

# Treasury Strategies Quarterly Corporate Cash Briefing™ for 3Q 2013

## Presented by:

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Tony Carfang, Partner

10 October 2013



Treasury  
Strategies.

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# Agenda



## Corporate Cash Levels

## Semi-Annual Cash Survey – Findings & Insights

## What Treasury Strategies' Clients are Saying

### Roundtable:

- Association of Corporate Treasurers (ACT)
- Federated Investors
- Fitch Ratings

## Treasury Strategies' Advice to Clients





# Corporate Cash Levels



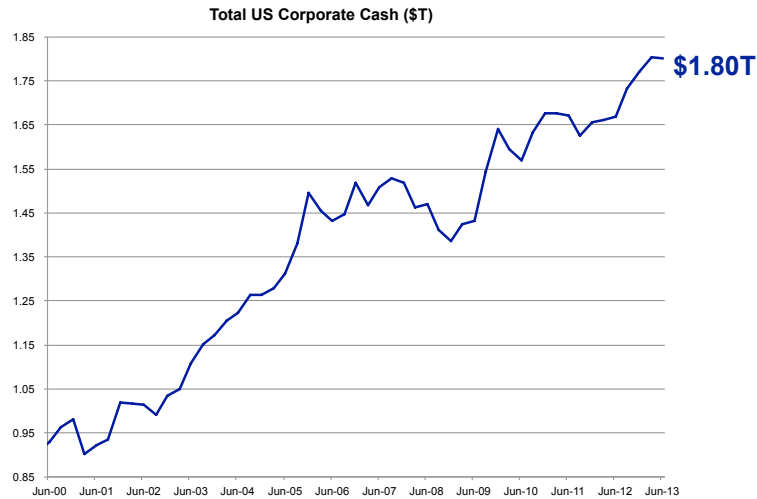
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# Corporate Cash Levels

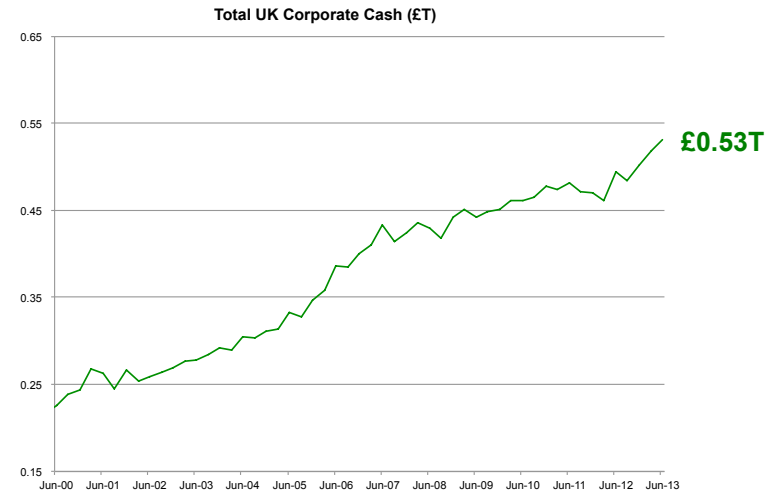


## US corporate cash as of June 30, 2013



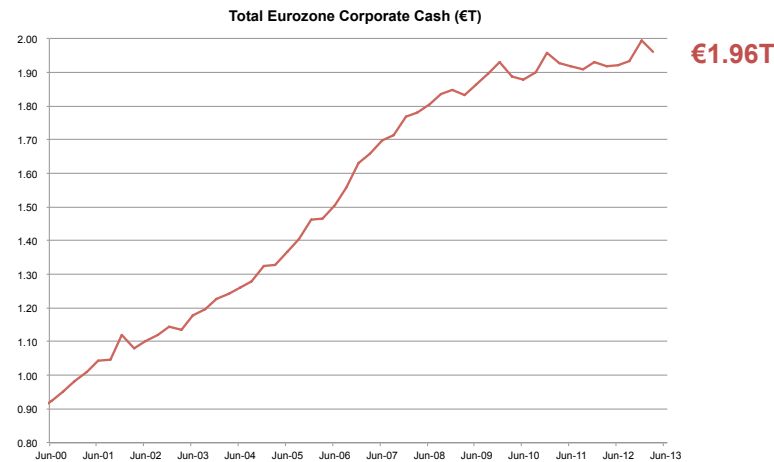
Source: Federal Reserve, Treasury Strategies

## UK corporate cash as of June 30, 2013



Source: Office of National Statistics, Treasury Strategies

## Eurozone cash as of March 31, 2013



Source: European Central Bank, Treasury Strategies

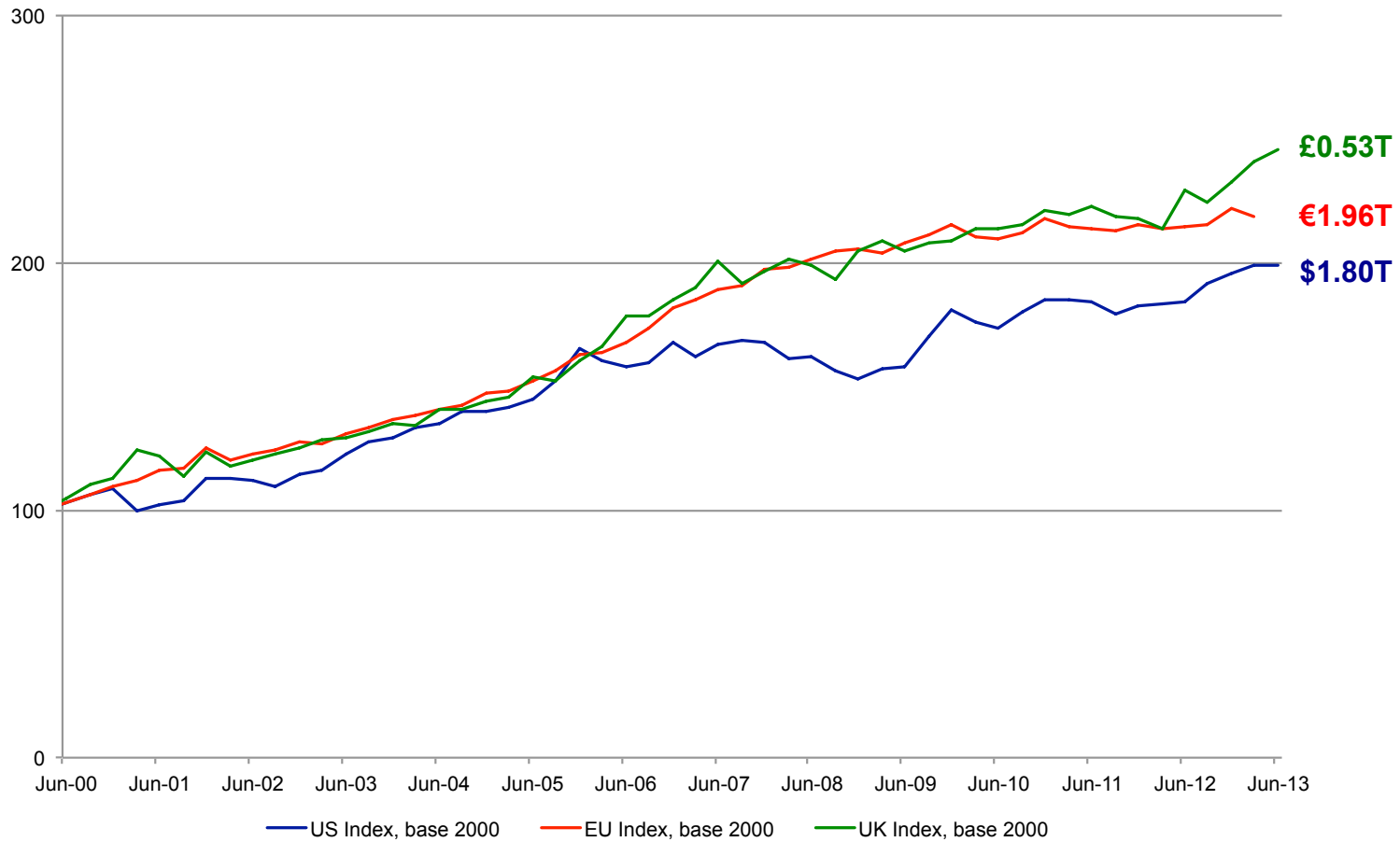




# Corporate Cash Index



### Total Corporate Cash Index



Sources: Treasury Strategies, Inc., Federal Reserve, ECB, ONS  
Note: 1Q 2000 = 100





## Corporate Cash as % GDP by Region



Country/Region	June 2000	June 2013
United States	9%	11%
Eurozone	14%	21%
United Kingdom	23%	33%

Source: Treasury Strategies' estimate

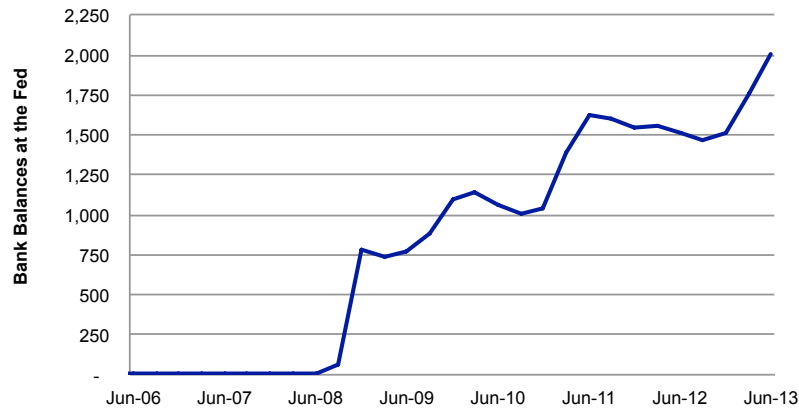




# Reserve Balances

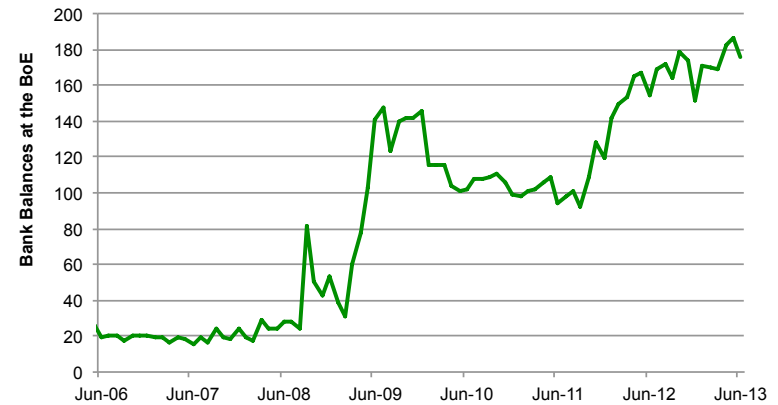


**Bank Balances at the US Federal Reserve  
June 2006 - June 2013**



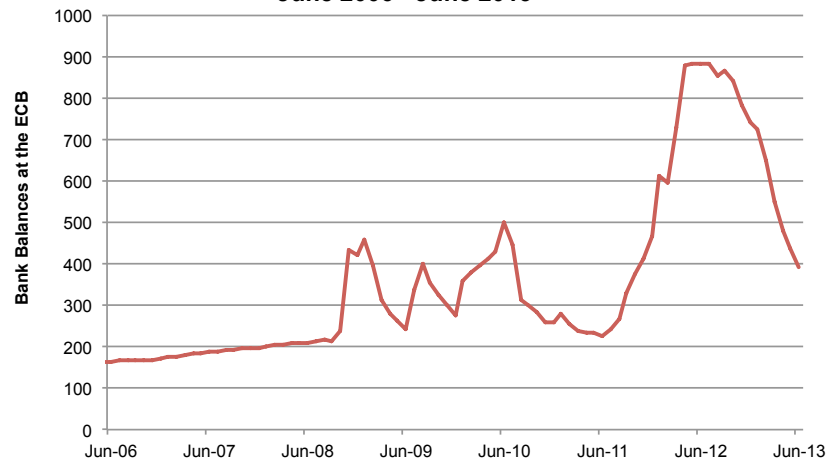
Source: Federal Reserve H3 Report, Treasury Strategies

**Bank Reserve Balances at the BoE  
June 2006 - June 2013**



Source: Bank of England, Treasury Strategies

**Bank Reserve Balances at the ECB  
June 2006 - June 2013**



Source: European Central Bank, Treasury Strategies

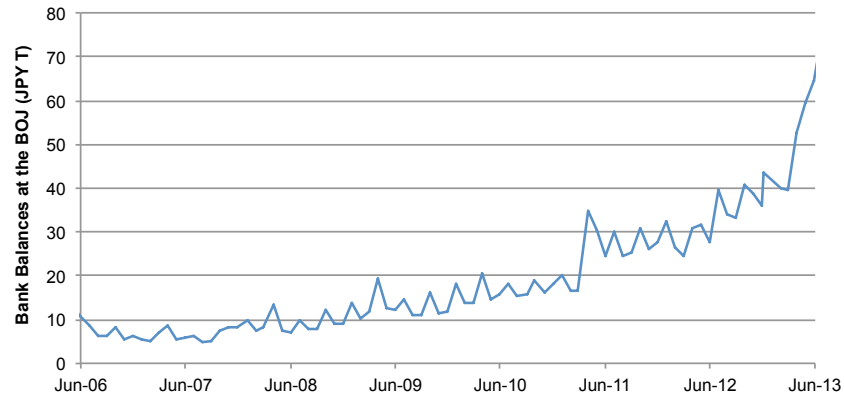




# Reserve Balances

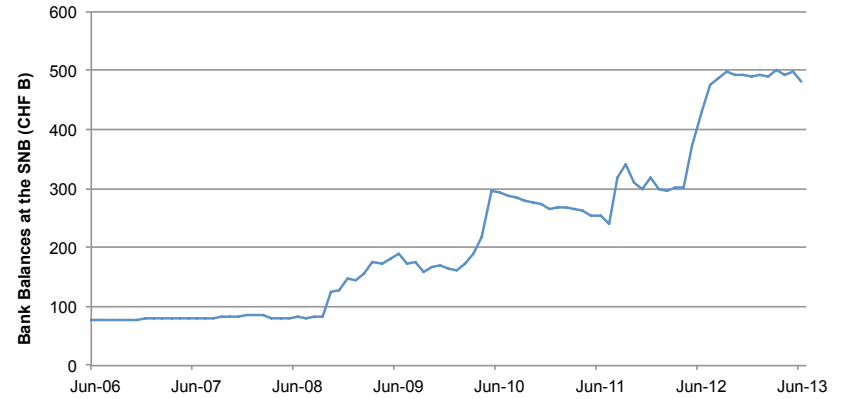


**Bank of Japan Reserves:  
June 2006 - June 2013**



Source: Bank of Japan, Treasury Strategies

**Swiss National Bank Reserves:  
June 2006 - June 2013**



Source: Swiss National Bank, Treasury Strategies







# Quarterly Cash Survey: Findings & Insights



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# Changes in Corporate Cash Levels



Change in Corporate Cash Level	Expected in the Next 6 Months			
	Sept. 2010	Sept. 2011	Sept. 2012	Sept. 2013
Increase	28%	30%	35%	37%
Decrease	23%	31%	18%	18%
Remain about the same (within 10%)	50%	39%	47%	45%

Source: Treasury Strategies, Inc. Corporate Cash Report™, September 2010; September 2011; September 2012; September 2013





## Sources of Corporate Cash



Sources of Cash	Sept. 2010	Sept. 2011	Sept. 2012	Sept. 2013
Positive cash flow from operations	88%	81%	78%	82%
Reduction of inventories	32%	22%	24%	21%
Debt Issuance (medium- and long-term)	15%	12%	19%	18%
Sale of company assets, divestitures	12%	10%	17%	9%
Increased short-term borrowing	11%	13%	12%	9%
Equity issuance	5%	5%	4%	7%
Reduction in dividends	3%	3%	4%	5%

Source: Treasury Strategies, Inc. Corporate Cash Report™, September 2010; September 2011; September 2012; September 2013

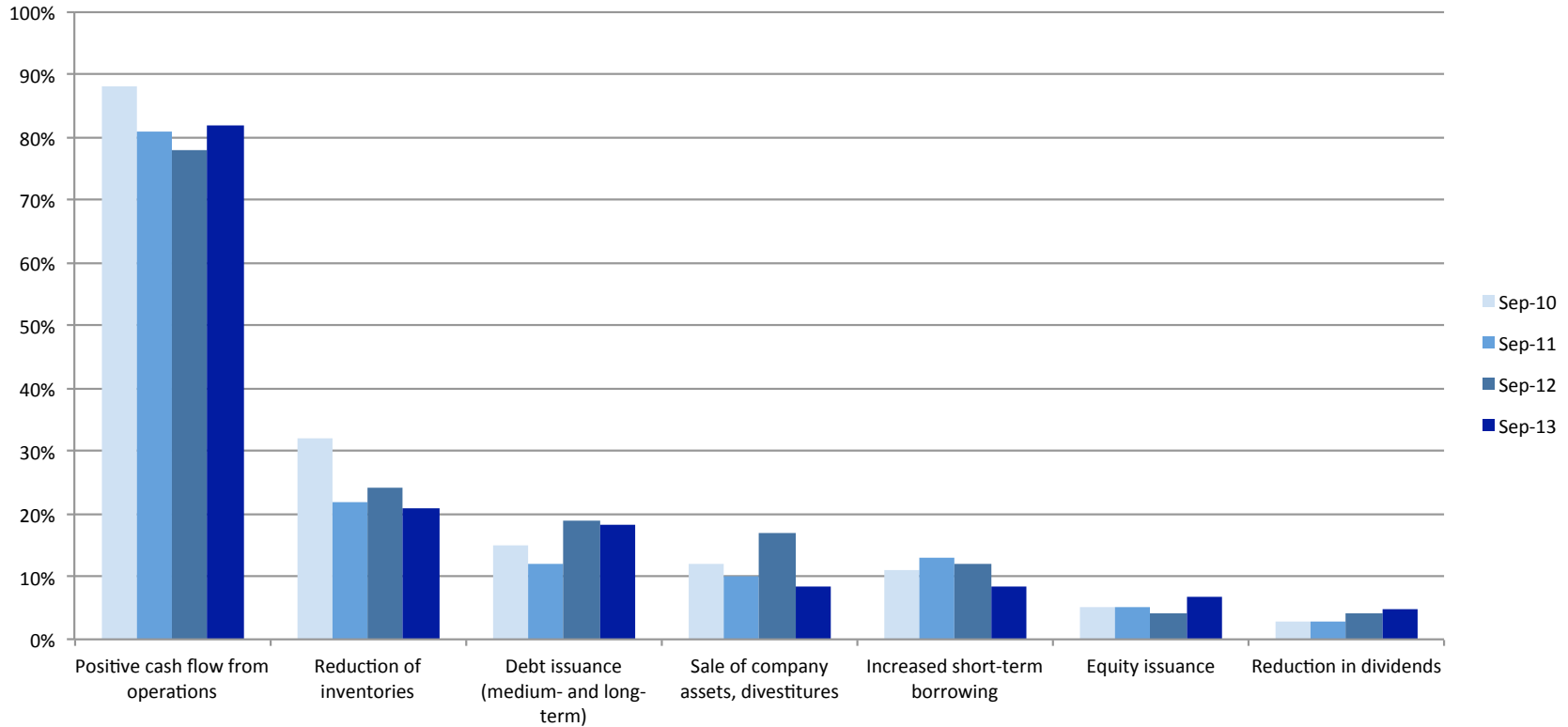




# Sources of Corporate Cash



### Sources of Corporate Cash



Source: Treasury Strategies, Inc. Corporate Cash Report™, September 2010; September 2011; September 2012; September 2013





## Uses of Corporate Cash



Uses of Cash	Sept. 2010	Sept. 2011	Sept. 2012	Sept. 2013
Capital expenditures	34%	37%	41%	41%
Negative cash flow from operations	54%	25%	31%	19%
Paydown of short-term borrowing	20%	22%	20%	27%
Acquisitions	20%	18%	13%	20%
Increased dividends or special dividends	12%	5%	9%	10%
Increased inventories	9%	12%	9%	12%
Debt redemption (medium- and long-term)	18%	16%	14%	18%
Equity repurchase, stock buyback	11%	8%	14%	12%
Increased pension fund contributions	9%	3%	7%	8%

Source: Treasury Strategies, Inc. Corporate Cash Report™, September 2010; September 2011; September 2012; September 2013

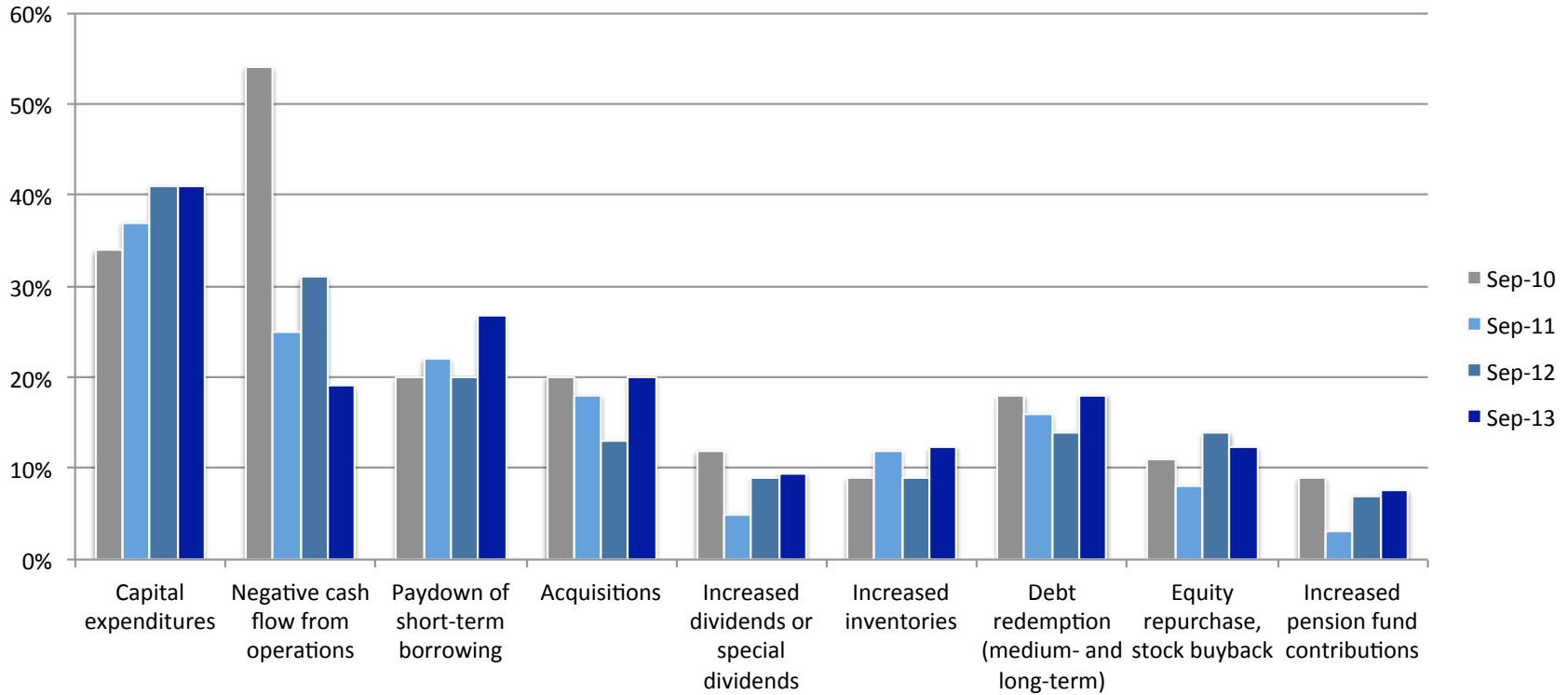




# Uses of Corporate Cash



## Uses of Corporate Cash



Source: Treasury Strategies, Inc. Corporate Cash Report™, September 2010; September 2011; September 2012; September 2013





# Corporate Cash: Managing Risk



## Maturity Risk

Maturity Structure	Past Six Months (Sept. 2013)	Next Six Months (Expected)
Shorter	24%	10%
Longer	15%	11%
About the Same	61%	79%

## FX Risk

Hedges of FX Exposures	Past Six Months (Sept. 2013)	Next Six Months (Expected)
Increasing	14%	17%
Decreasing	7%	2%
About the Same	79%	81%

## Credit Risk

Credit Risk	Past Six Months (Sept. 2013)	Next Six Months (Expected)
More Conservative	30%	11%
Less Conservative	10%	12%
About the Same	60%	77%

Source: Treasury Strategies, Inc. Quarterly Corporate Cash Survey™, September 2013



## Changes to Treasury Management Practices



Current market dynamics encourage corporate treasurers to expedite the evolution to **Treasury 3.0<sup>®</sup>**, which positions Treasury as the financial nerve center of the corporation.

Expected Changes in Treasury Management	Sept. 2010	Sept. 2011	Sept. 2012	Sept. 2013
Increasing reliance on cash forecasting	35%	47%	40%	36%
Implementing new technology for cash management	43%	27%	30%	30%
Formally modifying investment policies	22%	17%	15%	17%
Formally modifying risk management policies	N/A	9%	15%	17%

Source: Treasury Strategies, Inc. Corporate Cash Report™, September 2010; September 2011; September 2012; September 2013







# **What Treasury Strategies' Clients Are Saying**



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## What Treasury Strategies' Clients Are Saying



“Reasons for cash at historical levels include: larger **contract expirations providing higher cash flows** (but difficult to replace said flows); **lack of investment opportunities** that fit our investment goals means more cash sidelined right now.

We expect cash to remain at these levels for at least the next 3 to 12 months while we target appropriate investment opportunities.”

“Managing large cash balances in this environment is a losing proposition. We want to earn a competitive return but many short-term investments offer negligible returns.

At the same time, we have to remain mindful of the counterparty exposure to our banks.”

“There is still nowhere appropriate to invest our cash. The risks far outweigh the reward in all markets at present.”

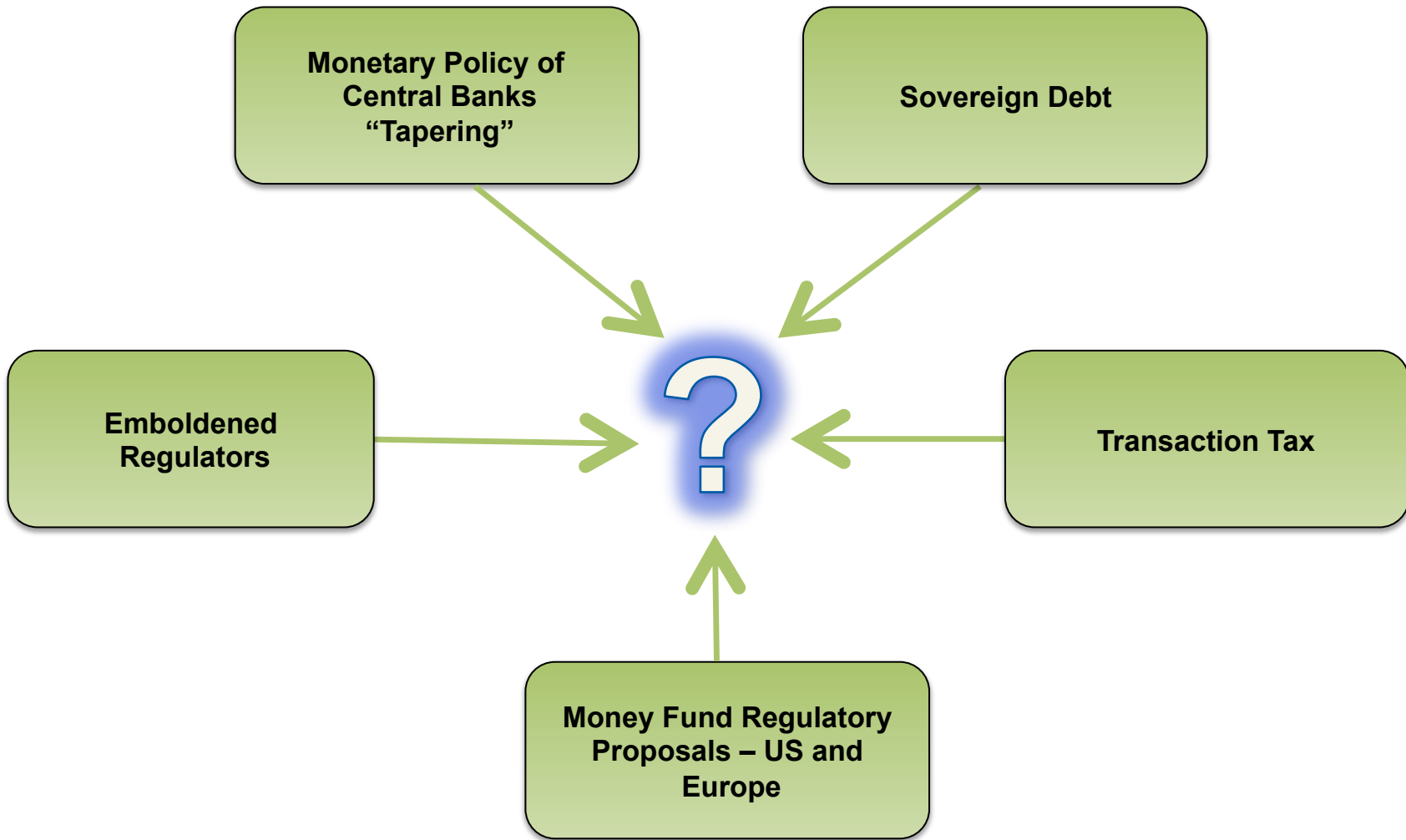
“Investing our cash is like walking a tight rope. In order to earn anything resembling a modest return, you need to invest further down the yield curve.

But you need to remain cognizant that if interest rates rise, you may find yourself in a disadvantageous position.”





# Potential Game Changers





# Financial Crisis Timeline



<b>2007</b>	
June	Asset-backed commercial paper market falters
June	Bear Stearns real estate fund failure
August	Cheyne Finance – first SIV default
August	American Home Mortgage bankruptcy
September	Run on Northern Rock Bank
November	Enhanced Cash Funds (ECFs) halt redemptions
November	Florida Local Government Investment Pool freezes

<b>January – August 2008</b>	
January	Countrywide Financial rescued
February	Auction-Rate Securities freeze
March	Bear Stearns rescued
July	Run on IndyMac Bank





# Financial Crisis Timeline



September – November 2008	
September 8	Fannie Mae placed into conservatorship
September 8	Freddie Mac placed into conservatorship
September 14	Merrill Lynch rescued
September 15	Lehman Brothers bankruptcy
September 15	Run on Washington Mutual
September 16	Reserve primary fund 'breaks the buck'
September 16	Surprise \$85 billion first rescue of AIG
September 17	HBOS rescued
September 17	Run on prime MMFs
September 21	Morgan Stanley becomes a bank holding company
September 21	Goldman Sachs becomes a bank holding company
September 29	The Commonfund falters
September 30	Dexia Bank rescued
October 8	AIG rescued for a second time
October 12	Wachovia Bank rescued
October 13	Royal Bank of Scotland rescued
October 24	National City Bank rescued
October 28	TARP funds prop nine U.S. banks
November 10	AIG rescued for a third time
November 23	Citigroup receives capital support





# Speakers



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# Treasury Strategies' Advice to Clients



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## Treasury Strategies' Advice to Clients



Key themes emerging from our work with Corporate Treasurers:

- Improve information flows – ensure global visibility of cash and risk.
- Strengthen treasury organization and processes.
- Strengthen balance sheet.
- Monitor global markets and central bank activities.
- Move cautiously when pursuing yield.
- Create a roadmap to a Treasury 3.0<sup>®</sup> environment.

*Disclaimer:*

*Treasury Strategies' recommendations are situation-specific and based upon careful, individual analysis. The advice cited above may or may not be appropriate for your specific situation.*







# About Treasury Strategies, Inc.



## Who We Are

Treasury Strategies, Inc. is the leading treasury consulting firm working with corporations and financial services providers. Our experience and thought leadership in treasury management, working capital management, liquidity and payments, combined with our comprehensive view of the market, rewards you with a unique perspective, unparalleled insights and actionable solutions.

## What We Do

### Corporations

We help you maximize worldwide treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

### Treasury Technology

We provide guidance through every step of the technology process. Our expert approach will uncover opportunities to optimize the value of your treasury through fully integrated technology solutions.

### Financial Services

Our experience, analytic approach and benchmarks provide unique consulting solutions to help you strengthen and grow your business.

## Locations

Chicago • London • New York

## Accreditations



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## About the ACT



### Who we are

The Association of Corporate Treasurers (ACT) sets the benchmark for international treasury excellence. As the Chartered body for treasury, we lead the profession through our internationally recognised suite of treasury qualifications, define standards and support continuing professional development. We are the voice of corporate treasury representing the interests of our members.

### What we do

ACT supports the growth and professional development of treasurers and finance professionals. We are an active global network of treasury, risk and finance professionals with members and students in 98 countries.

- We promote treasury as a discipline, as a profession and as a career
- We provide informed and unbiased technical advice
- We teach, examine and qualify treasury professionals and offer ongoing CPD
- We stimulate debate and facilitate the exchange of ideas and information through our events, conferences, webinars and forums
- We represent the real economy and influence relevant regulation and market practice.



[www.treasurers.org](http://www.treasurers.org)



[www.treasurers.org/linkedin](http://www.treasurers.org/linkedin)



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# About Federated Investors, Inc.



## FIRM PROFILE

**\$379.8 BILLION IN AUM**

### History of Quality and Innovation

- Founded and headquartered in Pittsburgh PA, 1955
- Offices in New York, Rochester, Boston, Dublin, Frankfurt, London and Melbourne
- 1,400+ employees worldwide including 223 investment professionals and 84 Chartered Financial Analysts
- Pioneer of money market and fixed income funds

### Publicly Traded

- NYSE listed: FII
- Employees share in approximately 20% of firm's ownership

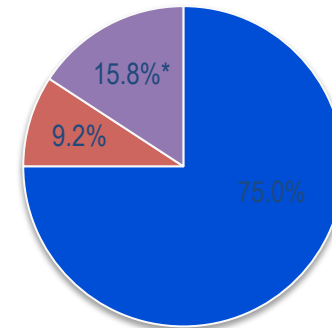
### Investment Management Singular Focus

- Committed to delivering long-term outperformance
- Strategies utilize risk-management process and maintain style consistency

### Well-Resourced Investment Teams

- Experienced specialized teams committed to delivering long-term outperformance
- Deep historical commitment to proprietary research
- Majority of investment professionals' compensation directly tied to performance

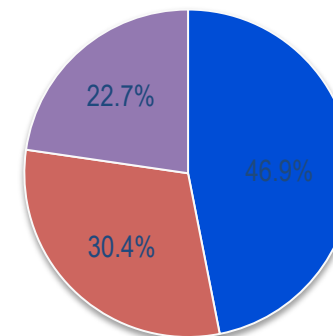
### Firm-Wide



■ Liquidity Management ■ Equity ■ Fixed Income

*\*Liquidation portfolios comprise of 12.2% of firm-wide fixed income total.*

### 4Q Revenue by Source



■ Liquidity Management ■ Equity ■ Fixed Income

*Asset breakdown as of 12/31/12*





## About Fitch Ratings



# Fitch Ratings

Fitch Ratings is a leading provider of credit ratings, commentary, and research. Dedicated to providing value beyond the rating through independent and prospective credit opinions, Fitch Ratings offers global perspectives shaped by the strong local market experience and credit market expertise. The additional context, perspective and insights we provide help investors to make important credit judgments with confidence.

Fitch Group is a global leader in financial information services with operations in more than 30 countries. In addition to Fitch Ratings, the group includes Fitch Solutions, an industry-leading provider of credit risk products and services, and Fitch Learning, a preeminent training and professional development firm. Fitch Group is jointly owned by Paris-based Fimalac, S.A. and New York-based Hearst Corporation.

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