



ENHANCED CASH

How to Position Cash Post Fed Pivot

APRIL 10, 2024



TODAY'S SPEAKERS



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TABLE SETTING

DEFINITIONS,
SEGMENTATION,
WHY NOW



Operating reserves
are unrestricted
funds that are set
aside to provide
“rainy day savings”
for unexpected cash
flow shortages,
expenses, or losses.¹

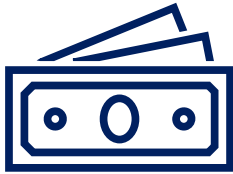


¹Propel Nonprofits

CASH SEGMENTATION FRAMEWORK

OPERATING RESERVES

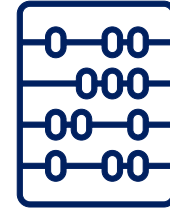
Divide cash holdings into distinct segments based on their intended purpose or time horizon.



**OPERATING
CASH**

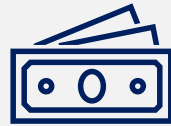


**ENHANCED
CASH**



**SHORT-TERM
CASH**

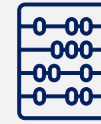
DEFINING CASH SEGMENTATION



CASH



ENHANCED CASH



SHORT-TERM



TIME FRAME

0 – 3 months

3 – 12 months

1 – 3 years

PURPOSE

Support Operating Needs

Acquisitions / stock repurchase

Cash not historically used

LIQUIDITY

Daily

Limited

Limited

RISK / RETURN

Little to no principal loss /
credit risk
Low return potential

Limited principal loss
Better-than-cash earning potential

Small risk of principal loss
Better-than-enhanced-cash
earning potential

**INVESTMENT
VEHICLE**

Cash Only
Checking account sweeps
Money Market Funds

Expand from Cash
Treasuries
and short-duration Fixed Income

Expand from Enhanced Cash
Include government and
corporate securities

Source: FEG.

WHY ENHANCED CASH NOW?

1

**CURRENT RETURN
EXPECTATIONS**

2

**POTENTIALLY LOWER
COSTS FOR
ENHANCED CASH**

3

**BENEFIT OF
“INSURANCE”**

WHY ENHANCED CASH NOW?

1

CURRENT RETURN EXPECTATIONS

2

POTENTIALLY LOWER COSTS FOR ENHANCED CASH

3

BENEFIT OF “INSURANCE”

ENHANCED CASH DYNAMICALLY MANAGED EXAMPLE

U.S. TREASURIES	WEIGHT	YTM(%) ²	CONTRIBUTION (%)
3 month	30%	5.26%	1.578%
6 month	30%	5.28%	1.584%
9 month	15%	5.12%	0.768%
12 month	15%	4.94%	0.741%
18 month	10%	4.40%	0.440%

TOTAL YTM

5.11%

MONEY MARKET FUND (SCOXX) EXAMPLE

MMF	WEIGHT	YTM (%) ¹	CONTRIBUTION (%)
SCOXX	100%	4.95%	4.95%

TOTAL YTM

4.95%

¹ Source: SCOXX 7-day yield, Schwab, as of 4/2/2024.

² Treasuries ranging from 1-month to 2-years, as of 4/2/2024.

WHY ENHANCED CASH NOW?

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FOR ENHANCED CASH

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BENEFIT OF
“INSURANCE”

Money Market ¹	Treasuries – Actively Managed ²	ETFs - Passive	Active Managed Funds
0.10% - 0.35%	0.10% - 0.18%	0.07% - 0.12%	0.25% – 0.49%

¹ Source: Schwab, as of 4/2/2024.

² Treasuries – as of 4/2/2024.

WHY ENHANCED CASH NOW?

1

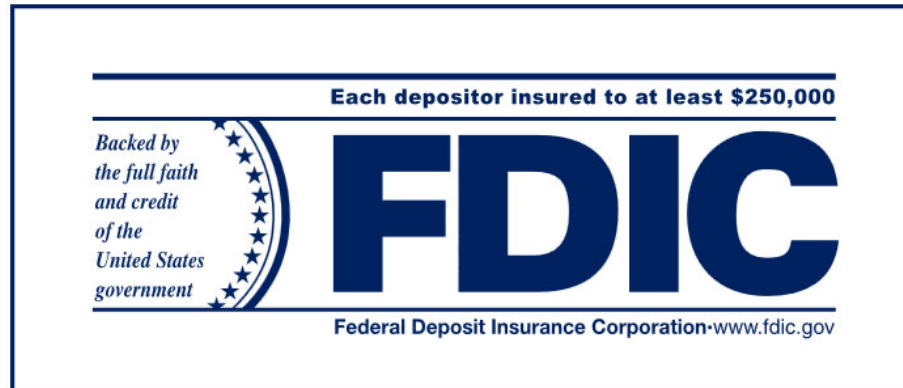
CURRENT RETURN
EXPECTATIONS

2

POTENTIALLY LOWER COSTS
FOR ENHANCED CASH

3

BENEFIT OF
“INSURANCE”



CASH SEGMENTATION CASE STUDY

BACKGROUND

A hospital foundation had \$260 million in operating reserves with the returns from a bank sweep program.

PROBLEM

1. There was significantly more funds in this account than needed for operations, generating limited upside returns.
2. All funds above the \$250,000 FDIC minimum were uninsured.

SOLUTION

- Develop a cash segmentation strategy, defining a minimum needed in operating cash (\$40 million) and earmarking the rest for 6 months – 3 year spending needs.
- Created an enhanced cash portfolio which was 100% treasuries, comprised of funds, and laddered T-bills.

RESULTS

Within the first year of the initial (partial) deposit, the account generated approximately \$10M in additional revenue. \$230 million now has the full guarantee of the U.S. Government.

Note: Schwab bank account sweep (into other bank account) yields 0.48% annually right now. (Can be higher if you do a money “fund” sweep – SWGXX yields 4.96%)

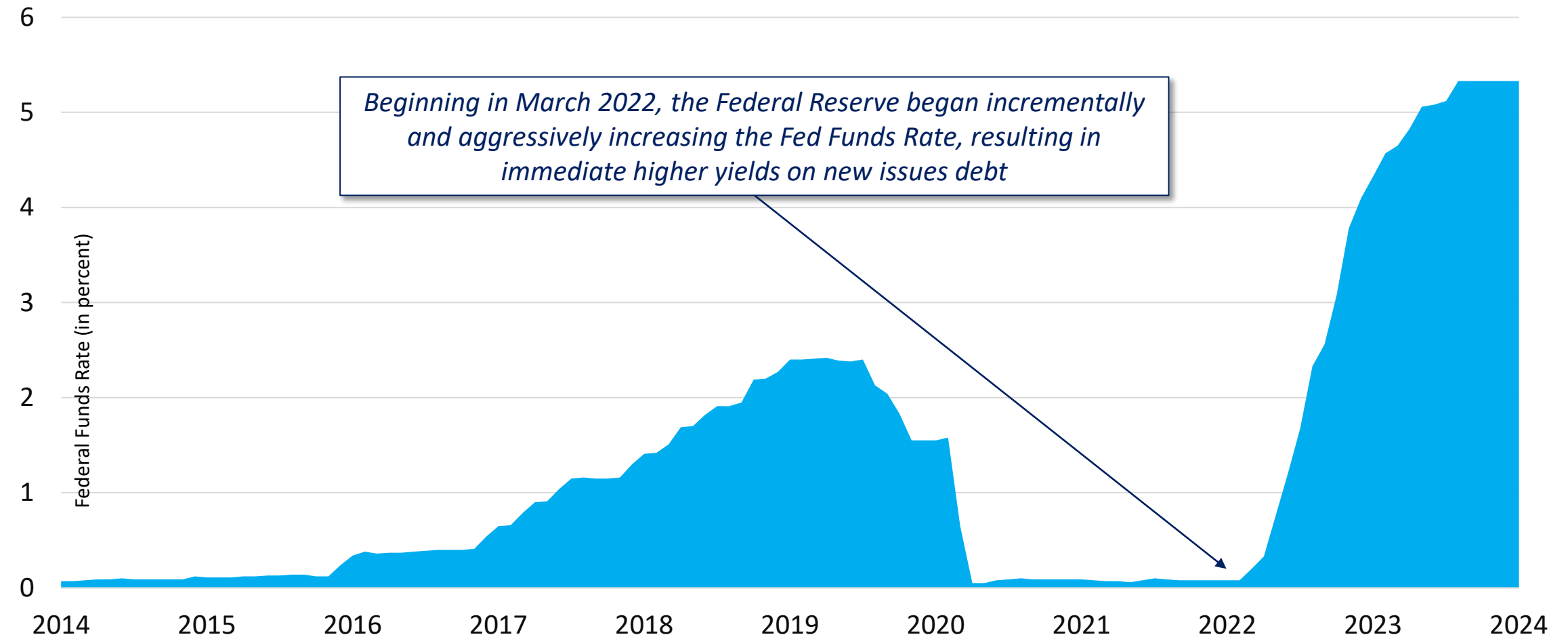
The purpose of the case study is to illustrate the investment process, asset allocation and analysis done by FEG. This case study has been used for that purpose only. Actual client portfolios will typically contain different investments and analyses than the case study sets forth, and accordingly, the case study should not be viewed as an indication of overall past or future portfolio performance.

ENHANCED CASH OPPORTUNITIES



Federal Funds Rate – Past 10 Years

FEDERAL FUNDS RATE



Source: St. Louis Federal Reserve; data as of January 2024.

1Q 2024

FED PIVOT, SHORT
MATURITY / CASH
OPPORTUNITIES &
FIXED INCOME MARKET
OUTLOOK

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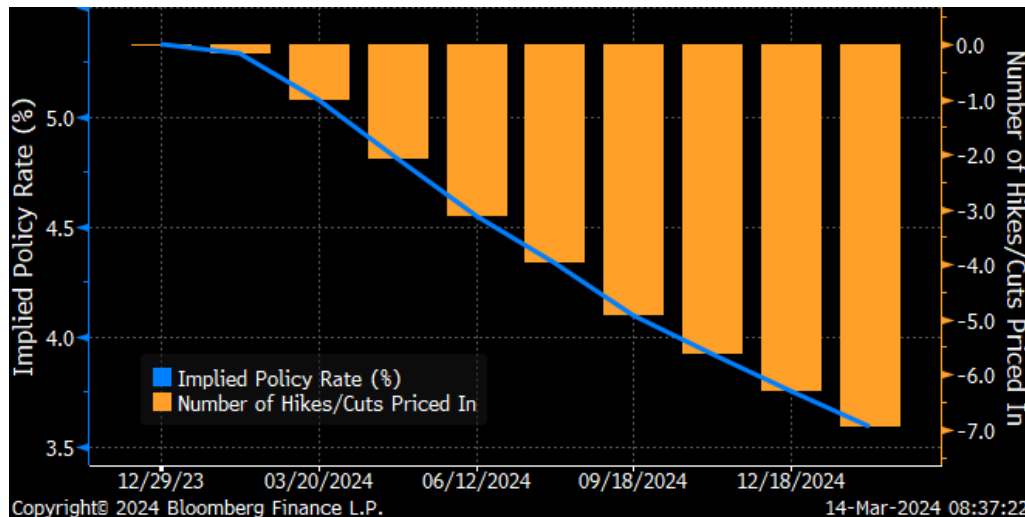
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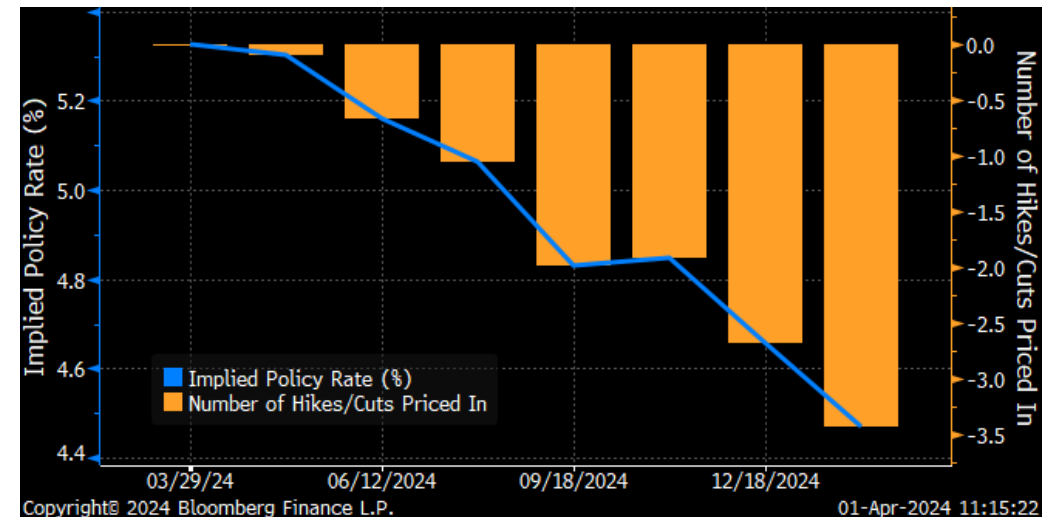
FEDERAL RESERVE PIVOT – ARE FED FUNDS CUTS ON THE HORIZON?

- ❑ The Fed’s dovish-shift, in late 2023, was reflected in investor’s belief that the Fed will ultimately achieve a ‘soft landing’ for the economy.
- ❑ At year-end 2023, the Fed Fund Futures market was pricing in 7 rate cuts in 2024.
- ❑ However, recent Core Consumer Price Index data continues to post strong readings – up 3.8% YOY as of February 2024.
- ❑ The Fed’s preferred measure, Personal Consumption Expenditures, remains well above their 2% target.

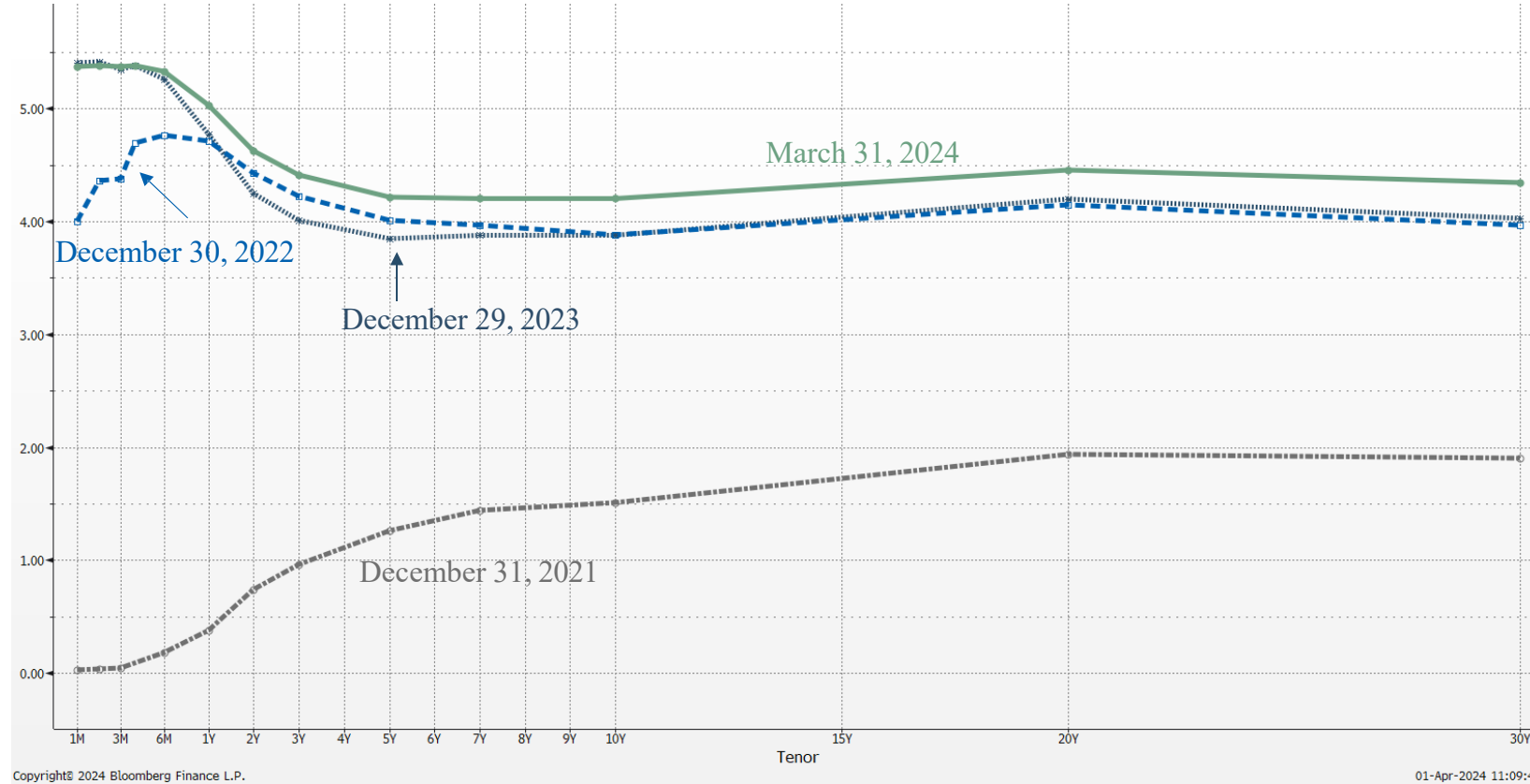
Fed Funds Futures as of December 29, 2023



Fed Funds Futures as of March 31, 2024



BOND MARKET – U.S. TREASURY YIELD CURVE

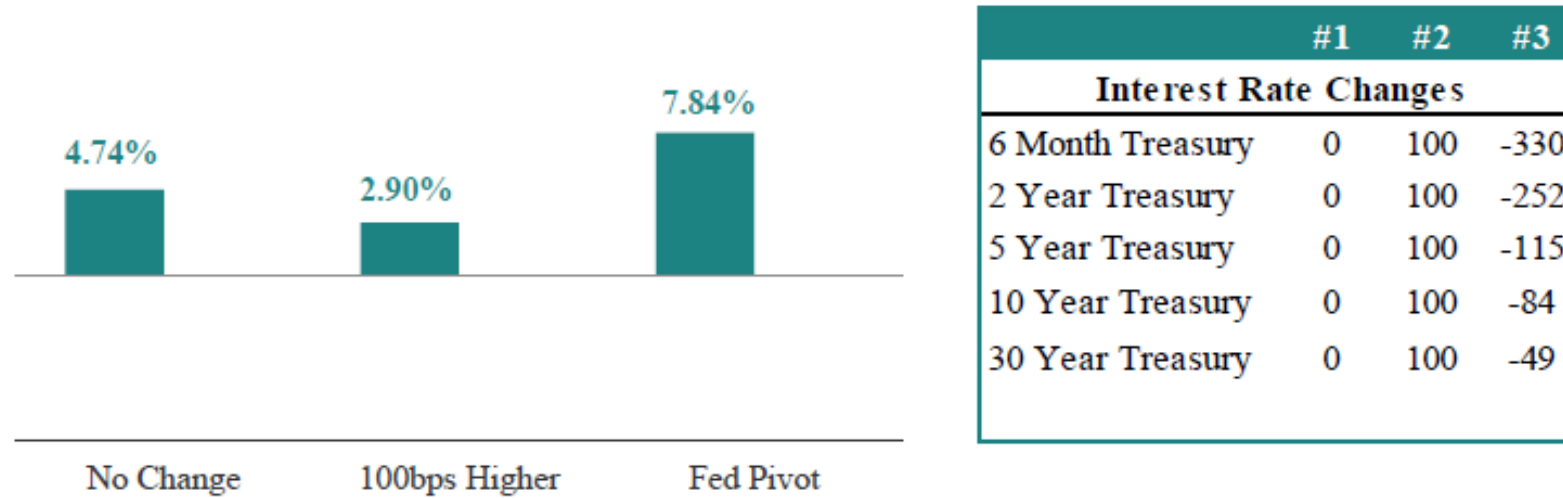


Maturity	31-Dec-22	30-Jun-23	31-Dec-23	31-Mar-24	2023 Change	4Q23 Change	1Q24 Change
2 Yr. Treasury	4.43%	4.90%	4.25%	4.62%	-0.18%	-0.80%	0.37%
5 Yr. Treasury	4.01%	4.16%	3.85%	4.21%	-0.16%	-0.76%	0.37%
10 Yr. Treasury	3.88%	3.84%	3.88%	4.20%	0.00%	-0.69%	0.32%
30 Yr. Treasury	3.97%	3.86%	4.03%	4.34%	0.06%	-0.67%	0.32%



Source: Bloomberg, Data as of March 31, 2024

One Year Total Return Projections as of March 31, 2024



	#1	#2	#3
Interest Rate Changes			
6 Month Treasury	0	100	-330
2 Year Treasury	0	100	-252
5 Year Treasury	0	100	-115
10 Year Treasury	0	100	-84
30 Year Treasury	0	100	-49

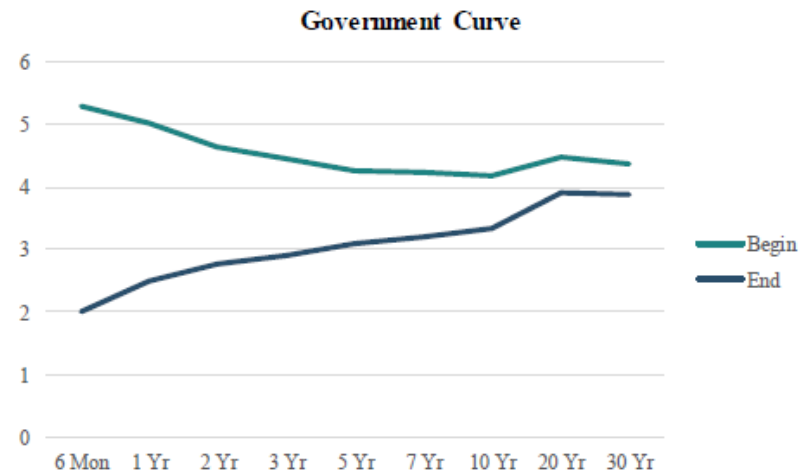
Three Scenarios for the 1-3yr U.S. Treasury Yield Index

- ❑ Yield-to-Maturity: 4.68%
- ❑ Effective Duration: 1.87 Years
- ❑ Scenario #1: Yields left unchanged.
- ❑ Scenario #2: 100 basis point (bp) parallel shift upward in rates (entire yield curve).
- ❑ Scenario #3: Fed Pivot; yields fall half-way to average level of 2008-2019.

ACTUAL CLIENT PORTFOLIO – FED RATE CUT/RECESSION SCENARIO

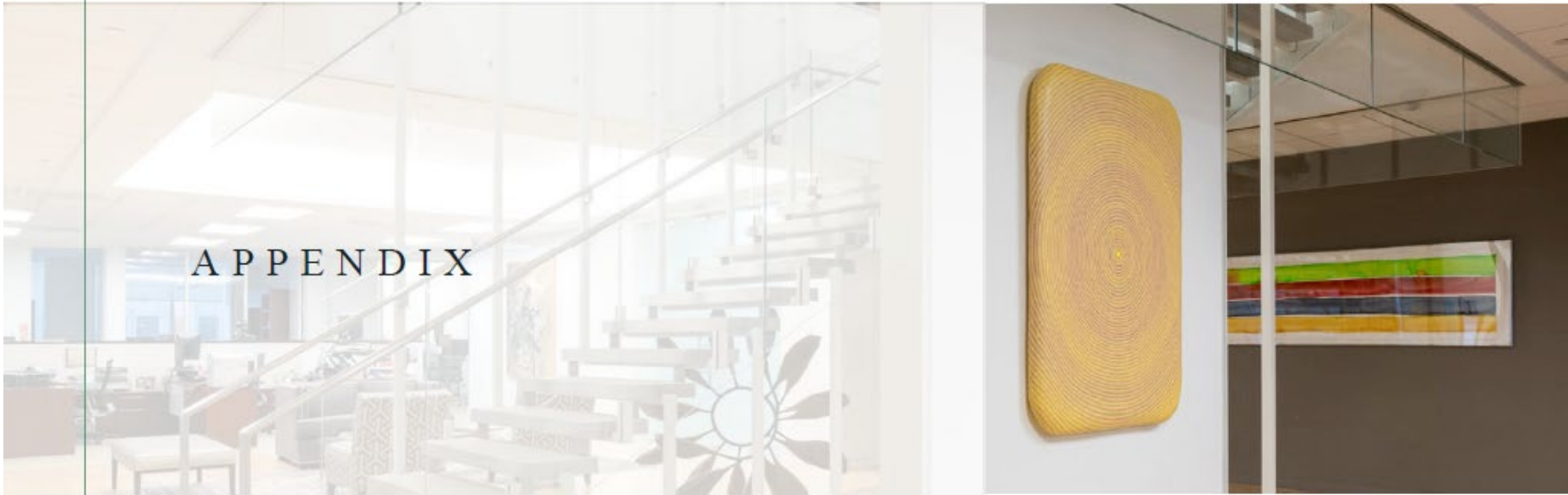
- ❑ Multiple Fed rate cuts; Yields fall half-way to 2008-2019 average.
- ❑ Credit spreads widen 102bps; half-way to 2020 wides.
- ❑ Year 1: Strategy owns 80% 1-3yr Treasury Index and 20% 1-3yr Corp.
- ❑ Year 2-3: Hold 80% 1-3yr Corp. and 20% 1-3yr Treasury.
- ❑ 1-3yr. Corp spreads tighten to recover half of Year 1 losses.

TSY	Begin	End	BP Chng
6 Mon	5.30	2.00	-330
1 Yr	5.02	2.50	-252
2 Yr	4.65	2.78	-187
3 Yr	4.44	2.90	-154
5 Yr	4.25	3.10	-115
7 Yr	4.23	3.20	-103
10 Yr	4.17	3.33	-84
20 Yr	4.48	3.90	-58
30 Yr	4.36	3.87	-49



	Year One	Years 2-3 (% ann.)	Total (% ann.)
1-3 yr UST	7.84	3.93	5.22
1-3 yr Corp	6.49	4.77	5.34
80/20 then 20/80	7.57	4.60	5.58

APPENDIX



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IMPLEMENTING A CASH SEGMENTATION STRATEGY



5 STEPS TO A CASH SEGMENTATION STRATEGY

1. ASSESS CURRENT OPERATING CASH NEEDS AND ASSETS
2. DEFINE CASH SEGMENTS
3. IDENTIFY INVESTMENT STRATEGY FOR EACH SEGMENT
4. DEFINE ROLES AND RESPONSIBILITIES
5. DOCUMENT CASH SEGMENTATION STRATEGY (POLICIES)

5 STEPS TO A CASH SEGMENTATION STRATEGY

1. ASSESS CURRENT OPERATING CASH NEEDS AND ASSETS

- Identify a Team to correctly assess your unique needs
 - Staff
 - Board / Committees
 - External Advisor
- Understand unique considerations for your organization. Examples include:
 - How much cash is needed for daily operations?
 - What additional needs for cash might you have?

2. Define Cash Segments

3. Identify Investment Strategy For Each Segment

4. Define Roles And Responsibilities

5. Document Cash Segmentation Strategy

5 STEPS TO A CASH SEGMENTATION STRATEGY

1. Assess Current Operating Cash Needs And Assets

2. DEFINE CASH SEGMENTS

- Clearly state the intended purpose
- Allocation and minimum/maximum requirements
- Determine your level of Risk/Return and time horizon

HYPOTHETICAL CASH SEGMENTATION

	OPERATING CASH	ENHANCED CASH	SHORT-TERM
PURPOSE	Day to day costs	Planned expansion of program	Undetermined future needs; Safety net
MINIMUM	25% of Operating Reserves		
TIME FRAME	0 – 3 months	3 – 12 months	1 – 3 years
LIQUIDITY	Daily	Quarterly	Limited

This is a hypothetical cash segmentation, shown for informational purposes only.

3. Identify Investment Strategy For Each Segment

4. Define Roles And Responsibilities

5. Document Cash Segmentation Strategy

5 STEPS TO A CASH SEGMENTATION STRATEGY

1. Assess Current Operating Cash Needs And Assets
2. Define Cash Segments

3. IDENTIFY INVESTMENT STRATEGY FOR EACH SEGMENT

- Based on segmentation and risk / return identify vehicles to invest in

SAMPLE INVESTMENT OPTIONS

INVESTMENT OPTIONS	OPERATING CASH	ENHANCED CASH	SHORT-TERM
	Money Market	U.S. Treasuries	Corporate Treasuries

This is a sample of investment options, shown for informational purposes only.

4. Define Roles And Responsibilities
5. Document Cash Segmentation Strategy

5 STEPS TO A CASH SEGMENTATION STRATEGY

1. Assess Current Operating Cash Needs And Assets
2. Define Cash Segments
3. Identify Investment Strategy For Each Segment

4. DEFINE ROLES AND RESPONSIBILITIES

- Who will manage each cash segmentation (Ex. Staff, investment committee, both)
 - Who approves move of money?
 - Who is in charge of moving money?
 - How frequently will you review?
- Will you have a sub-manager?

5. Document Cash Segmentation Strategy

5 STEPS TO A CASH SEGMENTATION STRATEGY

1. Assess Current Operating Cash Needs And Assets
2. Define Cash Segments
3. Identify Investment Strategy For Each Segment
4. Define Roles And Responsibilities

5. DOCUMENT CASH SEGMENTATION STRATEGY

- Separate statement of process of how to manage Operating Reserves
- Items you may want to include
 - Purpose
 - Cash Segments and definitions
 - Investment Parameters
 - Roles and Responsibilities
 - Review Process

IMPLEMENTING A CASH SEGMENTATION STRATEGY

BACKGROUND

A hospital foundation had \$260 million in operating reserves. The return was through bank sweep rates.

PROBLEM

Have more cash than needed for daily operations; however, needed to maintain level for additional scheduled expenses, potential transition of the technology system, and “contingent” expenditures.

SOLUTION

1. Assess Current Operating Cash Needs and Assets
 - Assembled a “task team” comprised of staff, finance & audit committee members, and investment advisor

2. DETERMINE TIERS

MINIMUMS

3. DEFINE ROLES & RESPONSIBILITIES

Operating	\$40 million	Staff
Scheduled	Not set, but use rough guidelines and review process (monthly Investment advisor and staff; quarterly discuss with finance and audit committee)	Investment Advisor and Sub-Advisor
Contingent		Investment Advisor
Long-term		Investment Advisor

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QUESTIONS?

NEXT STEPS



Next Steps

1.

REVIEW YOUR CURRENT PROCESS; SEEK APPROVAL FOR CHANGES IF NEEDED

2.

IDENTIFY RIGHT CASH SEGMENTS AND INVESTMENT VEHICLES

3.

INVEST IN ENHANCED CASH

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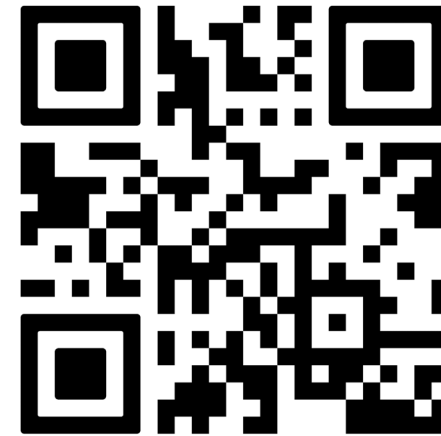
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