



## Strategies for Management of Cash in Three Tiers: Separate Account Management (SAM)

Market events over the last few years and recent structural changes in the financial industry are reshaping the world of cash management. For an investor, having all the money in deposits or even liquidity funds over an interest-rate cycle is unlikely to provide the best outcome for a pool of cash. Being in a cycle of low interest rates, it could be beneficial to move along the interest-rate curve. In our view, having a portion of money in a liquidity fund or bank deposit, and also a portion in a separate managed account could prove very beneficial.

While there is acute awareness of the pressure on yields and returns on short-term investments, there is a way to offer a framework that may improve returns across the spectrum of cash pools. With a separate account, the investor typically enjoys bespoke guidelines and

strategy plus customized reporting, a powerful tool that probably is under-utilized within the marketplace.

The 'tiering' of cash within a separate account (essentially dividing up the pool of cash into three tiers) can provide a flexible solution, segmenting the cash for additional yield or returns. Separate Account Management (SAM) can be used for all three tiers.

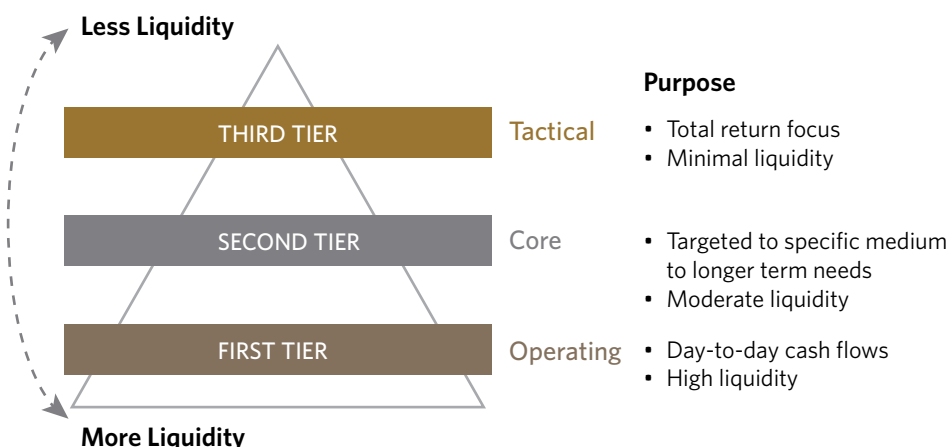
The purpose of the first tier of a strategic liquidity position is to provide for day-to-day cash flows, benefit payments or grant payments – payroll, for instance. A short-term separately managed account with customized guidelines can provide this first tier of liquidity.

The aim of the second tier is to provide for capital calls, benefit payments, grant payments, debt servicing, overlay or

longer horizon cash needs. In our view, this second tier is best constructed with maturities averaging between six months and one year; enhanced cash or an ultra short (with an average maturity one year) separately managed account with customized guidelines would provide a solution for this need. Tier two objectives include tailored liquidity according to investor requirements, moderate maturity extension and focused credit guidelines. Higher current yields (reflecting the higher risk) than the first tier are pursued.

The rationale of the third tier is for longer term cash funding: construction costs, matched funding, capital calls, a long-term horizon or a buy-and-hold strategy. We believe this third tier of liquidity is best provided by a portfolio of maturities in the range one to three/one to five years or a matched funding separately managed account with customized guidelines. Tier three objectives entail tailored liquidity according to investor requirements, maturity extension to match liabilities or 1-3 year and 1- 5 year indexes and investment-grade credit quality. Matched funding is tailored to an investor's specific risk tolerance and/or cashflows and allows flexibility for sector or yield curve positioning.

### SEPARATE ACCOUNT MANAGEMENT



Above all, market events, particularly in the last decade, demonstrate that investors need to take a more active role in reviewing and structuring their cash holdings to meet their liquidity needs. Investors should draw comfort from the fact that there are many more

instruments and possibilities available than they may have considered to ensure their pool of cash works hard for them.

At BNY Mellon Cash Investment Strategies, we take pride in our separate

account management business and our ability to provide our clients with comprehensive solutions to their cash investment needs.

## Learn More

For more information on Separate Account Management Services, contact your BNY Mellon Fixed Income Representative, call **1-800-374-6969**, or visit our website at **[www.bnymelloncis.com](http://www.bnymelloncis.com)**.

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