

# CREATING A SUSTAINABLE LIQUIDITY MANAGEMENT STRATEGY

Public goods support the general welfare of the people and the best interests of the community. Common examples would be policing, street lighting and clean air. The latest addition to this list should be financial market liquidity.

Two common and defining features of a public good are worth highlighting. The first is how they are often taken for granted over time. The second is how incapacitating their absence can be in times of need.

This parallel, at a market or systemic level, is powerful – and government actions across the developed financial world have, de facto, made systemic liquidity critical to the public interests, on the order of trillions of taxpayer dollars.

At a more technical level, public goods are also nonexcludable and unrivalled. This is where the parallel ends and market participants, regulators and consumers alike are learning that the right to liquidity in times of need is anything but certain.

At J.P. Morgan, our experience in working with our leading clients has shown us that a well-planned approach to liquidity management is an essential part of ‘futureproofing’ their business. Their approach is not just about surviving in times of need, but also complementing and enabling their strategic objectives for the future.

“Our experience shows us that a well-planned approach to liquidity management is an essential part of ‘future-proofing’ for our leading asset manager clients.”

*Tristan Attenborough, Managing Director,  
EMEA Regional Head, Liquidity Solutions*

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Consistent with the ubiquity implied by the public good analogy, the principles that define a good liquidity management strategy apply to hedge funds, private equity, long-only managers, pension funds, insurance companies and across the wider asset management universe. Obviously, the application of these principles varies, but the ability for the right strategy to add value to the business model does not.

This paper provides some insight into how a well-executed and sustainable liquidity management strategy can contribute to business efficiency and improved scale. It will also reinforce how the right cash investment strategy can contribute to product performance, support brand and reputation, and improve adaptability to change.

## Preserving the Liquidity and Security of Cash

### Summary & Executive Considerations

All liquidity management strategies attract counterparty credit risks and fiduciary considerations for investment managers. Understanding the counterparties' risk and the implications of ensuring liquidity in times of need has never been more important. Information transparency and knowing the levers of control are essential enablers to making cash work for your business now and in the future.

- In brief, how would you describe your firm's approach to liquidity management?
- Which types of counterparty currently hold your cash?
- In what ways do you prefer the risk profiles of each of these counterparties? Why?
- Who performs the assessment, and how often is it done?
- How have Lehman's, Iceland, gating and breaking "stable NAVs" impacted your view?
- In light of the unprecedented events of 2008, have you brought cash management in-house?

## Our Experience

### Credit Risk

Credit risk is unavoidable. Managing the credit risk as it relates to liquidity is one of the foundations for a sustainable approach to liquidity management. Successful management relies on understanding where and how cash is held, regular information flow about counterparties and a risk management strategy that is practical but robust.

As principles, these are elementary, but their application needs to be considered in relation to the client's business model. The necessity for a hedge fund to maintain cash at a prime broker is not the same for a pension fund manager to maintain cash at the custodian, but both have a duty to consider and manage the exposure.

A simple way to decompose credit risk is to think of it in layers. The core is the counterparty risk of primary providers – the custodian, prime brokers, cash management banks and so on. Often, clients feel they have little choice to mitigate risk in this layer, as they are tied to the wider considerations of provider choice. This is not the case, as there are ways to optimise the necessary levels of cash held, classify it appropriately or invest to mitigate this concentration risk with core providers.

The next layer relates to instrument choice and legal behaviour. Most would consider this straightforward, but there are key distinctions and recent changes that make a closer look worthwhile. Widespread introduction of government guarantees on the debt or deposit obligations of banks has made credit position more opaque and highly inconsistent across borders. The differences in negotiability of time deposits versus certificates of deposit are meaningful, especially when liquidity is scarce and interest rates are volatile. Money market mutual funds, reverse repos and direct securities investments are further choices for cash investment that require clear



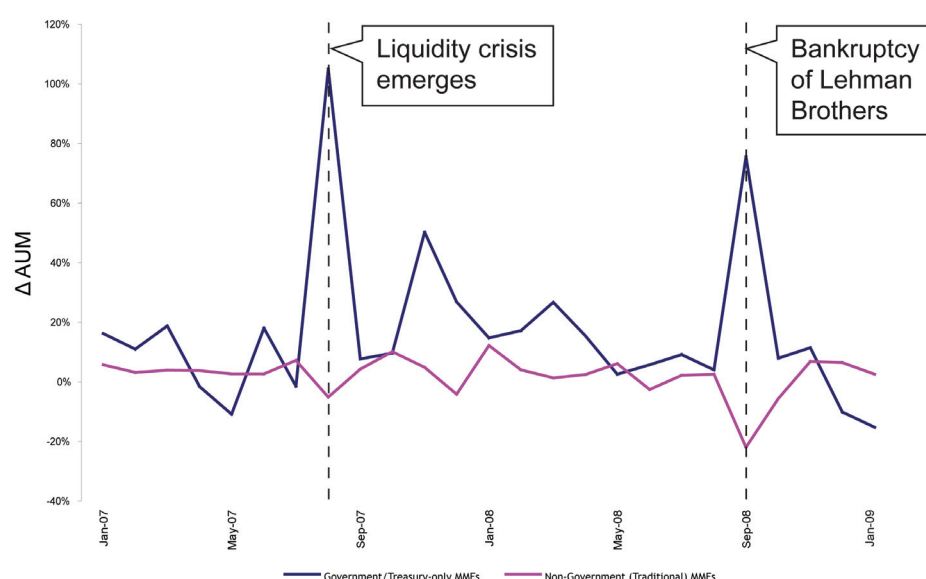
Connecting Business Goals with Liquidity Drivers

analysis. At J.P. Morgan, our experience with each of these in recent times has been revealing in terms of client behaviour and interpretation.

Assessment of counterparty risk in "AAA" money market mutual funds has received particular attention. At a passive level, these funds carry the top credit rating and are, for the most part, rated by several ratings agencies. They are collective investment funds and hold a wide range of different instruments, in differing concentrations from different underlying issuers. In this layer, the risk evaluation needs to be about determining if this type of asset meets a client's risk assessment criteria. The same is true of reverse repos and the risk considerations around the counterparty to the repo itself.

The final layer to consider, and the one widely missed in the recent credit crisis, is the quality of the underlying holdings or collateral. For money market funds, we have seen client reactions vary widely – from complete product exit and demands for detailed holdings reviews to transitions to 100% government risk and even investing more balances. In each case, the level of understanding is different and the process of matching product choice with risk assessment criteria varied in terms of how passive or active that analysis is. For reverse repos, we have seen clients be much more sensitive to the quality of collateral used and the concentration risks in the collateral issuers.

## Growth of Offshore Money Market Funds



Source: iMoneyNet, 3/2/2009

One tool to streamline the weight of analysis implied by a layered approach is to lay out a clear and complete investment policy for cash, but also to allow for flexibility and change control. This policy should consider the requirements for ongoing inspection; the type, level and frequency of disclosures; and clear triggers for escalation or review.

### Liquidity Preservation

Ensuring access to liquidity is a very close relative of credit risk assessment. In creating solutions for clients and building a sustainable approach, the key distinction is the timing of access to cash in all circumstances, not just guarding against a formal default scenario.

Understanding the investment objectives, the timing and the levels of cash required are the foundation to constructing the right liquidity profile. This behaviour is radically different between managers and, to be effective, needs to be closely integrated with core service providers, such as custodians, administrators, transfer agents and brokers.

At a more detailed level, the business model dictates the function of the cash, which, in turn, determines how it should be managed and invested. For example, cash associated with subscriptions and redemptions passes through different channels and under different time constraints than variation margin on OTC

derivatives positions or settlement flows for equity market trades. As business models become more complex, it is easy to understand why a one-size-fits-all approach is not realistic or appropriate and, similarly, how cash can become cumbersome to manage and increasingly fragmented.

With these operating constraints understood, it is possible to look at opportunities to aggregate cash, increase scale, create fungibility and improve investment results. This can be done without sacrificing vital availability. Reducing fragmentation and simplifying access to cash can be invaluable in times of stress. This reduces the operating connections between institutions and the intraday liquidity mismatches that can cause delays.

These operating considerations also relate to investment product choice. Using a wide range of investment products, perhaps to maximise yield or improve diversification, can be contrary to the objective of simplicity and control laid out above. Suitable levels of diversification and competitive yields are all possible within a choice of one or two investment products which, when properly integrated with other services provided, can be very effective at preserving liquidity.

In evaluating investment choices from a liquidity perspective, diligent analysis is required. Initially, it is sensible to align duration or weighted average maturity with

the nature of the flows or portfolio of cash. However, recent market events have shown a need for greater inspection. For example, the collapse of Lehman Brothers Holdings in September 2008 led to a series of important events. First, there was a rapid migration of investors to Treasury money market funds or to cash (see chart). Second, there were forced and unforced exits of fund providers from the industry. Finally, and perhaps most important, managers imposed redemption restrictions on funds to help preserve their stable net asset values.

Due diligence shows that prospectuses and regulators make clear that money funds are not legally required to keep their share prices at or above a dollar, or to redeem investors' shares immediately. Like all regulated mutual funds, their share prices are determined solely by dividing total portfolio assets by the number of shares outstanding, and they have seven days to meet redemption demands. Further, the assumption that term deposits could always, in extreme circumstances, be broken has been challenged in a market where the deposit taker has insufficient liquidity to return funds prior to maturity.

In times of market turmoil, remaining open, unrestricted/ungated and in support of their investor base is a vital reputation and brand differentiator for our clients. By focusing on sustainability in liquidity management solutions, our clients are best able to capture this opportunity to differentiate and gain market share.

### Transparency and Control

Weakness and shifting risk profiles across the financial markets have caused investment managers to look more closely at the strength of their counterparties and cash investment service providers, and to seek assurances that their cash assets are protected wherever possible. Clients are revisiting their long-held assumptions and reviewing how their assets are held, moved, managed and invested.

A common observation is that either existing boards or changes in governance are producing more incisive questioning, demands for greater transparency and clearer control processes.

Information transparency is the essential precursor to adequate risk analysis. Reporting should enable regular and appropriate levels of risk diligence, and provide insight into key indicators of risk. There are two ways to approach such analysis: a passive approach, using guidelines and public ratings; or a more active approach, using internal and external analysis. This decision is not simple, and there are arguments for both approaches. A more passive approach might, for example, rely on the guidelines, parameters and ratings given by one of the major ratings agencies. However, even these ratings are not consistent in their risk analysis, and a degree of active understanding is necessary. Some managers are still very comfortable setting a minimum credit quality for cash investments based solely on the ratings provided by these leading agencies. Others now want to take greater control by undertaking their own credit research, despite the fixed costs this adds to their business.

Even when a client is prepared to invest in a more proactive approach to risk assessment, it is hard to cover all the bases. This is an opportunity to leverage core providers of services, and access a wider network of information and insight. This can take the form of market or risk expertise, investment product review or some operational advice. This wider partnership and familiarity is another cornerstone of the sustainability of a liquidity management strategy. In times of need, it will help enhance control and speed response times if a partner already understands the business model and business patterns.

The points of control in liquidity management are essential to understand. What are the cutoff times? When are margin payments due? What are the lead times for switching providers? Who are the contact points?

#### MAJOR INSTITUTIONAL AND RETAIL INVESTMENT FUND MANAGER

A leading UK and European investment manager with £200 billion AUM and cash investments of £2 billion in overnight time deposit investments across 100+ subfunds within its pooled fund range

#### Turning to a trusted cash investment partner

##### CHALLENGE

Investors continue to press investment managers to reduce fees, forcing the industry to change its business models and outsource fixed-cost, noncore processes. After a review of its processes, this investment manager wanted to outsource the cash investment process, while maintaining control and visibility of the investments.

The investment manager was also concerned with:

- How to delegate responsibility for cash investment without losing a portion of the TER agreed with investors.
- How a service provider could achieve the same returns at subfund level, so as not to disadvantage investors.
- How to ensure that only institutions of high credit quality were used, since preservation of principal was paramount.

##### SOLUTION

- The investment manager engaged J.P. Morgan as its cash investment partner. J.P. Morgan delivered a tailored solution that aggregates cash within individual subfunds and invests, according to the client's instructions, in time deposits with select and prescreened counterparties (minimum A1/P1 rated by Moody's and S&P). A dedicated credit research team at J.P. Morgan monitors the credit standing of the counterparties on a daily basis.
- Market yield is maintained due to the aggregation and range of tenors employed by J.P. Morgan.
- Daily reporting is delivered to the investment manager, to provide absolute transparency on cash investments.
- The manager has realised significant cost savings and reduced operating risks through a sustainable cash investment solution.

In our experience, clients do not necessarily need to undertake or own a process to retain absolute control. In many cases, clients with clear policies and investment parameters have passed on the noncore activities, but retained control through specific, parameter-driven arrangements.

When accompanied by the right reporting and provided by the right partner, this has helped them achieve operating efficiencies and enabled them to refocus on their core business competence of investment management.

Considering such an arrangement is even more powerful when change occurs. If a provider changes (market exit, merger), policies or processes change (cutoff times, settlement instructions) or regulation changes (UCITS IV), the impact on control must be assessed.

When a manager operates alone, this creates an overhead and project effort to evolve. This is costly, time-consuming and distracting – versus working with a partner that, most likely, will have to solve this for many clients.

## Delivering Your Liquidity Management Strategy

### Summary & Executive Considerations

There is no one-size-fits-all approach to liquidity management, and solutions depend on the business mix and business model of the manager. Execution of a liquidity management strategy needs to work across the business cycle, and must be adaptable to internal and external changes.

- Have you evolved your cash management practice as your business has changed in the last few years?
- How many different types of cash does your business now generate (e.g., collateral, subscriptions/redemptions, cash asset allocation, etc.)?
- Would you describe your control of cash as centralised, under one investment policy or fragmented?
- What are you doing differently in the current interest rate environment?
- Liquidity management is a current regulatory “hot button” – what changes do you expect and how prepared are you?

## Our Experience

### Business Model and Business Mix

One of the most important steps in delivering the right liquidity management strategy is analyzing your business model, and understanding the different types of cash your business generates and holds.

Historically, investment managers often thought about cash as a one-dimensional asset. It was viewed as either something that drags on performance or just a consequence of trading. For hedge funds, it is essential to daily business and effective management.

However, there has been a change of mind-set in the market about the importance of cash as a distinct asset class. If used and invested wisely in all its forms, it can both improve portfolio returns and ensure that liquidity is available to make opportunistic investments as they appear.

### MAJOR INSTITUTIONAL INVESTMENT MANAGER – SEGREGATED PORTFOLIOS

A UK-based global investment manager with £90 billion AUM managing over 300 segregated portfolios spread across 65 custodians

#### Making cash work harder

##### CHALLENGE

- Asset owners have been putting increasing pressure on this investment manager to manage cash more effectively, as securities are sold and cash as a proportion of total assets has risen.
- Without an in-house liquidity solution, the investment manager has had to rely on whatever terms and conditions asset owners have agreed with their custodians.
- With cost and other constraints, there is no appetite within the manager’s organisation to build a cash investment desk or money market fund capability. This is driven by a desire to control costs and refocus on the manager’s strength in active management of equities.

##### SOLUTION

- With assistance from J.P. Morgan, the investment manager evaluated the segregated book of business.
- The manager and J.P. Morgan designed a model that concentrates the stable element of cash within portfolios to a centralised pool. This cash is then managed each day by J.P. Morgan, and the manager offers this pooled solution to its clients to realise further benefits of scale. This solution is executed with no addition to the TER investors already pay.
- Risks and control are driven by the operating parameters defined by the investment manager. This model supports the manager’s fiduciary obligations in relation to cash without adding cost overhead or associated operating risk. It also enables investment professionals to focus on their core competencies.
- Weighted average performance for cash AUM has risen sharply, and diversification of the invested cash assets is enhanced. The investment manager has added a marketable cash investment solution to its product array.

Recognising the different liquidity, risk and return characteristics of these types of cash is important in creating the right liquidity management strategy. It is also important to take a more holistic view of the cash portfolio and the potential benefits of aggregating pools of cash. By combining different cash types, investment managers can counterbalance volatility with stability, and optimise investments.

In working with our clients, we have found that there is real value in deploying the disciplines of corporate treasury, such as projecting cash flows, into the investment management, hedge fund and private equity arenas. By managing cash as “working capital”, clients can make cash work harder

and create value, helping them to achieve their wider strategic objectives.

### Operating Costs and Risk Exposure

Managers executing their own cash investment strategies have some advantages. But, especially if day-to-day management of cash is not their core competency, they may not be realising the full potential of their cash.

It is beneficial to look at associated costs incurred, such as the expense of managing a full cash investment team and infrastructure. Operating costs of execution also include daily balance projections across multiple cash accounts, counterparty monitoring, trading, settlement, confirmation processing and reconciliation.



In addition, the firm bears the direct cost of operating risk and errors, such as errors in settlement, cash forecasting or trade execution. These are generally infrequent, but must be taken into consideration.

In reviewing solutions with clients, we look at “total economic return”, which incorporates these costs.

At J.P. Morgan, we are seeing a larger number of clients that are looking to take out fixed cost and focus on core activities. Our experience with them is a “toe in the water” approach – that is, migrating to a partner those parts of the liquidity management process that are deemed least efficient to self-manage. Over time, many of these clients have migrated additional parts of the process to capture the benefits of simplification and scale.

**J.P. MORGAN HAS WORKED WITH CLIENTS THAT MANAGE MANY DIFFERENT TYPES OF CASH:**

- Subscription/redemption
- Derivatives margin
- Daily operating capital
- Portfolio allocations to cash
- Proprietary/corporate cash
- Unencumbered capital
- Portfolio company operating cash

For some clients, such as fixed income managers or those with large cash collateral pools, there is often a good case for continuing to manage cash in-house. This should be analysed in terms of the contribution to portfolio performance from doing so, versus the risks assumed.

In other business models, the case is much less clear. This is particularly evident in low to zero interest rate environments. Currently, the global financial markets are posting record low interest rates in eight or more major currencies. Further, all indications are that these extreme monetary easing positions will continue well into 2010. This should create much greater focus on the question of value contributed for the costs and risks assumed.

### Efficient and Effective Execution

An essential part of evaluating a liquidity management strategy is the way in which it is practically delivered. If the strategy is overengineered or too lightweight, it will not be sustainable in the long term and yield the

## HEDGE FUND

A leading asset manager with a range of strategically different hedge funds

### Outsourcing counterparty and operational risk management

#### CHALLENGE

- The changing face of the existing prime brokerage model and concern around bank stability led this asset manager to perform a review of liquidity and counterparty risk. Significant market and FX volatility and increased redemption flows added to the need for quick, guaranteed access to unencumbered capital.
- The focus was diversification, investment guidelines and counterparties' monitoring frequency. Historically, the hedge funds placed most unencumbered capital with one or two prime brokers at a fixed rate. The prime brokers would manage payments to cover margin calls, managing cash on balance sheet or investing it onward.
- Certain funds' strategies called for holding significant unencumbered capital, and so any block to liquidity movement would not only be detrimental to fund performance, but could also force missed margin calls, a failure to operate or closure.
- There was no immediate alternative or back-up plan for cash placement in the event of a counterparty failure. Diversifying and optimizing remaining cash would require the cooperation of the prime brokers and administrators.

#### SOLUTION

- The funds engaged J.P. Morgan, which drew on its prime brokerage, liquidity management and hedge fund administration capabilities. New accounts were set up on J.P. Morgan's balance sheet for immediate diversification of capital. A residual amount of cash was left at the prime broker to cover daily cash flows for margin calls, etc.
- The capital, now at J.P. Morgan, was invested according to the client's instructions, with highly rated counterparties on an agency basis, with trading decisions and risk monitoring performed by J.P. Morgan. The counterparties and concentration limits were defined by the client and tailored to their needs. This meant that in addition to full transparent reporting and operational outsourcing, the fund had control of the trading parameters.
- Once the main balances were diversified, the fund administrator was engaged to calculate a daily “unencumbered cash position”, enabling J.P. Morgan to automatically optimise and invest the entire projected balance.

benefits when they are needed most. The execution approach needs to address the day-to-day, business-as-usual environment and, perhaps more critically, times of change.

The business-as-usual environment requires commercial common sense, such as consideration for the cost, reliance on key people, focus on the right issues and risks, and looking to leverage partners wherever possible. This last point is particularly

relevant, especially where cash management is not a core part of the business model.

The rapidly changing investment environment means that managers across the industry need to be increasingly adaptable. In many cases, managers can handle a degree of change within their existing business and cost base; but handling larger-scale or exogenous (e.g., regulatory) changes is less straightforward. For these situations, our clients seek access to

professional cash investment advice and partnership to help them more readily effect change. In the current market, even some of the more routine changes can be further streamlined. Using parameter-driven controls, for example, provides investment managers with flexibility and improved responsiveness without feeling they have ceded control. Advanced cash investment providers can provide services that automatically control a client's counterparty and diversification limits. If the client decides to shift concentrations or add a new counterparty, it is a lot faster for the service provider to make the change than for the client to negotiate new arrangements directly themselves.

## Ensuring Cash Performs

### Summary & Executive Considerations

There are many ways to consider the total performance of cash, so having a clear benchmark is essential. Achieving consistent risk-adjusted and cost-adjusted returns over time requires a balanced approach to product choice. Investment scale, product choice and operating flexibility are empowering factors for a sustainable approach to liquidity management.

- How many cash investment products do you currently use across your business?
- Which products do you prefer, and how are they matched to your types of cash?
- What is the investment policy review process for cash, and how often are changes made?
- Are the costs of running cash investments explicitly monitored against the returns?
- How much time are you prepared to spend on fine-tuning your cash investment strategy?

## Our Experience

### Benchmarking and Performance

Client reactions to cash performance vary widely. In part, this is because different managers have different priorities around capital preservation, liquidity, convenience

### PRIVATE EQUITY FUND

A leading private equity fund with investments across Europe

#### The benefits of engaging liquidity specialists

##### CHALLENGE

- In response to an extremely volatile market, the fund conducted an urgent top-down view of cash positions and investments across the group. Initial analysis of the multientity structure revealed \$1.4 billion in total unencumbered cash. Sixty percent of that cash was held with one bank, posing significant counterparty risk.
- With each portfolio company executing against different investment guidelines, and some carrying significant operating capital, the fund sought to increase transparency and control of cash positions at a group and portfolio company level.
- In addition to concentration risk, their analysis also revealed significant inefficiencies and associated costs in the existing liquidity management and investment model.

##### SOLUTION

- The fund engaged J.P. Morgan to help analyse its current cash management and investment process, and then design and standardise a sustainable liquidity management strategy.
- The bank set up individual investment accounts for each portfolio company. The fund transferred excess capital from each entity to the investment accounts. Through an automated sweep, unencumbered cash from each account is aggregated and invested with pre-approved counterparties to set concentration levels.
  - To minimise counterparty risk, J.P. Morgan monitors the counterparties and trades according to a range of risk parameters. Reporting is provided at both a portfolio company and parent company level. Total economic return is achieved through outsourcing non-core activity to J.P. Morgan, which enables the fund to benefit from the bank's scale and wholesale market pricing.
  - By understanding the flows of cash, J.P. Morgan proactively manages the weighted average maturity of the portfolio to ensure that an optimal return is achieved.

and yield. Where managers are focused on returns, gross yield maximization is their priority. The evaluation of performance in cash tends to be against LIBOR benchmarks or reasonable investment alternatives (e.g., many AAA money market funds target seven-day LIBID). When done in the context of a clear investment risk policy, such an approach makes sense.

Another valuable purpose of having a clear benchmark for cash performance is to understand the performance contribution that cash returns make to the overall portfolio performance. There are many factors that can drive this contribution, such as asset allocation to cash, levels of gross return, costs, errors, etc., but very often the performance contribution (or drag) is much smaller than clients initially think. Once this

is properly understood, it provides an important perspective on the value of adding risk, operating expense and additional processes to the business model to seek incremental basis points in return. This is central to creating a risk-adjusted return analysis and forms part of the total economic return view discussed earlier.

A final consideration is that of the specific or inherent fiduciary duty managers have to their investors. Yield maximization alone is rarely an objective. Investment performance, with consideration for risk taken to achieve that return almost always is. It is on this basis that many clients seek competitive outright performance, but understand that every last basis point may not be worth the costs or the risks associated with obtaining it. Being able to demonstrate consistent

performance versus a realistic benchmark across market and interest rate cycles is a good way to discharge the fiduciary obligation as it relates to cash.

### Investment Scale and Long-Term Approach

To build a sustainable cash investment strategy, it is crucial for investment managers to find financially strong and trusted partners. Criteria that define strong partners would generally include capital strength, breadth of business model, depth of liquidity management expertise, integration of cash management product capabilities, global coverage and market-leading, high-quality services that match the manager's business needs.

Whilst this is common sense, it is important to note that these criteria are not just about credit risk and reduced probability of default. The point is to select providers with demonstrated long-term commitment to the market. For example, we have seen money market fund providers exit the industry when the business and exposures no longer suit them. Choosing the right provider and establishing a partnership forms part of the sustainability in a chosen approach. While partner choice alone does not guarantee a pickup in gross yield, it is the long-term consistency and reliability of a partner that ensure performance can be sustained over time.

More than this, to operate successfully in the money markets requires relationships. Participants that have established familiarity and a track record in their own right can deliver those benefits to their clients. The most relevant example is the size and frequency of a participant's trades in the international money markets. In these times of limited liquidity or extreme volatility, it has been valuable to leverage trading relationships to accommodate changes to transactions, handle early terminations or modify collateral amounts. These can be vital benefits in times of need and come from well-established relationships built as a major market counterparty in Treasury, money market funds and securities lending collateral reinvestment.

### Investment Product and Investment Expertise

The choice of investment product is another important decision, predicated on all of the prior considerations. Generally, the choice of product will confer a level of risk and a level of yield. There is a logical set of trade-offs in evaluating product choice – what we refer to as a 'pyramid of preference'. Understanding these trade-offs forms part of the risk-adjusted return analysis.

There are also more subtle components of product choice that are worth considering. For example, a time deposit as a product is completely homogenous in operation, but performs very differently in terms of return, even within apparently equivalent risk profile banks. Part of the return may be generated by desk-to-desk relationships built over time; but, more likely, a bank's own business model will drive its desire to set rates by amount, tenor and currency. Most managers would solve this by shopping the market and forming relationships with more consistent organizations by currency. This works, but can be time-consuming, particularly when changes in the market environment require trading counterparties to change.

Similarly, for reverse-repo it is appropriate to look at the quality of collateral as well as the repo counterparty. For a money market fund, it is important to consider the sponsor, expense structure, track record and performance in times of stress. All of these factors should drive the right product choice for the type of cash to be invested.

Much of this insight is not published or deemed worthy of wider guidance. Our clients often approach us to spend time with our treasury desk, collateral reinvestment professionals or money market fund portfolio experts. Access to this expertise can quickly augment and validate internal analysis. This expertise is founded on long-term market participation, which gives experience as well as wide-reaching day-to-day interaction across the short-term investment markets. These are partnership resources that should be leveraged regularly as part of maintaining and refining a liquidity management strategy.

## Sustainable Liquidity Management: Essential 'Futureproofing'

Unfair as it may seem for many taxpayers, public goods only really provide for certain circumstances. Most people would, where possible, make their own arrangements (e.g., healthcare, security) rather than rely on the social 'safety net' nature of public goods. In making these arrangements, we are trying to prevent the need to rely on that safety net. There is nothing in the recent government interventions to support global financial liquidity that would change the need for a preventative approach to liquidity management.

Would you stop insuring your home and your possessions in a year when you felt the police force were particularly effective? And reinsure them in other years? So runs the parallel with liquidity management and the need to build a sustainable approach that is pragmatic and appropriate across the business cycles.

Our proposition is that, with the right partner, it is possible to create a balanced investment strategy designed for all market conditions, whilst giving sustainable and acceptable levels of liquidity, capital preservation, return performance and operating efficiency.

### About the Author

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