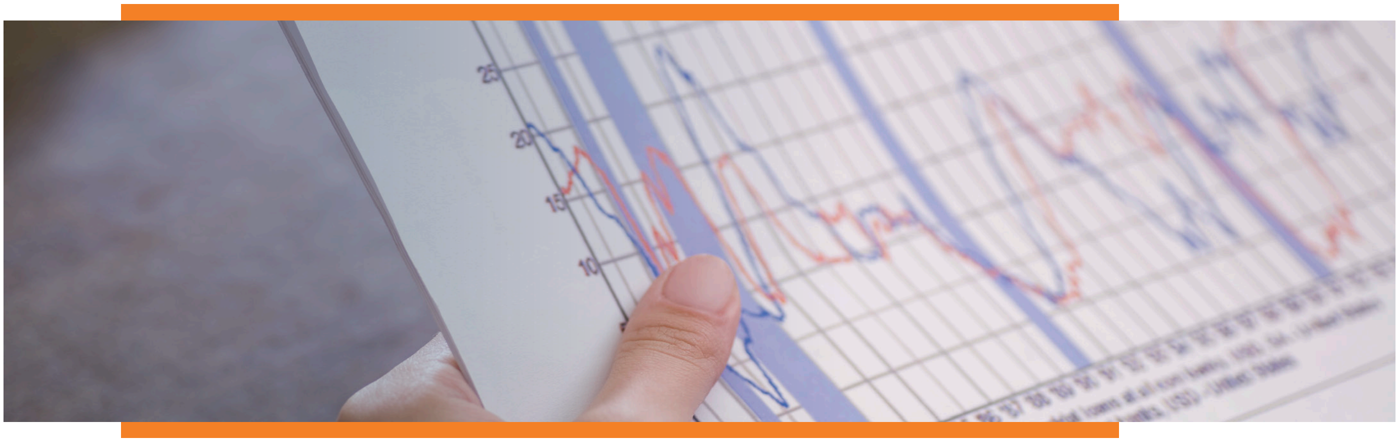
TREASURY MANAGEMENT

DEVELOPING INVESTMENT STRATEGIES IN A RISING RATE ENVIRONMENT



Today's rising interest rate environment may make it possible to improve your return on short-term cash.

Market, economic and political factors demand that corporate financial managers consider the impact of interest rate forecasts, future GDP estimates, and potential tax reform on their corporate cash strategies.

An investment policy that provides clear direction on how investments will be managed and how much risk is acceptable can help companies seize new opportunities and mitigate risks.

Investment policies should include formalized forecasting and contingency plans to prepare key decision-makers for unexpected events. Contingency plans should include a scenario analysis that details events of varying risk or magnitude and how the company will react. For example — divest, stay the course or become more conservative.

Developing an Investment Plan

Some of the elements of an investment policy that manages returns while preparing for contingencies might include:

- **Statement of purpose.** For example, "The purpose of this policy is to establish guidelines for the investment of corporate cash. The investment portfolio is to be a source of funds for the current and future operations of the company."
- **Investment objectives.** These might include preserving capital, maintaining liquidity, providing a market competitive rate of return and reducing tax liability, among the more obvious objectives.
- **A definition of responsibilities.** There should be clearly defined roles and assigned accountability for critical functions.
- **Establishing your risk tolerance.** This aspect of the policy begins to outline the company's risk tolerance.

- **Policy details.** The policy should include a list of approved investments, guidelines on the average maturity of the portfolio, concentration limits, denomination and securities ratings, and the priority of safety, liquidity and return.
- **Review and benchmarking.** A well-structured investment policy should be reviewed at least annually to ensure that it meets current goals and objectives, and should clearly define an appropriate benchmark against which investment performance can be measured.

Short-term investment options for today's environment

Over the last several years, traditional liquidity choices for short-term investments have included earnings credit on checking balances, interest-bearing bank deposits, investment sweeps and money market funds.

Recently, other short-term investment options have become part of the consideration set given rising rates.

They include:

- Prime money market funds (that now have a variable net asset value)
- Separately managed accounts
- Conservative ultra-short bond funds

All options, bank products, pooled investments and securities may have a part to play depending upon your cash segmentation and investment policies.

Considering these investment, economic and market factors is critical to setting your organization's optimum cash position and strategy.

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