DEALING WITH TODAY'S RISING RATE ENVIRONMENT

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Riccardo Iacchetti: Good afternoon, everyone. And welcome to our PNC Advisory Series Webinar, "Dealing with Today's Rising Rate Environment." Thank you for joining us. I'm Rico Iacchetti. I'm a senior Vice President in PNC's Treasury Management Group and I'll be your moderator today.

Before we get started our presentation, I wanted to highlight PNC's ongoing commitment to providing market insights, new ideas, and best practices like you're about to hear. Our commitment is reflected in the types of conversations our bankers are having with companies like yours every day. It's also reflected in our PNC Ideas Thought Leadership Series which features a monthly newsletter, live webinars, and a dedicated website at PNC.com/ideas.

From brief videos, articles, market reports and economic reports to financial market commentary and webinar replays, we chose topics and formulate our ideas based on the input we get from you. So at the end of today's session, please provide us some feedback. We need to keep focusing on the right information for you and your company.

Okay, let's get started with our event. We're excited to have Allison Thellman and Tim Satterfield here as our expert presenters today. They'll be discussing today's rising rates and how corporations will be required to analyze their short-term cash and cash positions in order to prepare for the long haul. We will facilitate a question and answer session at the end of the presentation. You can submit questions at any time throughout the presentation using the questions widget found in the lower portion of your screen.

With all that said, let me turn it over to the experts and they'll take it from here. Thanks for joining us. Allison, the floor is yours.

Allison Thellman: Thanks, Rico. Good afternoon, everyone. I'm going to start by providing an overview of the current market and rate environment and contrasting that with the low flat rate environment we came out of a little over a year ago. Understanding where we were and where we're headed will help you arrive at how to refine or reposition your organization short-term cash strategy. Then my colleague Tim Satterfield will discuss the various short-term liquidity options, some of which are more relevant as rates have started to rise while others are newer in response to changing market and regulatory conditions. This will help you determine how you can use these options to revise your organization's short-term investment strategy. And then finally we'll provide some time for a question and answer session.

So, how is the current environment different? Over the past few years, corporates have maintained level records of cash given that rates were at historically low levels for such an extended period of time, there were very few valuable options for investments of this cash. Yields on liquidity options such as money market funds when we were in a 25 basis points Fed funds environment could not cover the fund expense ratios and those rates were close to zero. Other such investment options were also yielding very, very small returns.

As a result, bank deposits became the predominant short-term investment option. As you can see on the chart on the right, according to the AFP 2007 annual liquidity survey, over the past few years, over 50% of an organization's short-term cash was maintained in bank deposits. You can contrast this with pre-financial crisis times. In 2007, only 27% of an organization's cash was kept in bank deposits. So over 10 years there's been a significant shift from more traditional investment vehicles like money market funds to bank deposits. It will be interesting to observe how that continues to shift over the next couple years as rates continue their gradual rise and other options become more relevant.

Another contrast that we're likely to see over the next few years is moving away from, at least in the U.S. and globally in places like the eurozone, an accommodative euro policy as central banks get comfortable with an improved labor market and target inflation levels. Another factor that didn't exist pre-financial crisis was the additional regulatory reform. Much of the regulatory reform was aimed at ensuring the transparency and stability of the financial sector. As a result, it has changed the way banks value client deposits as well as the varied offerings themselves, interesting things like floating net asset values on particular types of institutional money funds.

It's interesting to point out that many financial professionals were not part of the workforce during the last rising rate environment. As a result, it may take some additional education and research to become aware and determine which liquidity options are relevant and available as rates continue to rise. In the past few years, another market factor influencing corporate cash strategy is certain foreign currencies maintained negative interest rates. As such, it's been costly for multinational entities to hold funds in those currencies. Given the incremental cost, many banks have even started to charge banks for the use of those currencies.

And finally, it's worth noting post-2007, regulatory reform has prompted new or revised liquidity options. We'll dive a bit deeper into this in just a few minutes, but banks and fund complexes alike used post-crisis reform as an opportunity to create new investment vehicles.

Now I wanted to take a few minutes to cover the current monetary policy of the Federal Reserve and the European Central Bank. In the U.S., labor metrics continue to improve. In October, the unemployment rate reached 4.1% which is the lowest it's been since the end of 2000. Economists believe that the unemployment rates could dip below 4% headed into 2018. November payroll numbers and unemployment rates are scheduled to be released tomorrow morning. Current market consensus is that the positive trajectory will continue as unemployment rate is continued to hold steady and payrolls are expected to show net incremental growth of about 190,000 jobs.

As the employment picture and inflation continue positive momentum, the Fed remains cautiously optimistic that they can continue down the path of gradual and measured increases. In October the Fed started the program to normalize the balance sheet and reduce their money supply by reducing their security holdings. All indications are that this will continue into 2018.

Within the eurozone, the European Central Bank is also employing an accommodative monetary policy, however the eurozone is also dealing with negative interest rates. It does appear that market conditions are slowly by surely improving in the eurozone. Unemployment recently fell to the lowest level since January 2009. Wages are improving but at a much slower pace than anticipated. Inflation is also increasing at a slower than expected pace and still remains the ECB's 2% target. Expectations are that inflation will increase at 1.2% in 2018 and 1.5% in 2019. Indications are that the ECB will start to very slowly unwind their accommodative policy in 2018. In 2017 the ECB had continued a quantitative easing policy but had reduced the pace of asset purchases in recent months.

What is the current outlook on rates in the U.S. and how is that different from our experience over the past several years? Understanding where rates have been and where they're headed will help you get a clear picture of investment options and how you may want to position liquidity for your organization now and in the near future. So Fed fund projections are virtually unchanged from just a few months ago. On December 13 when the FOMC is scheduled to meet, it's largely expected that they will increase another 25 basis points, bringing the high range of the target Fed funds up to 150.

Just yesterday, the Wall Street Journal reported a recent survey of economists that 95% of those surveyed were expecting the increase next week while 58% expect a subsequent increase in March 2018. You can see that many economist projections, including PNC's own economic department, anticipate three 25 basis points hikes in 2018 and two more 25 basis point increase in 2019. For Fed funds, futures and outward months tend to be a bit more measured in their market projections. Jerome Powell, the recently appointed new Fed chair that will replace Janet Yellen early next year is not expected to deviate from the current Fed approach of consistent, measured increases.

It's interesting to note that a normalized environment is going to look vastly different this time around. When Fed funds lands north of 2% like it's expected to in 2019, it's thought we will reach a normalized or stabilized rate environment that's quite a departure from the last time we were in a normal rate environment. Prior to 2007 financial crisis, a normalized Fed funds environment was north of 5%.

So, how does this recent market performance contrast to the low sustained rate environment we started climbing out of at this time last year? Corporate cash levels still remain at all time highs. We continue to see headlines that corporates are hoarding cash. According to the AFP's third quarter corporate cash indicators survey, organizations continue even as rates have started to rise, to accumulate cash.

However, given labor market improvements and continued rising rates, that level of corporate cash is expected to taper off as institutions start to redeploy their cash. Towards the end of the flat rate environment there were rumblings of the potential for cash repatriation for those entities with trapped offshore cash. Pending tax reform may make that repatriation a reality and it could be expected that the cash will not sit on the sidelines long but to be used for things such as CapEx, dividend payouts, and stock buybacks.

A significant contrast is the rate environment and the relevance of short-term liquidity options. Prior to the Fed rate hike last September there were not plentiful relevant investment options for short-term cash. That supports the results from the AFP liquidity survey that I touched on earlier that showed the majority of corporate cash is found in bank deposits. Once not considered an investment alternative, many entities were optimizing their return in the low rate environment by keeping cash in bank checking accounts that provided an earnings credit to offset their fees. Now that we've experienced a few rate increases, there's renewed interest in other liquidity investment options.

And finally, financial regulation has introduced new and revamped liquidity options. Banks have created new liquidity offerings in response to regulation like Basel III liquidity coverage ratio and the SEC money fund reform which had institutional prime and municipal money funds adopting a floating new asset value.

In the flat rate environment there was not a variety of viable liquidity investment options. As such, it's no surprise that the predominant liquidity vehicle was bank deposits. However, as rates start to rise and you examine your short-term cash and investment needs of your organization, it's likely you're considering various liquidity alternatives. Recently there's been an increased focus on other alternatives such as individual securities, fixed income securities such as money funds, and professionally managed investment pools as higher rates create additional yield opportunities for your entity's short-term cash.

It’s certainly worth nothing how regulatory changes over the past few years have shaped banks’ view of corporate deposits. This is most notable for those banks with assets of $50 billion or greater that are subject to the Basel III liquidity coverage ratio or LCR. LCR places value on deposits based on behaviors and expected duration and assigns run off assumptions on those deposits given market stresses. Generally, banks place the most value on corporate deposits that are tied to an entity’s operating business. As such, banks subject to LCR are competing for these valuable deposits. Also creating an additional headwind for banks’ deposit gathering strategies are the myriad investing options that are become more attractive in this current rate and market environment.

The financial sector has found opportunities in this regulatory laden environment to reposition existing or create new short-term investments for corporations. It’s likely that you’re starting to consider these options for your entity’s liquidity. In 2011, Dodd-Frank brought about the repeal of Reg Q. Reg Q was a Depression Era regulation that prohibited banks from paying interest on corporate deposits. With the repeal of Reg Q, deposit types such as interest-bearing checking are now available to corporations. Many banks use the repeal to create a variation of a corporate checking. This variation which can be described as a hybrid checking provides earnings credit to offset fees like a traditional corporate analysis checking but it’s coupled with interest earnings on excess balances. With the availability of other checking options like the hybrid checking, this provides another passive liquid investment option besides the traditional bank investment suite.

In the previous slide, I briefly touched on the implications of LCR. Banks also use the limitation of LCR as an opportunity to create LCR friendly bank deposit products. In the past few years several banks have introduced variations of a deposit notice account that provides an evergreen daily renewal feature usually to a maturity period of 31 days. Clients wanting access to those funds provide notice to the bank and receive those funds at the 31-day maturity. In exchange for the notice provision, banks offer a market competitive return. From the banks’ perspective, the 31-day window provides LCR friendly categorization of those deposits.

An accelerated maturity CD is another LCR friendly variation of that notice product that provides clients a market competitive return in exchange for committing to a minimum deposit term and a 31-day notice of intent to withdraw the funds. LCR also causes other liquidity options to be less valuable to banks. One example is the repo sweep. Generally, banks do not receive favorable LCR treatment for funds swept to an overnight repo vehicle. Therefore, several banks took repo sweep out of their liquidity lineup.

Another opportunity for product evolution came with the advent of money fund reform. The aim of the reform was to create additional transparency and reduce risk in what were generally viewed as safe investment vehicles. In 2016, the SEC money fund reform took effect. A major impact of that reform is that it introduced floating net asset values for institutional prime and municipal money funds. As a result, other fixed income securities such as ultra-short bond funds have garnered the attention of corporate practitioners as it provides benefits of diversification, shorter maturities, higher yields, and less price volatility. It also opened the door for corporate practitioners to consider other investment vehicles such as separately managed accounts and exchange-traded funds to optimize yield, mitigate risk, provide diversification, and professional fund management.

So, given the evolving rate environment and the somewhat new regulatory landscape, what should you consider when it comes to creating or revising a liquidity strategy for your organization? This is when I turn it over to my colleague, Tim Satterfield, who will guide you through the investment policy considerations, cash segmentation strategies, and recommendations on how you can set an optimal strategy for your organization that takes advantage of shifting market conditions.

Tim Satterfield: Thank you, Allison. So, what does this mean for cash managers and treasurers? We'll go into more detail, but we'll look at investment policies they need to be review and update, we'll look at risk and return and how that has changed, we'll look at what allowable investments you want to have in your investment policy, based on some of the information Allison has provided. In addition, we're going to look at cash segmentation and what that means for your operating, reserve, and strategic cash.

As we prepare for these shifts in liquidity we have to remember that there are different events that we may not have seen in a while, especially in a low rate environment. The economy's improving, so you can't forget about capital expenditures, dividend payouts, mergers and acquisitions, and as Allison had mentioned, do you have funds overseas that you would want to repatriate back to the United States. As we look at that, it's a two-pronged approach because as you look at liquidity needs and rising rates, you have to recognize that on the lending side, lending rates are going up. So you have to take a look and decide on how much of your expenditures you're going to fund with existing capital and liquidity versus how much you're going to borrow from a lending relationship. And then finally we'll talk a little bit more about the reintroduced and emerging short-term investment products.

As we turn to the next slide, let's spend a little bit of time on investment policy. On the left side of the slide you'll see key elements of the policy, on the right side you'll see some potential changes. The investment objective has not changed. It's risk versus return. But your appetite for risk versus return may have changed. So, you do need to revisit that and determine what is the right fit in a rising rate environment.

As you look at risk tolerance, one of the new attributes, and we'll talk about this in some detail, is interest rate risk. In a flat rate environment, there's low potential risk in interest rate changes. As Allison mentioned, they're looking at a change next week potentially with the Federal Reserve and three additional changes in 2018. So how is your policy geared to handle the interest rate risk that's involved with that?

You look at interest rate risk, you look at time horizon, that means you're looking at short-term and longer-term investments. What's appropriate in this rate environment? As we look at reemerging and new products, you need to determine in your policy what's permissible from an investment type. You also need to look at asset allocation and based on your cash segmentation, how does that change? Finally, one of the things we probably didn't have a lot of emphasis on in the flat rate environment which has lasted about ten years, is investment performance metrics. So, how do you know if you're successful? Are your metrics saying your investment objectives are being met and they're meeting your investment strategies that you determined are important for a rising rate environment?

A couple other items I would mention is in a rising rate environment, we need to look at things like the floating net asset value, liquidity fees, and gates. This is new as Allison had mentioned with the changes in regulations related to money funds. How does your policy address that? Have you looked at whether you're going to except those investments or not? And if you are, are there triggers as to when you would get into the investment or when you would exit the investment?

As the first slide showed with the change in allocation, 50% or more of the deposits were with bank deposits was rising rates, the change in opportunities, how that allocation change as we move forward. Again, it's all about priority of risk and return. As we move to the next slide, this is a pictorial of cash segmentation. You're probably all familiar with daily operating cash, reserve cash, and strategic cash. What we need to focus on in a rising rate environment, is if there's an increased focus on yield, the spread between products will increase in a rising rate environment so you have to look at your earnings credit rate is probably not going to keep up with the Fed fund changes as quickly as something like a money market mutual fund or a money market account. So, as you allocate your funds across daily operating, reserve cash, and strategic cash, it is important that you have your forecasting and evaluations correct so that you can maximize the return on your investments.

If you look at this slide, as you go left to right, there's an increased focus on yield. If you go right to left, there's an increased focus on liquidity and safety. And that's based on which segment your deposits are in. If we look at daily operating cash, just to remind everyone, it's used for operations on a day to day basis. It's short-term. Your primary characteristic is safety. Typically, you passively manage it. You can see that by the products listed above. As I'd mentioned, checking, savings, money market, short-term CDs, maybe some offshore deposits. One of the items that would be more relevant today that wasn't relevant in a flat rate environment is maybe a sweep service. We'll get into more detail with that on another slide.

You go to the middle circle, reserve cash, typically for a duration of three months to one year, liquidity is a primary characteristic and in this space you may actively or passively manage the fund. And you'll see some additional options listed above, including short-term fixed income securities and money market mutual funds. And finally, as we get to strategic cash, this is cash that's for a particular purpose. It's usually for a one to two year duration. This is where yield is critical so that's usually your primary characteristic and typically you actively manage it. And you'll see products like separately managed accounts, ultra-short bond funds, and customized portfolios.

So, while we realize it's important to segregate your cash appropriately, what question should you be asking yourself? So, we turn to the next slide, you'll see that the areas that are highlighted in bold are probably unique in a rising rate environment, but we'll go from left to right on this slide. From a cash carry characteristic standpoint, nothing has changed. It's the same. When you look at cash characteristics, don't forget about seasonality, fluctuations in cash, and as we mentioned, these events we may not have seen in the recent past including capital expenditures, dividends, and mergers and acquisitions.

As we move to the middle of the slide, cash management styles, what's your current rate of return? Is that return matching the risk? And does it match up in a rising rate environment? Looking at your cash management style and determining what's appropriate, how familiar are you with the reemerging products or the new investment alternatives? From an investment policy risk tolerance standpoint, the big difference in this environment is what is your sensitivity to interest rate risk? How does this change your investment policy and your investment strategy?

Now that we've looked at cash segmentation and we've looked at some of the questions that you need to answer, let's turn to the next slide and talk about key things to consider. From a cash characteristic standpoint, it's critical that you know how much cash you need and when. From a style standpoint it could be active, passive, or outsourced. Or it could be all three. So, as you look at that segmentation, I might passively manage my operating cash. I might be active with my reserve cash. And I might outsource my strategic cash.

If you look at the three bullet points under these active, passive, and outsourced, these are the things to consider. First and foremost, do you have timing and staffing available to manage the portfolio? If you do, what level of sophistication does your company have? And then finally, what knowledge of investment alternatives does you and your staff have in order to make an appropriate decision? When we look at investment policy risk tolerance and tax status, it's all about risk, diversification, and tax implications.

Now that we've talked a little bit about the investment policy, we've talked about the importance of cash segmentation, let's take a look at the next slide and talk a little bit about products. Allison had talked about this on a previous slide with some of the products that are out there. What we've put in here today is some of the reemerging options which include investment sweeps, money market funds, separately managed accounts, and some evolving products including interest bearing, hybrid checking, ultra-short bond funds, private structures, and FNAV money market funds.

So, from an investment sweep standpoint, this is a product that's been around for a long time, hasn't gotten much traction in a short rate environment, becomes more attractive in a rising rate environment. And as you look at that, realize there are other investments when you're using a sweep product. So are you sweeping into a bank product? Are you sweeping offshore? Are you sweeping into a money fund? All three have different attributes.

From a government money market fund, it's reemerging because as the floating NAV went into place there was a lot of money that went into a government money market fund that is not subject to those regulations. From a separately managed account, this is where you're using a fund manager and they'll help provide more diversification.

I want to talk a little bit about evolving options. Allison touched on the interest bearing and hybrid checking so I won't repeat that. The hybrid has not had a lot of traction since it was introduced with the Dodd-Frank legislation. It becomes more attractive with a passive investor, especially on the operating funds in your portfolio. The advantage to ultra-short bond funds, they're higher yield and they're short duration, so they're a tool to help reduce interest rate risk.

Private structures, they've tried to mimic or look like money funds, but they don't have the fees and gates associated with them. The qualifier there is you need to qualify to be eligible to be part of the private structure. And then finally, what do you do with floating NAVs and money market funds? What do you do because the value of that fund can go up and down based on the floating net asset value.

As we talk through these revolving investments, introduction of new investment alternatives, when's the time to understand these, review these, make sure you know the pluses and minuses? The time is now. Don't wait until rates continue to go up to try to understand the different investment alternatives you have.

This afternoon we've talked about a lot of items. We've gone through what the market was like pre-rising rate. We talked about what the market looks like going forward. We've talked about looking at your investment strategy, looking at cash segmentation. We've talked about some new products that you need to have an understanding of.

So, let's go ahead and move to the last slide and we'll get to the name of our webinar for this morning, which was, Been There, Done That, Does Not Apply. A lot of folks, as the rates start to go up look and said, well, geez. In the 2005, 2006 era we had a rising rate environment. Let's see what we did back then and move forward. While this might be a guide to moving forward, realize that was a long time ago, realize we had about a ten-year section where rates did not rise. We've got employees that may not have been employed during the last rising rate environment. We've got new legislation that was not there and we've got new products available for investment.

So, what does that mean from a call to action? That means you need to revisit your investment policy. We spent some time on that. You need to review it annually. I would recommend if you have not looked at your investment policy in the last six months that you pull it out and start to review it. I think the thing to pay particular attention to is how does the policy address interest rate risk. We have not had that in a very long time. And as rates rise that becomes critical to a successful investment policy. And how are you going to handle these new and reemerging investment products?

Secondly, evaluate and recalibrate your cash segmentation. As I indicated, as rates rise, spread between yields is going to be different between those that are very short-term investments and those that are longer-term investments. So you want to make sure that you have your cash segregated appropriately because it does have a greater relevance and your cash segmentation can influence investment duration as well as the investment priorities. And those priorities have not changed. It will always be about liquidity, safety, and yield.

And finally, understand the solutions you will use and employ sufficient expertise. You always want to seek continued education and knowledge of short-term investments. If you need to, you can meet with investment and banking advisors. Now more than ever you want to pay attention to market conditions and rate conditions as you use your knowledge in investment strategies to employ an effective cash forecasting.

With that, I know we wanted to leave some time for Q&A, so I'll turn it back over to the moderator. Rico?

Riccardo Iacchetti: Great. Thanks, Tim. Thanks, Allison. We'd like to open up the session for questions now. So, as a reminder you can ask questions using the Q&A window located on your screen. If you do not see the Q&A window, simply click on the Q&A widget seen in the lower center portion of your screen. We're going to take our first question. What potential policy changes from the presidential administration could impact a corporate short-term investment strategy?

Allison Thellman: So, what seems to be two of the more notable areas of focus for the policy that's under consideration is revising the corporate tax rate. So, there's thoughts that the corporate tax rate would be pushed down from the current level of 35% somewhere to the range of 20% to 22% which I think will have a whole host of implications on how corporates and institutions think about how they manage and deploy their cash. Additionally, there's also some thought that there would be some I guess loosening up of some of the regulatory requirements. So, I know right now Congress is working on an act to potentially move those institutional prime and municipal funds back to a stable net asset value if they meet certain conditions. So at least I think from early indications those are probably two areas of focus that people should be paying close attention to which will have significant implications should they be implemented in the next year or two.

Tim Satterfield: Right. Allison, I would agree with that and look at it, the reasons behind those policies or what they're indicating is that it's to help increase capital expenditures grow jobs. So, if that truly does spark both of those, how does that impact your cash decisioning and what you're doing as a company? As we'd talked through some of these expenditures that you haven't seen in awhile may come into play. While it's not related specifically to taxes, we did talk about the repatriation of funds and we don't know where they're going to go with that yet but that could definitely have impact for those companies that have balances offshore.

Do we have another question?

Riccardo Iacchetti: Yes. We actually do. Thanks for that answer. In talking about the different kind of funds, one of the questions here, in relation to floating NAV funds, what exactly are fees and gates and why would a board of directors employ them?

Allison Thellman: Right. So, fees and gates were instituted for the institutional prime and municipal fund, to prevent a run on the funds much like what happened to the reserve fund pre-crisis when that fund broke the buck. So, a liquidity fee allows a fund's board of directors to institute a 2% fee on redemptions should the weekly liquid assets of a fund fall below 30%. Likewise, a gate is also another tool that was made available in the reform so that redemptions can be suspended for up to ten days should weekly liquid assets in a particular fund fall below 30%.

So again, those two tools were intended to ensure that there's not a run on the funds. I think this may cause some I guess conflict with some institutions' investment policies because if a primary consideration is liquidity and preservation of capital, even the possibility that a fee or gate could be implemented could be in direct conflict with an entity's investment policy. I think it's important to understand the implications that those tools are made available through the prime and municipal funds have on your investment policy.

Tim Satterfield: Yeah. I would agree, Allison. If you look at it, if you do make it part of your investment policy and it is an acceptable investment, what are the triggers that are going to make you determine whether you're going to put in or exit that investment vehicle.

Riccardo Iacchetti: Great. Thank you. Next question we have, does an increase in U.S. cash from potential repatriation of cash increase U.S. money supply materially? And would that have an impact on domestic interest rates?

Allison Thellman: That's an interesting question. So, I think the thought there is it may increase money supply in the short-term. But it's expected, should the cash be repatriated and be brought back on shore, that it probably won't take very long for institutions to redeploy that cash, whether it's reinvesting back in their company, dividend payouts, share buybacks. It may increase the money supply in the short-term, but I think a lot of people seem to think that won't have a longer-term.

Tim Satterfield: Right. So, as we look at that, there's about $3.5 trillion that's overseas or they've estimated. If you bring back $2 trillion of that, how do you spend that? And does it go into CapEx? Does it go into dividends? Does it go into M&A? All those things we talked about in the presentation. Allison, you're absolutely right. The consensus is it will be short-term. And when we say short-term, probably 12 months or less that it will be in the money supply. So while it might have a short-term impact, absolutely, it is not a long-term impact and it will be reutilized for other things.

Riccardo Iacchetti: Thank you. We have a few questions coming in. I'll take this one here. Are there solutions available for floating NAV requirements such as the ability to calculate the NAV in real-time or daily?

Allison Thellman: So, should your entity employ an investment portal, those investment portals should have the ability to allow you to view real-time net asset value, also set off certain parameters monitoring and compliance parameters so you can monitor the funds even that you're currently invested in or interested in so that if certain funds start to approach a weekly liquid asset level that you're not comfortable with, that you're alerted to that so you can make the appropriate shift in your investment policy. Again, if there's investment portals that you're utilizing, those portals should have the ability to do that kind of compliance monitoring to make sure you're watching the price as you're watching where those liquid assets are going to set up those thresholds that you're comfortable with and conform to your investment policy.

Tim Satterfield: This is a good question because I know as the banks look at this, a lot of the systems were not designed for a floating NAV or a fluctuation in the principle in these types of investments. So as you look at what tools are out there to monitor that, also look at your backend systems and what you use from an investment standpoint to be able to make sure they can handle a floating NAV.

Riccardo Iacchetti: Great. Thank you. One more question out here. So you talked a little bit about the pending legislation and reforms in the tax code. So the question here, if tax cuts occur, what is the propensity to investment both short-term and long-term. What impact will this have on the U.S. inflation rate and how corporates need to react to short-term and long-term investment?

Tim Satterfield: That's going to depend on the company, where they're at from a tax standpoint, and how much they're taking advantage of the things they were able to deduct to reduce their actual payable tax. Were they paying the RAC rate of 30% or 35% or was it being reduced by something else? So I don't know that there's a broad sweeping answer to that. It is going to vary by company depending on their tax situation, their liquidity, what their upcoming capital expenditures are and other expenses. And they have to weigh all those variables in order to determine how the tax changes impact them specifically and then based on that what will that do from an investment standpoint.

Riccardo Iacchetti: Just a reminder, if there are any other questions you'd like to submit, you can do so via text. I believe right now we've had our entire queue of questions answered. We do have one question that has come in. In regards to slide 4, where do you predict the biggest changes for 2018? For example, increases in floating NAV funds, government funds, et cetera. Let's take a chance to look at slide 4.

Allison Thellman: Rico, can you repeat that question? I wanted to make sure we brought slide 4 back up.

Riccardo Iacchetti: Okay. So we have slide 4 back up. So in regards to slide 4, where do you predict the biggest changes for 2018. For example, increases in floating NAV funds or government funds?

Allison Thellman: Yeah. That's a great question. So, I think there was a thought back when the money fund reform took effect that we would see initially outflows out of the prime and municipal funds and into the government funds, but then over time as rates started to rise that cash would move back into the floating NAV funds. So far there has been some cash but not to the extent that there was prior to the reform. So, some people still think there's an opportunity there for those funds to flow back into the floating NAV.

But if you took a look at the AFP liquidity survey that came out this year, there was a question that asked corporate practitioners how much of a rate differential between government and the floating NAV funds would there need to be for an entity to be comfortable investing in those floating NAV funds. And over half of the respondents said that it didn't matter how much of a differential there was, that they still were comfortable going back to prime funds.

So, I think we still may see a fair amount of activity going into the government funds. However, I think the thought is as rates continue to rise, as options become available, as it makes sense to start redeploying cash that we'll see some of that money flow out of bank deposits, that corporate cash won't be so heavily concentrated in the bank deposits.

Tim Satterfield: I would say if you look at the graph, if you look at 2016 compared to 2017, there's a little bit of a shift, but very little. And I think so you'll continue to see that shift but it's going to be gradual. You're not going to see a huge jump from one to the other. I think it will still be predominantly bank deposits. And Allison, you're right. With the floating NAV versus the government money funds, you saw a little bit of movement into the stable money funds once the fees and gates went into place. Over time, if there's not a lot of fluctuation in the floating net asset value, companies, individuals could get more comfortable with that. So they might lighten up their stance a little bit on those products versus the government money funds. But as Allison indicated with the AFP survey and what we're seeing as the companies are either staying out of them completely or if they're getting into them, they're comfortable with it. I think the other category might grow a little bit with the reemerging products, the new products that are out there. I think that's where you're going to see some movement is maybe from the bank sector into some of these other products. But time will tell. I don't know but I wouldn't expect a huge shift.

Riccardo Iacchetti: Great.

Tim Satterfield: Anybody else got questions for us?

Riccardo Iacchetti: It looks like we've just about wrapped up our question and answer session. But I want to thank you, Allison and Tim. That was a great presentation today and provided a lot of insight and perspective on how companies can prepare for a rising rate environment. We'd especially like to thank all of you for attending on the phone. I know there were a number of questions we couldn't get to, but our team will follow-up with your individually to make sure we address your questions. Just make a note that a PDF of today's presentation as well as a CTP certification credit is available for you to download from the green resource list file folder widget in the lower center portion of your screen. You'll also see a link to a short survey on your screen. Again, your feedback's important to us so we greatly appreciate your thoughts on today's topic and presenters. This concludes our presentation for today. Thank you for joining us.

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