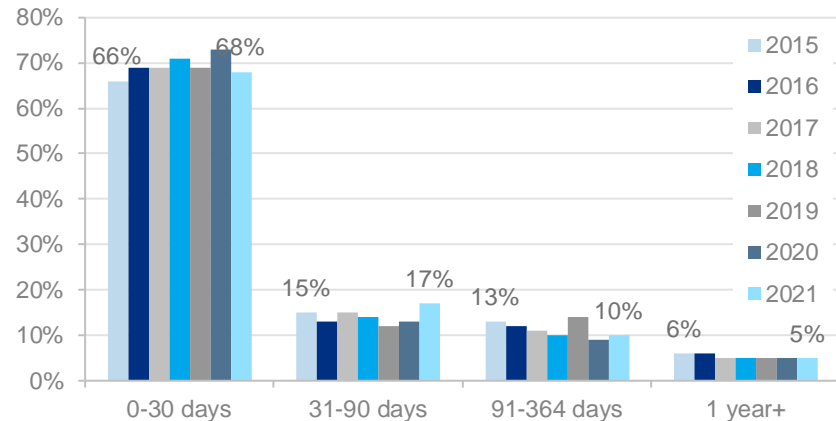
- Diversity
- Equity
- Inclusion
- Sustainability
- Social Innovation

## Global Footprint

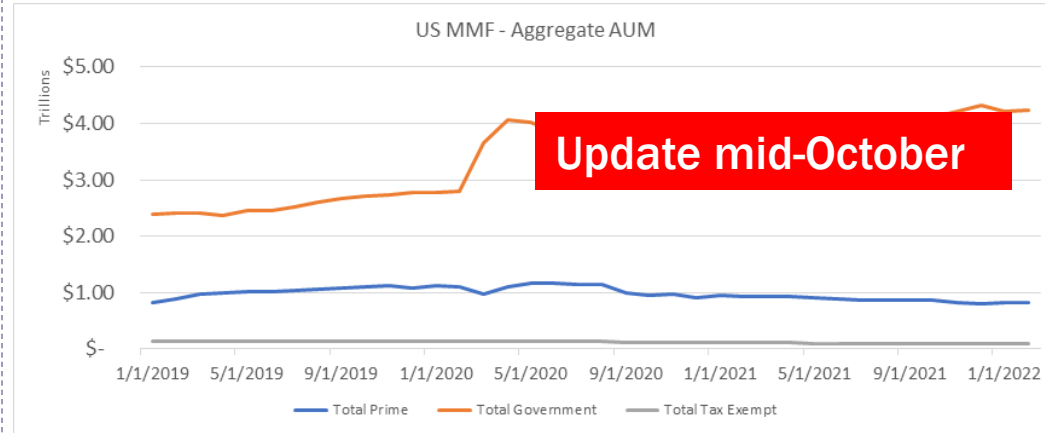
- Santa Clara, CA (HQ)
- 30 Countries
- 120+ locations
- 5 Delivery Centers

# Where Have Corporations Been Investing in the U.S.?

Average Investment Maturity<sup>(1)</sup>



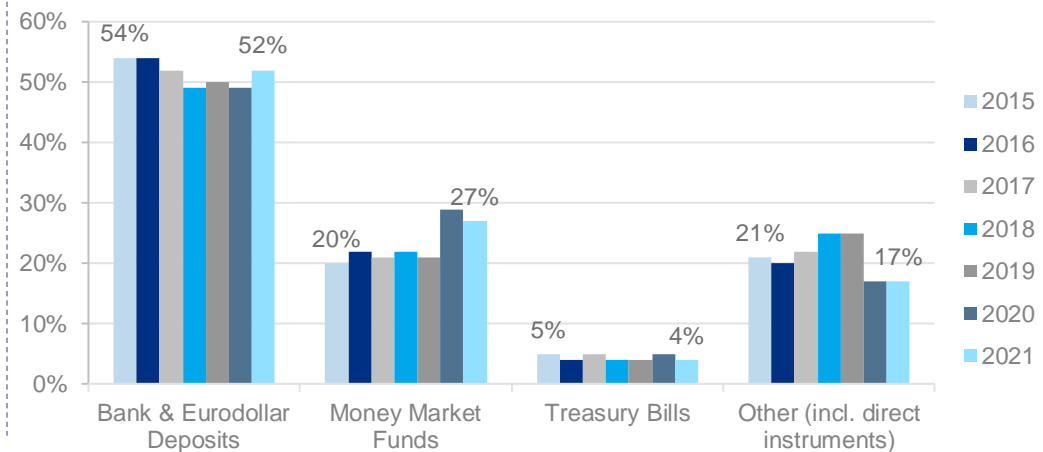
Trend in Money Market Fund Assets, by Type of Fund<sup>(2)</sup>



Emphasis on Liquidity + Capital Preservation over Yield

- 47% of corporations reported an increase in cash holdings in the U.S. as a response to the ongoing pandemic. Furthermore, 34% of large corporations plan to increase their cash balances while 43% would maintain
- 60% of corporations indicated plans for LIBOR transition
- Organizations allocate an average of 79% of their short-term operational cash balances in two safe and liquid vehicles: bank deposits and money market funds
- More corporations are considering ESG investments with 20% already considering and 18% unsure (both up from 18% and 14% last year)
- Safety of Principal continues to be the key objective for 65% of corporations' cash liquidity needs
- Diversification continues to be a critical requirement, across counterparties as well as across asset classes

Current Allocation of Organizations' Short-Term Investments (%)<sup>(3)</sup>



Source: The 2021 AFP Liquidity Survey, Association for Financial Professionals

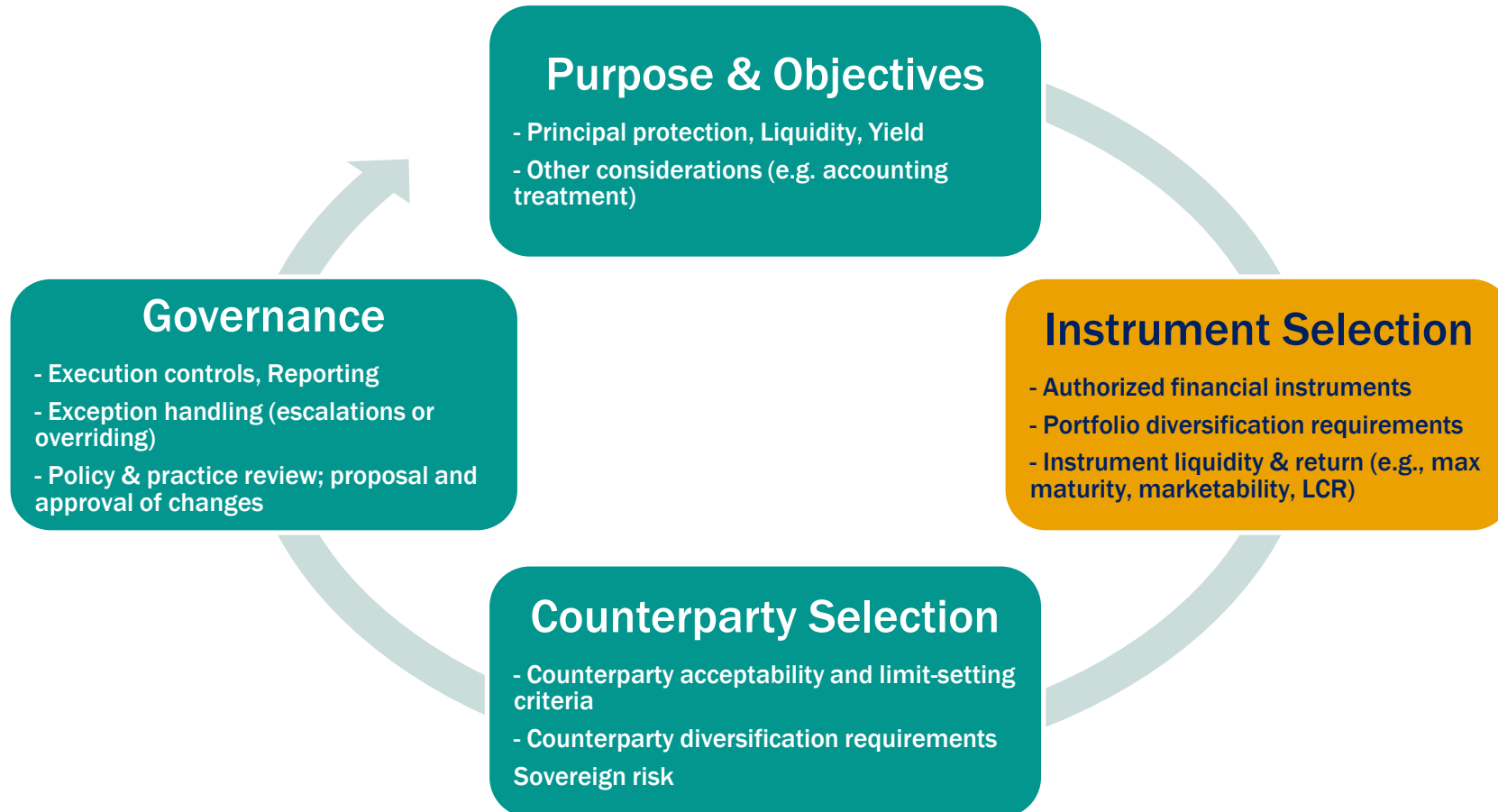
(1) All responses

(2) <https://www.financialresearch.gov/money-market-funds/us-mmfs-investments-by-fund-category/>

(3) For corporations with revenues larger than \$1Bn. Other Includes Agencies, Repos, CP, Separately Managed Accounts, Enhanced Cash and Auction Rates

# Investment Policy: Framework

Corporates should define a methodology for evaluating investment performance continuously and whether it is meeting objectives.



*Exceptions to policy most often driven by considerations of relationship and accessibility to viable options*

# Liquidity Management Landscape | Investment Policy

## Are Your Investment Policy and Business Needs in Sync?



### What is an Investment Policy

- An investment policy represents a strategic guide for investment decision-making
- Helping to align investment activities with treasury goals
- Define roles and responsibilities
- Establish accountability and control
- **Governance and reviews:**

Establishing how the investment policy will be approved, managed and changed, and who is responsible for these activities, is crucial.

#### **Investment objectives:**

Setting out cash management objectives, plus a high-level framework for meeting those objectives

#### **Goals and constraints.**

Policy provides investment guidance within the context of safety, liquidity and returns.

- Any constraints, such tax, legal or regulatory factors
- Environmental, social and governance (ESG)-focused.



### Permitted Investments

- Clear understanding of corporate cash flows and liquidity needs over various time horizons, from short-term operating cash to longer term strategic cash.
- Cash segmentation is key to maximizing yield, while ensuring ample liquidity and safety of principal.
- It is not necessary to include a specific or restrictive list of permitted investments. Doing so could actually be counter-productive.
- Facilitate diversification, address counterparty risks, and provide the flexibility needed to act on different scenarios.
- Limits can be set by security type or issuers



### Technology

- Integrate policies in a TMS, Bank Portal, and Money Market investment portals



### Checklist

- 1) Identify corporate goals and objectives
- 2) Identify suitable investment products
- 3) Identify appropriate allocations by dollar, percentage, diversification, and maximum maturity
- 4) Identify cash segmentation
  - a. Working Capital Cash
  - b. Reserve Cash
  - c. Strategic Cash
- 5) Identify minimum credit quality standards
- 6) Identify prohibited investments
- 7) Identify benchmark measurements
- 8) Identify minimum time period for Investment Policy review and Board approval
- 9) Develop plan for operating in an episodic cash situation
- 10) Choose systems and portals which optimize cash investments suitable and adaptable to investment policies and flexible and adaptable to corporate and market conditions

# Investment Policy: Instruments and Limits (Illustrative)

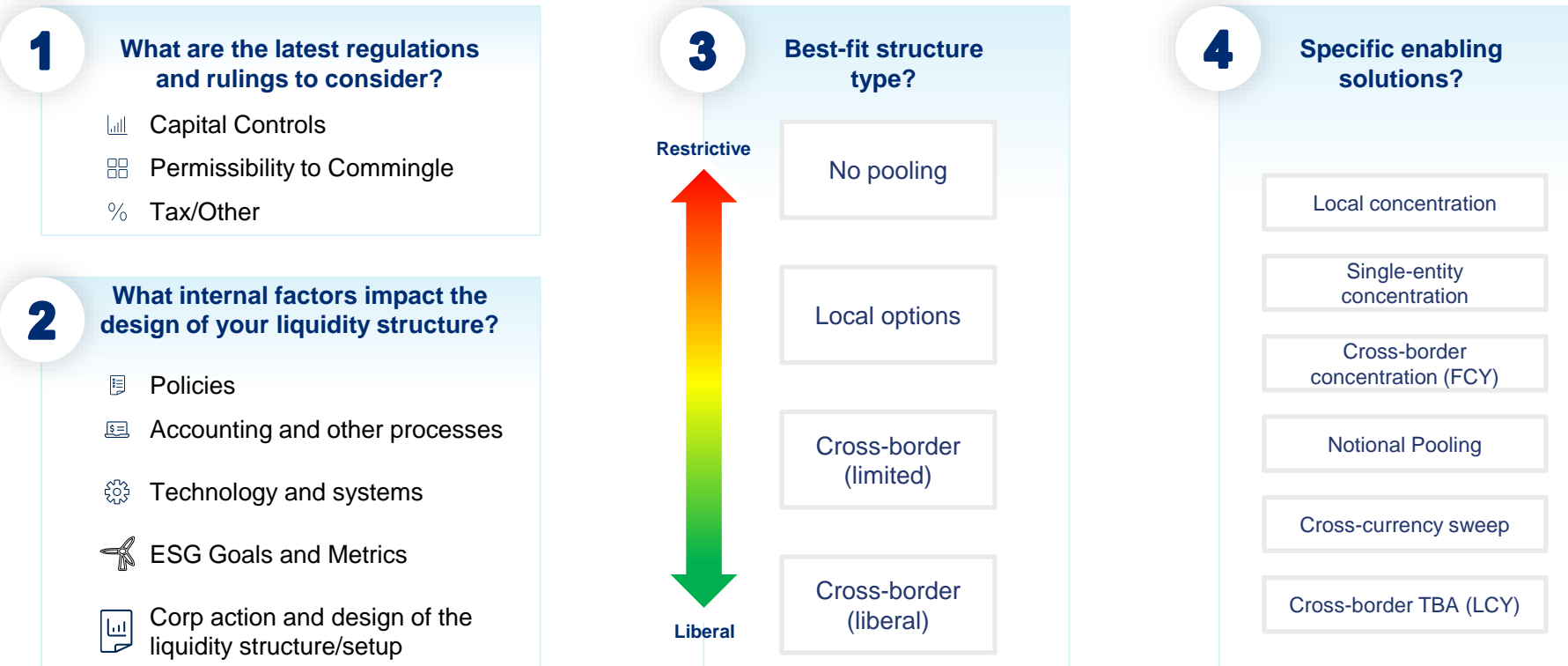
Investment Policy: Instruments and Limits (Illustrative)

Security type	Minimum credit rating	Maximum maturity	Maximum portfolio exposure	Maximum issuer exposure
Time Deposits, Certificates of Deposit	A-1/P-1	1 month	No limit	25%
		3 months	50%	15%
		6 months	25%	10%
		13 months	15%	5%
Money Market Funds (Stable NAV)	AAA	Max WAM 90 days	50%	Concentration limit based on total assets of the money market fund (typically 5%)
Government Bills / Bonds	AA/aa	3 months	No limit	25%
		6 months		
		1 year		
		3 years		
		5 years		
Municipal Bonds	AA	3 months	20%	5%
		6 months	15%	
		1 year	10%	
Commercial Paper	A-1/P-1	1 month	25%	5%
		3 months	20%	
		6 months	15%	
		12 months	10%	
Corporate Bonds	AA	2 years	15%	3%
Mortgage / Asset Backed Securities	AAA	2 years	10%	3%

The information contained herein does not constitute and shall not be construed to constitute legal, investment, tax and/or accounting advice by Citi.

# Recommended Liquidity Management **B**est Practices

Companies may choose to periodically review their cash pooling structure to optimize cash and ensure their pooling set-up is aligned with the company's evolving treasury objectives.



# Money Market Funds (MMF)

In the MMF industry, ESG MMFs are an investment approach that seeks to integrate ESG factors into investment analysis when choosing securities for the Fund's underlying portfolio of assets.

## What are the Evaluation Criteria?

### ENVIRONMENTAL



- Considerations carbon footprint, climate change, pollution

### SOCIAL



- considerations human rights, ethical culture

### GOVERNANCE



- considerations minority ownership, shareholder protection, board composition



## How is the Fund Created?

- Fund Providers are using a range of various strategies, including but not limited to: Exclusionary, Sensitivity Inclusion
- There is no single general methodology in the industry used across Fund Providers; therefore, fund providers have options to disclose relevant principles or actions related to ESG context. Investor due-diligence is highly recommended.

Citi makes no representation regarding ESG or D&I features of the funds

## How are the Funds Accessed?

- Citi provides an integrated sweep from currency pools into a range of Money Market fund options
- Citibank® Online Investments offers a digital, personalized, automated way to access your funds
- 15+ MMFs with ESG or D&I disclosure by 6 domestic fund providers are available

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# ESG & Liquidity Management Considerations

Below are a few key considerations for companies with respect to ESG and liquidity management practices.



## Sources & Needs

- What are your ESG priorities?
- How do you measure progress? Do you have any specific ESG KPIs?
- What key regulations that impact your business(es)'s ESG strategy and liquidity policy?
- Can existing bank accounts be restructured to optimized your account structure and ESG position?
- How do you fund your ESG Projects? Do you have need to divert funds from “traditional” projects?
- Do your subsidiaries routinely borrow externally? Are they often in overdraft situations?
- Are your subsidiaries' degree of autonomy high? Do they have the same ESG and liquidity strategy?

## Location

- Is your cash in moderately or highly regulated jurisdictions? Is local currency freely convertible?
- Are there multiple subsidiaries in a single country? Do your geographic funding requirements change on the back of an ESG transition?

## Technology

- Is visibility over local balances satisfactory? Is direct access to cash desired?
- What is the state of your technology Infrastructure to support cash pooling?



# Achieving Your Sustainable Investments Objectives

As companies seek ways to expand their ESG programs, Treasury Departments are playing a greater role in shaping and achieving these objectives.



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# Q&A

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