



Treasury & Risk's Vision for Tomorrow's Treasurer

Investing Corporate Cash

About the Panelists

- David Calabria, Director of Treasury, AvisBudget Group
 - 973-496-6437
 - david.calabria@avisbudget.com
- Lisa A. Rossi, Managing Director, Deutsche Bank
 - Global Head of Liquidity Management
 - 212.250.1138
 - lisa.rossi@db.com
- Jeff Wallace, Managing Partner, Greenwich Treasury Advisors
 - 303-442-4433
 - jeff.wallace@greenwichtreasury.com



Quotable Quotes

When the tide goes out, you find who has been swimming naked, and it isn't a pretty picture.

–Warren Buffet

Liquidity is an illusion, when you need it most, it isn't there.

–Michael Milliken

During the 1984 Continental Illinois crisis, a Federal Reserve official was quoted as saying the Fed would never let the country's 10 largest banks fail

–A Swiss banker immediately asked, “And who is the 11th largest bank?”



Quotable Quotes

“... the current credit crisis is different from past panics, like the market crash of 1987 or when Long-Term Capital Management imploded. Those were rapid-paced events, which erupted and then faded from view. This is more akin to a slow-motion, chain-reaction car crash”

Gretchen Morgenstern

New York Times

March 16, 2008



Accountability

“I’m a big believer in accountability,” says Bristol-Myers Squibb CEO Jim Cornelius, “and we’re looking for a new corporate treasurer and a couple of people under him.”

–February 4, 2008

Bristol-Myers reports hiring a new CFO, with former CFO Andrew Bonfield seeking “new career opportunities.”

–Press release, March 5, 2008



The Emperor Has No Clothes

Credit rating agencies do not evaluate credit risk well **and** do not evaluate liquidity risk at all:

- Complex mortgage-backed securities get rated AAA
- State governments and municipalities get rated much harder than corporates
 - According to Moody's, every state except Mississippi would be rated AAA if judged by the corporate standard of default
- How can we assume that their financial institution ratings are good?
 - Bear Stearns was still rated investment grade on Friday



Conference Survey

1. How many corporates with investable cash are here today (only the senior member raise hand)?
2. Since August, how many have eliminated previously acceptable counterparties or classes of counterparties?
3. Since August, how many have eliminated specific asset classes over the last six months?
4. How many have changed to safer money market funds?



What's a Corporate Treasurer to Do?

1. Invest in yourself by paying down revolver debt instead of investing cash with third parties
2. Invest relatively permanent cash in longer-term T-Bills/Notes until the credit markets stabilize
3. Build goodwill with your major commercial (and investment?) banks by buying their paper
4. Invest in foreign government paper (gilts, bunds, etc.) and cover the FX exposure with a swap
5. Replace any brokerage account for the corporate investments with a custodian bank with the securities in your own name



What's a Corporate Treasurer to Do (cont'd)?

6. Involve the FX/IR risk management staff in the investment decisions
7. Get independent research, such as Credit Insights and Grant's Interest Rate Observer
8. Relying on rating agency ratings to make investment decisions is clearly a bad career risk
 - Use investment managers who really do credit analysis
9. Invest in MMF's that offer more transparency, rather than less



What's a Corporate Treasurer to Do (cont'd)?

10. Choosing MMF's based upon the investment management company's ability to absorb any "breaking the buck" is not the right answer
11. Invest in independent systems for investment accounting, compliance and risk reporting
12. Re-emphasize preservation of capital over yield
 - Avoidance of extra yield at the cost of liquidity and maturity risk
 - Simple investment structures rather than complex and opaque



Concluding Comments

- There's no substitute for due diligence:
 - When you buy the paper
 - Every day that you own the paper
 - What are the risks do I own today?
- A buy-and-hold-to-maturity strategy is not viable in today's markets
- And does the mandate to preserve capital means **inflation-adjusted** capital?



Concluding Quote

“Wall Street has always been about a bunch of smart people selling paper for more than it is worth.”

—An old investor

