

The New Liquidity Landscape

Ideas for Your Investment Guidelines

Varied regulatory impacts caused by Basel III, Money Market (2a-7) Rule changes, Dodd-Frank, and the supply/demand dynamics for high-quality securities suggest that it may be time to review your investment guidelines. This review will allow you to re-evaluate whether your current cash management options fully reflect investment considerations available today and in the near future. In some cases, no investment policy changes will be required, but a closer look may reveal additional investment opportunities and possible language revisions.

We offer some ideas for consideration below that are designed to highlight general investment policy content to revise along with the various short-term investment products and the concept of defining your liquidity “buckets” with an active segmentation strategy by tiering your short-term investments based on current and forecasted cash requirements.

General Investment Policy Considerations

- Make sure your investment policy is broad enough to incorporate the new money market fund classifications and operational requirements. Existing policies may need revisions to include language that allows for floating NAVs or direct securities, money market mutual funds, short duration mutual funds, private funds and/or short duration separate accounts.
- Accredited investors and qualified purchasers may want to consider adding the use of a private fund(s).
- A tiered investment approach may allow you to subscribe to a specific objective for each “liquidity bucket” (see illustration on tiering cash).
- Is a National Recognized Statistical Ratings Organization (NRSRO) a requirement for you to assess the investment suitability of your cash investments? If so, you may want the investment policy to include the requirement without a reference to a specific NRSRO to provide greater investment flexibility.
- Are you currently in dialogue with your bank(s) relative to their appetite for deposits? What are their plans in the short and long-term for deposits and anticipated Earnings Credit Rate (ECR) rates?
- Are there assets that require access to non-U.S. dollar currencies?

Investment Policy Language

Considerations for Cash Management Products

Cash Management Solution	Samples of Existing Investment Policy Language	Proposed Revisions to Investment Policy Language	Benefits of Amendment
Domestic Money Market Funds	Money market mutual funds that seek to maintain a constant net asset value, or money market funds	Institutional prime, government and municipal money market funds that are subject to Rule 2a-7 of the Investment Company Act of 1940 as amended from time to time.	Allows cash investments into a broader range of vehicles – gives you the most flexibility in a range of economic cycles.
Offshore Money Market Funds	You may currently have them listed by currency or in US Dollars	TBD — post reform updates as they evolve.	
Private Funds	Some investment policies do not specifically address these funds.	Private funds that have specific limits regarding the maximum duration, credit quality and whose underlying securities meet your investment guidelines.	Allowing investment in unregistered vehicles provides an opportunity to take advantage of funds that may offer daily liquidity, that strive to maintain a \$1.00 NAV and offer portfolio diversification in a professionally managed pool.
Ultra Short Income Mutual Funds	Ultra-Short Bond mutual funds.	Ultra-short bond funds that limit duration to ___ years, have a maximum average weighted maturity of ___ days and have a minimum credit rating of _____.	This language encourages you to define and understand the fund’s risk profile. This requires the support of your firm to embrace a “total return” philosophy on your investment.
Separately Managed Accounts	Some investment policies do not include these. In the event that you tier your cash, they may provide additional control and potential performance based upon your goals and risk appetite.	Please see an illustration of a checklist below. This tool provides you with a quick way to review your risk, duration, and credit tolerations.	Allows for strategic investing based on your cash flow and liquidity needs. Increases your control since the account is invested based upon your specific investment guidelines and criteria.

Investment Policy Guidelines for Liquidity Management

Considerations When Evaluating Your Investment Policy Statement

The below checklist is intended to provide a framework to assist you in consultation with your counsel in developing and drafting an investment policy statement. This checklist is provided for informational and discussion purposes only.

Goal of every IPS should be to maximize investment returns while ensuring safety of principal and providing sufficient liquidity

Determine available cash balances

Tiers of cash — think about your cash in a new way

- Operating Cash — basic daily cash flows (highly liquid)
- Core Cash — medium or longer term needs (moderate liquidity)
- Strategic Cash — focus on buy-and-hold strategy (minimal liquidity)

Allowable investments to consider

- Constant NAV MMF
- Floating NAV MMF
- Offshore Money Market Funds
- Private Placement
- Separately Managed Accounts
- Ultra-Short Income Mutual Funds
- Deposit Products
- Self-Directed Fixed Income Securities
- Time Deposits
- Third-Party Time Deposits
- Collateralized Agency Repos
- Trade Execution
- U.S. Treasuries
- Government Agencies
- Commercial Paper — Domestic Issuers
- Commercial Paper — Foreign Issuers
- Corporate Securities
- Repurchase Agreements
- Commingled Funds
- ABCP

Investment restrictions

Credit and quality guidelines

Percentage Exposure Limitations

- Corporate
- Financial Institutions
- Pooled Product

Maturity

Average weighted maturity

Duration

NRSRO

- Standard & Poor's
- Moody's Investors Service
- Fitch

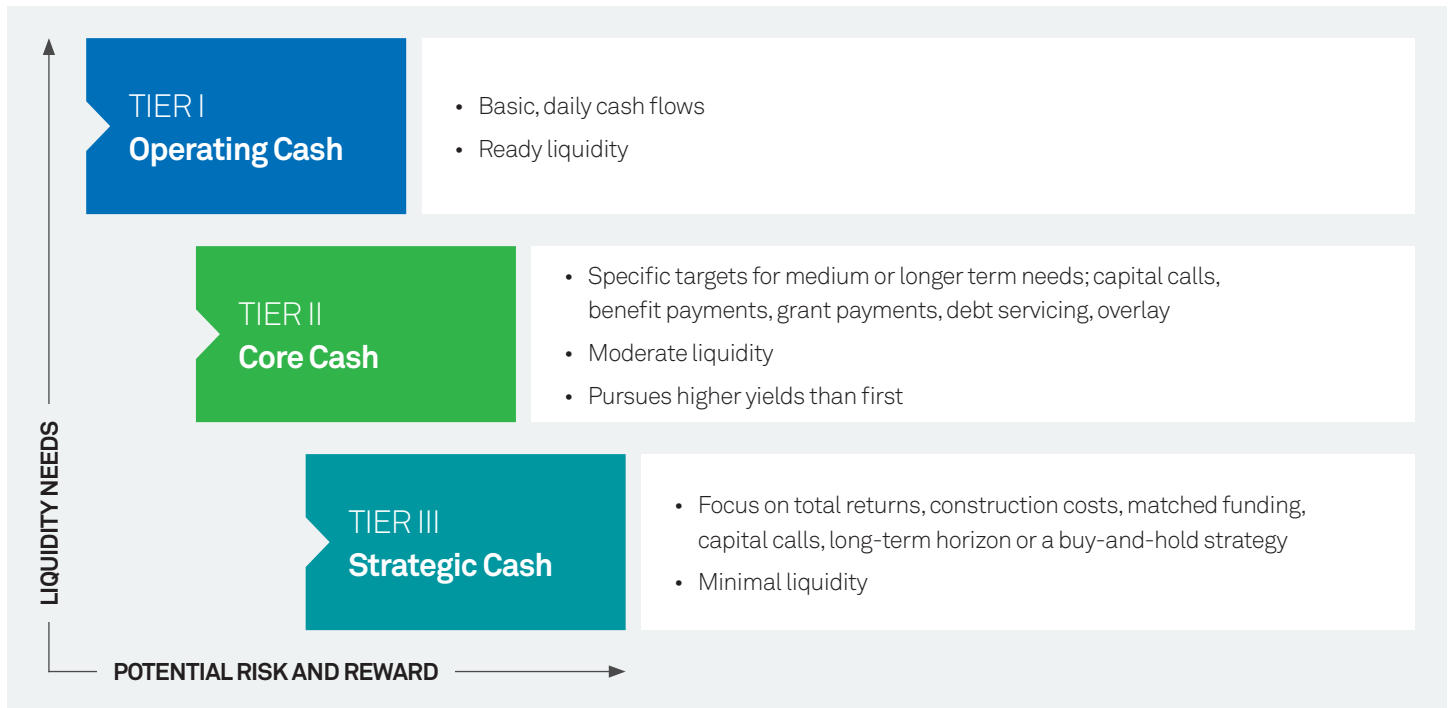
NAIC

Identify employees authorized to make short-term investment decisions

Glossary of investment terminology

Given the current cash management environment, institutional investors should be rethinking how to manage their cash. BNY Mellon Fixed Income Solutions offers a diverse set of products that may improve income and/or return potential across the spectrum of available cash pools — and with a lower risk profile than might be expected.

Creating an account plan using a “tiered” investment strategy can help break down your inventory of domestic and global cash to provide the necessary liquidity and income potential for your overall portfolio



THINGS TO CONSIDER

Assessment of risk tolerance

- Time horizon
- Amortized cost vs. marked-to-market
- Scenario analysis

Assessment of liquidity needs

- Frequency
- Amounts
- Circumstances

Balancing risk tolerance and investment flexibility will be the key to putting your cash to work. Is it time to optimize and update your investment policies?

If you have any questions regarding the above or if you need sales information, please reach out to your BNY Mellon Fixed Income Sales Representative.

Short-term corporate, asset-backed and municipal securities holdings (where applicable), while rated in the highest rating category by one or more NRSRO (or if an unrated municipal, deemed of comparable quality by Dreyfus), involve additional credit and liquidity risks and risk of principal loss.

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