Liquidity solutions
Cash was king, until rivals stole the crown

Investors stand to benefit by moving away from holding cash. There are plenty of upsides including investment yield (return), stability and liquidity.

Corporate investors can leverage on new products to make their cash work harder. Read here to learn about the different solutions to optimise your working capital.

What are the drawbacks to placing all reserve cash into the same basket?

A one-size fits all approach restricts one's options and places limits on the investing vehicles available which have become more diverse in this new environment.

Why should cash accounts be segmented?

Cash within a company is deployed for a variety of functions, this broadly encompasses operating cash, reserves and cash deployed for strategic purposes. For instance, since operating funds are generally required to be more readily accessible, this account can be invested in highly liquid vehicles that are quickly exchanged into cash for transacting purposes. Cash for strategic purposes can be invested over a longer time horizon as companies often keep this account as a buffer. Hence, corporates can benefit from a nuanced approach to segment the solutions required for each function.

What are the considerations in managing cash accounts?

1. Preservation, that is, the primary goal of loss prevention.
2. Gains, with yield (return) targets defined
3. Risk diversification
4. Segmentation, where cash is directed toward specific investment vehicles
5. Flexibility, when it comes to goals

What are the popular products designed for cash management?

- Money market funds
- Short duration bond funds

Both money market funds and short duration bond funds aid in diversifying investors' cash portfolio. Additionally, holdings in the funds have high credit ratings. The higher the ratings, the more likely it is that the issuer will have no issue in making payment obligations of the bond.

What are money market funds?

The investment objective of a money market fund is to provide preservation of the principal amount by investing in a diversified portfolio of high-quality, short-dated money market instruments and bonds. These are highly liquid and quite often, enhance returns on overall operating cash balances.

Suited for corporates that:

- Seek capital preservation
- Seek immediate liquidity[1]
- Prioritise or require highly rated investments in their cash portfolio

[1] Up to T+3 redemption

What are short duration bond funds?

These are regular unit trusts that invest into longer dated investment grade securities. Against money market funds, they often have a wider underlying credit risk profile range. Compared to their peers (e.g. high yield) on the fixed income funds spectrum, short duration bond funds are of a more conservative investing profile.

Suited for corporates that:

- Seek conservative levels of investment income
- Can wait out a longer timeframe for redemption of monies

What investment metrics do investors look for when assessing liquidity solution products?

Typically, investors look at a track record of performance which includes credit rating, yield-to-maturity and duration.

A credit rating refers to the credit worthiness of the issuer of bonds (within the fund) to meet its payment obligations. Bonds are usually rated by these 3 credit rating agencies: Moody's, Standard and Poor's, and Fitch. Similarly, the average credit rating of a portfolio can be an indication of how much safe or risky bonds the portfolio is investing into. The higher the ratings, the more likely it is that the issuer will have no issue in making payment obligations of the bond. Bonds rated AAA to Baa3 are referred to as Investment Grade bonds while bonds rated Baa1/BB+ and below are known as Non-Investment Grade or High Yield bonds.

Generally, the lower a bond's credit rating, the more risky it is deemed. Therefore, investors will usually require a higher rate of return for lower-rated bonds and a lower rate of return for higher-rated bonds. The higher the ratings, the more likely it is that the issuer will have no issue in making payment obligations of the bond.

Yield-to-maturity (YTM) is the total yield you would get from a bond or a portfolio of bonds upon holding until maturity. Since YTM is expressed as an annual rate regardless of a bond's time to maturity, it can be used to compare bonds with different maturities and coupons since YTM expresses bonds in the same annual terms.

Duration measures the sensitivity of the strategy/portfolio to a change in interest rates and is expressed as number of years. For example, a strategy with a high duration would be more exposed to interest rate changes as opposed to a strategy with lower overall duration. Duration is also known to be inversely related to bond valuation.

UOBAM liquidity solutions product suite

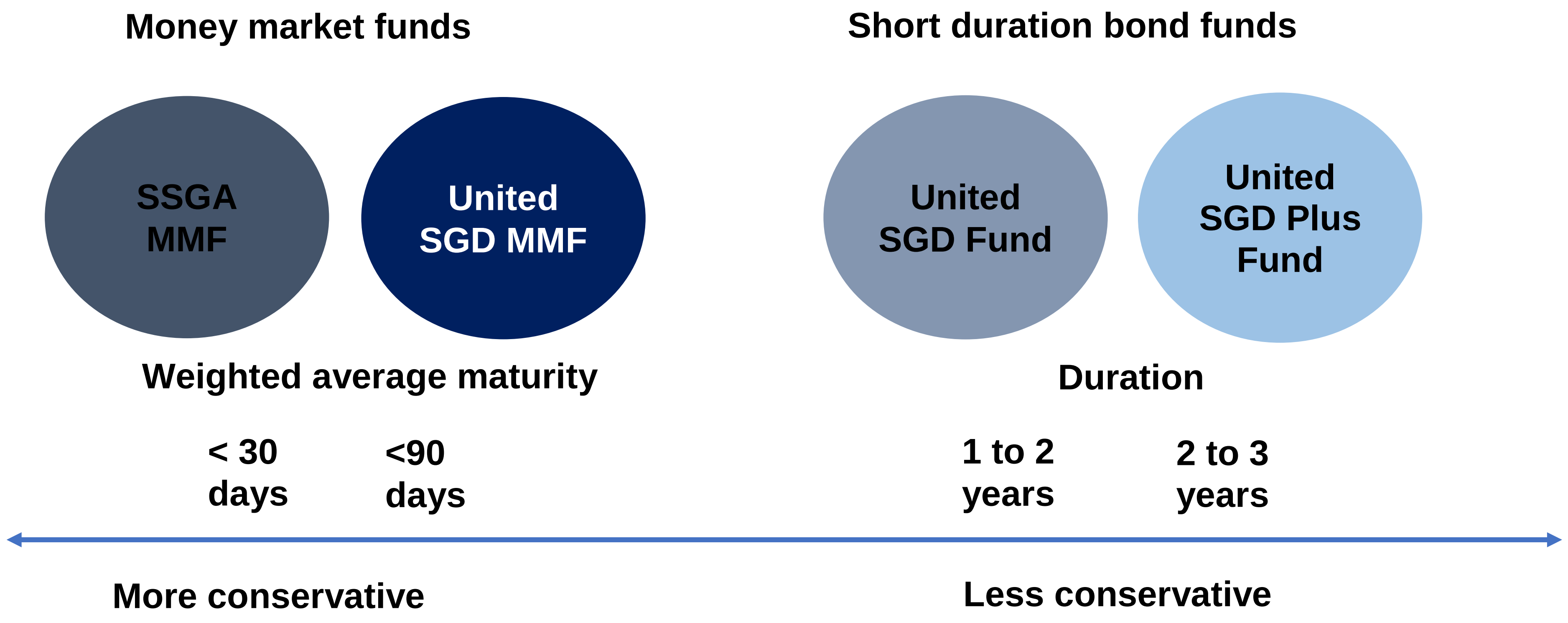
The funds offered under liquidity solutions mainly invest into investment grade bonds with high credit ratings, which hold the likelihood of lower defaults and are less volatile. This helps to insulate the funds from major market corrections and crises. Foreign currency exposures are hedged back to the Singapore dollar to minimise uncertainties from currency fluctuations.

The table summarises the options available based on the credit rating, yield to maturity and duration of the respective portfolio and funds.

Product	Category	Suitability	Credit Rating	Yield to maturity	Duration
State Street Global Advisors (SSGA) MMF	Money market Fund (MMF)	Investors looking for principal protection, guaranteed yields and participation in fund performance	AAA	2.51 % (30 days)	76 days
United SGD MMF	Money market fund	Investors looking for returns comparable to fixed deposit rates in a fund which they can easily inject in to/withdraw out of	A+	3.03%	0.30 years
United SGD Fund	Short duration bond fund	Investors looking for capital preservation	BBB+	4.27%	1.63 Years
United SGD Plus Fund	Short duration bond fund	Investors looking for stable and consistent returns	BBB-	5.97%	2.01 years

Source: UOBAM, SSGA, end March 2019

Spectrum comparison



Award-winning expertise

The funds under liquidity solutions are managed from a team led by an award-winning fund manager[2]. The United SGD Fund is also the flagship fund of UOB Asset Management and has also won multiple accolades. Contact your UOBAM representative to learn more about the different liquidity solutions in optimising your working capital.

[2] Manager of the Year (Asia Fixed Income) at the Benchmark Fund of the Year Awards 2017 and 2018. Please refer to our website for a full list of awards.

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