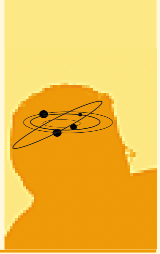

DIFFERENT USES OF CASH MANAGEMENT PRODUCTS

CASH MANAGEMENT CAN MEET THE NEEDS OF RETAIL AND INSTITUTIONAL INVESTORS

Retail investors use cash management products differently from institutional investors. Andrew Dickinson examines the various strategies that can be adopted

How have retail and institutional investors managed their cash over the last five years? Very differently, as their specific aims and needs mean that they employ very different approaches to asset allocation. Retail investors responded to the collapse of the equity markets in 2000 by cutting their losses and reallocating a significant proportion of those assets into cash products, such as money market funds. More recently, they have reallocated their assets back into equities as they have rediscovered their appetite for risk and have been discouraged by the low levels of yield currently offered by cash type products.

Institutional investors, such as corporates, found that cash became scarce as a consequence of the equity collapse in 2000 and therefore had little interest in cash management products. Subsequent corporate accounting scandals then forced companies to focus on repairing their balance sheets, with the result that they have become very cash rich.

In the US, cash on the balance sheets of companies in the S&P 500 at the end of the third quarter 2004 stood at $590bn (€480bn), up 126 per cent from the $261bn that they held at the end of 1999. Increasingly, companies have been seeking to manage this cash and achieve an optimal balance between liquidity, security and yield. As a result, liquidity products have seen significant recent inflows.

LIQUIDITY GROWTH

Chart one (see page 22) illustrates how, although investors have poured significant amounts of money into equity products, assets in cash management products (labelled as money market in the chart) have still grown as a result of liquidity fund growth.

What retail and institutional investors have in common is their need for liquidity and capital

'Liquidity products provide deposit based returns, a high degree of liquidity, stability of principal and give investors a fully diversified portfolio that a deposit with a single counterparty bank does not'
Andrew Dickinson, CSAM

Table one: the different characteristics of cash management products

	Liquidity Cash	Money Market	Enhanced Cash	Short Duration
Investment horizon	‹1 month	› 1 month	› 1 year	› 1 year
Average rating	AAA	› AA	› AA	› A
Average maturity	30 days	90 days	180 days	1.5 years
Target return	‹Libor	Libor + 0.25%	Libor + 0.40%	Libor + 0.75%

Source: Credit Suisse Asset Management

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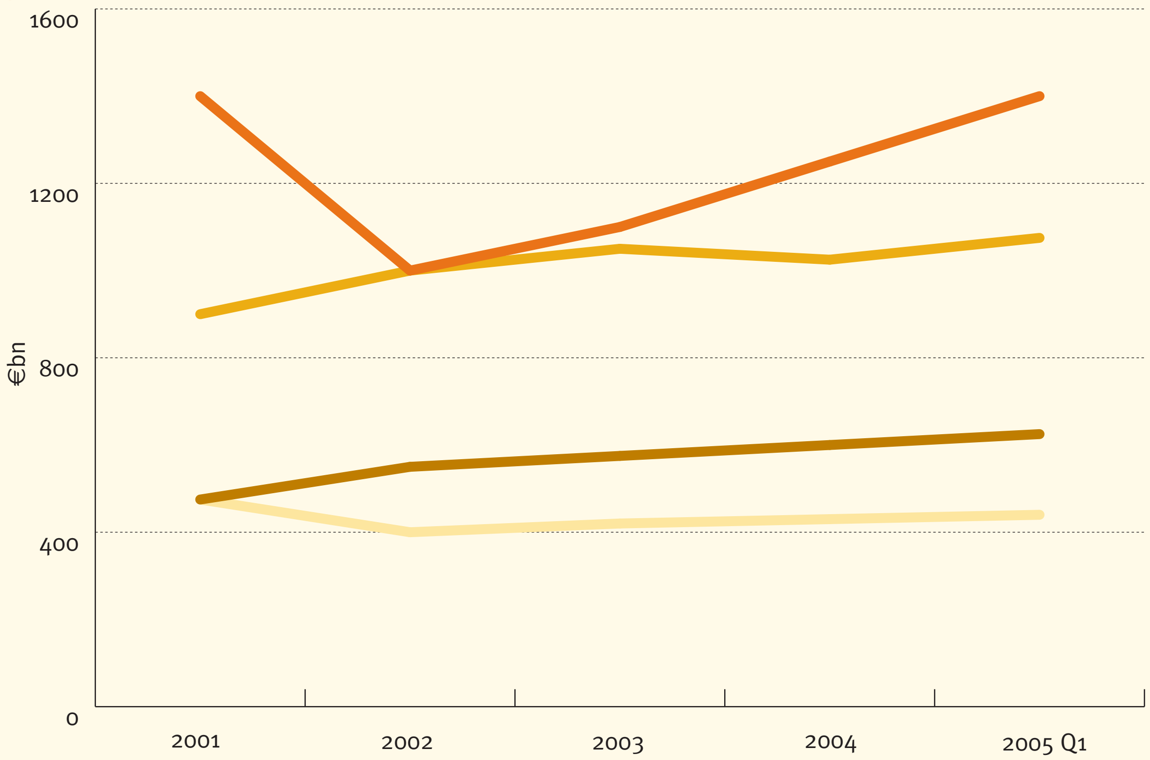
Recent trends in UCITS assets by investment type



Source: EFAMA Quarterly Statistical Release Number 21 (First Quarter of 2005)

preservation. Where they differ is the level of sophistication required in the management of their cash and the products that they typically use.

ENHANCING YIELD

Traditionally, retail investors have opted for money market funds to obtain a return greater than that available on deposit, while at the same time ensuring capital preservation. Institutional investors, on the other hand, are now increasingly using liquidity products to park their cash as well as using a range of money market, enhanced cash and short duration products to enhance their yield returns (see table one). Corporate treasurers, for example, are motivated by their need to balance operating cash and core cash requirements. Operating cash needs to be very easily accessible, as it is used to meet expected obligations, whereas core cash is generally used for future strategic purposes.

Table one shows the different characteristics of cash management products with each vehicle representing a gradual increase in risk and return.
All four products have capital preservation and liquidity as overriding objectives and seek to maintain a credit quality that is equal to or better than bank risk. However, they differ in terms of their ability to provide extra yield and time horizon required to achieve it.

Liquidity products have the lowest level of interest rate risk of the four product types and provide an alternative to bank deposits. They invest in bank deposits, and securities such as government bonds, commercial paper, certificates of deposit, short-term bonds, floating rate notes, asset and mortgage backed securities and repurchase agreements. They provide deposit based returns, a high degree of liquidity, stability of principal and give investors a fully diversified portfolio that a deposit with a single counterparty bank does not.

STABILITY

Given the need for such liquidity products, Credit Suisse Asset Management has recently launched a Luxembourg domiciled 'AAAm' rated fund, the Credit Suisse Premier Liquidity Fund (the 'AAAm' S&P rating is the highest given by S&P and denotes an 'extremely strong capacity to maintain principal stability and limit exposure to principal losses due to credit, market and/or liquidity risks').

Money market products offer a return above that available on deposit. They achieve a degree of yield enhancement by increasing both interest rate risk, with investment in fixed rate securities out to one year, and credit risk by investing in floating rate notes

Table two: historical risk/return analysis of US Treasury securities (31 Dec, '94 - 31 Dec, '04)

	Total return annualised (%)	Total return volatility (%)
3-month treasury	4.14	0.55
6-month treasury	4.38	0.60
1-year treasury	4.91	0.92
2-year treasury	5.55	1.90
3-year treasury	6.63	2.85
5-year treasury	6.96	4.67

Source: Merrill Lynch and Salomon Brothers Treasury Indexes total return calculations. Volatility is computed as annualised standard deviation of monthly returns.

'Cash products offer liquidity, safety of principal and the ability to enhance yield over and above that available on bank deposits'

(FRNs). That retail investors predominantly use money products, while institutional investors use liquidity products, can mostly be explained by the respective structures of the products and different investment horizons of the investors.

PARKING CASH

Retail investors view investments in money market funds as a part of their asset allocation decision, with an investment horizon of several years. Liquidity products, however, are seen by institutional investors as a means of parking cash in the short-term. They have same day trading and generally have a rating such as AAAm from Standard & Poor's. They are also monitored by rating agencies to ensure that weighted average maturity (duration) does not exceed a specified number of days, typically 60, and have a minimum investment level geared towards institutional investors.

Enhanced cash funds offer yields above those of money market products by assuming greater interest rate risk via a longer investment horizon, typically approaching one year. Finally, short duration products embrace the very short end of the bond market. They are suitable for investors who have an investment horizon of three years or longer and are comfortable with the possibility of absolute negative returns for short periods of time.

As alluded to in the descriptions of the products above, yield enhancement can be achieved primarily by extending duration, and also by adding some credit exposure. For many investors, even extending the duration of the portfolios to one year can provide a substantial yield enhancement without adding significant volatility.

The yield advantage gained is the result of money market mutual funds not being able to invest in cash securities longer than 13 months. There is therefore less demand for these securities and so they benefit from more favourable pricing. Table two shows the potential benefits of extending duration by comparing the historical risk/return of different types of US Treasury securities.

Increasing the level of sophistication, a corporate treasurer could pursue a duration-focused allocation strategy. This would involve projecting the time horizon for a company's cash needs and developing tiered portfolios, with holding periods based on the availability of reserves. Such a strategy would help reduce the constraints of investing in longer duration securities, as the investment's maturity would be timed to coincide with the need for future liquidity.

SAFE HAVEN

In summary, cash products offer liquidity, safety of principal and the ability to enhance yield over and above that available on bank deposits. Liquidity products are specifically designed for institutional investors seeking to manage their operating cash needs, whereas money market funds are designed to offer a safe haven for all investors in uncertain markets. Enhanced core and short duration funds offer both retail and institutional investors enhanced yield for a commensurately little extra volatility.

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CORPORATE STATEMENT

Credit Suisse Asset Management (CSAM) is a leading global asset manager focusing on institutional, mutual fund and private client investors, providing investment products and portfolio advice in three regions (Americas, Asia-Pacific and Europe) around the world. CSAM has $327.8bn of global assets under management and employs 1,911 people worldwide as of 30 June 2005.