

HOW LONG WILL TREASURERS AVOID PRIME FUNDS?

Results of the AFP's 2017 Liquidity Survey

By Tom Hunt, CTP

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We saw three trends come out of the [2017 AFP Liquidity Survey](#). The first was that cash balances continue to remain high on corporate balance sheets. Those are expected to grow, onshore and offshore. Second, we continued to see a large investment by corporate treasury and finance professionals in bank products. But it is the third trend that stuck out the most — organizations have no plans to invest in prime money market funds, post-reform. But could that change sometime down the road?

Let's back up for a moment. An exodus from prime and municipal funds was not unexpected; we've been saying for years that imposing a stable net asset value (NAV) and liquidity fees and gates could lead treasurers to avoid these funds in favor of government or Treasury funds.

And that's pretty much what happened. According to the Investment Company Institute (ICI) government funds received \$851 billion of inflows in 2016, while prime and municipal money market had \$881 billion in outflows. And overall, more than \$1.15 trillion has left nongovernment funds since 2015.¹

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WHAT COULD CAUSE A MOVE BACK?

But while much of the talk around money funds has been about why corporates left, AFP's survey attempts to dig a little deeper. We asked practitioners what might entice them to come back. Would it be a stable NAV? Is it a certain number of basis points? Is it the uncertainty around it?

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While 41% of organizations said that they do not plan to invest in prime funds at all, 23% of respondents indicated that they might invest in prime if the NAV doesn't fluctuate very much. Another 20% said that they would consider investing in prime funds if the spread between prime funds and other investments becomes significant. Larger and publicly owned organizations would be more likely to move back to prime due to such a spread than smaller companies would.

How significant would that spread need to be? We asked that too. A third of respondents said that their organizations would invest in prime funds if the spread were at least 50 basis points or more. That's pretty substantial, but another 18% would invest if the spread were only 15 basis points.

On the other hand, 40% said that they wouldn't invest in prime, regardless of the spread — and that's 10 percentage points higher than last year.

PLANNING FOR THE FUTURE

There is currently [legislation on the table](#) that could ultimately restore the stable NAV. At this juncture, we really have no idea how all of this is going to shake out. But should the floating NAV go away entirely, logic would tell you that we'd see another mass exodus — back into prime funds.

In the meantime, if you're trying to determine what to do with your money in the face of the new regulations, you have several options out there that many of your peers are taking advantage of. Respondents to the survey are making use of the following tactics:

- Separately managed accounts (31%)
- Ultrashort funds (26%)
- Extending maturities (21%)

Whatever your decision, just be clear that for now, the money market fund landscape is vastly different than it was just a few short years ago. We may see a shift back to the way it was before — but if not, then treasury and finance professionals will need to reconsider their long-term investment strategies.

Additionally, organizations are trying some other tools and strategies:

- 2a-7–like funds with stable NAVs (26%)
- ETF bonds or cash strategies (16%)
- Doing direct repo transactions (14%)

Whatever your decision, just be clear that, for now, the money market fund landscape is vastly different than it was just a few short years ago. We may see a shift back to the way it was before — but if not, then treasury and finance professionals will need to reconsider their long-term investment strategies.

For additional insights, download the [2017 AFP Liquidity Survey](#), underwritten by State Street Global Advisors. You can also benchmark your organization's short-term investment strategy with the [AFP Liquidity Dashboard](#), open for a limited time to registered users of the AFP site.

To discuss these topics in more detail, please contact your PNC Relationship Manager.

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¹ <http://www.icifactbook.org>

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