



HOW A UK MULTINATIONAL'S PENSION RAISED YIELD WITH CASH SEGMENTATION

“Looking beyond money market funds to achieve yield and diversification in a challenging rate environment.”

The Client

U.K. multinational company.

The Challenge

Optimizing yield for short-term investments while maintaining portfolio liquidity and preserving principal.

Our Approach

Tailoring a cash segmentation strategy, specific to the pension's funding requirements.

The Company has a £24 billion pension fund portfolio.

Maximizing yield while protecting principal

The pension fund was expecting a sizable liquidity inflow after the sale of one of the multinational's business lines. That would result in a considerable cash pool, with £500m allocated to short-term investments. With a considerable allocation, in what was then a low interest rate environment, the UK pension fund team posed the question: how can we maintain our liquid cash pool whilst achieving a yield with an acceptable risk/return profile? More generally, the team wanted to introduce a strategic approach to their cash management, which would be equally efficient in all market conditions. A journey of discovery followed to see what potential solutions would be available.

Cash segmentation

For more than 40 years, NTAM has worked with some of the world's largest institutions and corporate treasurers on cash segmentation strategies to fit the nuances of their different cash flows and needs. Leveraging on this experience, we analyzed the UK pension's short, medium and long-term funding needs, and modeled a portfolio demonstrating how segmenting the cash into different buckets would deliver its objectives and crucially getting paid for the risks they take.

We recommended that the portfolio should be split into three buckets, mirroring the pension's specific funding requirements (see cash segmentation illustration). The first bucket is considered operational, for day-to-day cash requirements. Second is a reserve bucket for intermediate needs over a medium-time horizon, before finally defining their strategic bucket for longer-term uses. Segmenting the cash in this way would allow the reserve and strategic buckets to target higher potential returns with only an incremental increase in risk. This would be done with no sacrifice in terms of liquidity.

CASH SEGMENTED ACROSS THREE BUCKETS TO MAXIMIZE YIELD

Segment cash based on what you need and when you need it.

<p>Operational (1-day to 3-month horizon)</p> <p>Day-to-day spending needs Highly liquid, invested conservatively 30–60 day (Wtd. Avg. Mat.) Minimum credit rating: A</p>	<p>Reserve (3- to 9-month horizon)</p> <p>Intermediate or uncertain spending needs Slightly reduced liquidity 0.5 year (target duration) Minimum credit rating: BBB</p>	<p>Strategic (9- to 18-month horizon)</p> <p>Long-term spending needs Reduced liquidity Seeks highest possible yield while preserving principal One year (target duration) Minimum credit rating: BBB</p>
<p>STRATEGY TYPE: Money market</p>	<p>STRATEGY TYPE: Conservative Ultra Short</p>	<p>STRATEGY TYPE: Ultra Short</p>

While the operational bucket would continue to hold short-term money market funds, the other two buckets would invest in slightly longer-term ultra-short strategies. These strategies can invest as far as three to five years along the yield curve in an effort to increase returns through actively managing duration and credit selection. Yet they achieve these returns with only an incremental increase in risk using cash that is not needed for day-to-day needs (see standard deviation illustration).

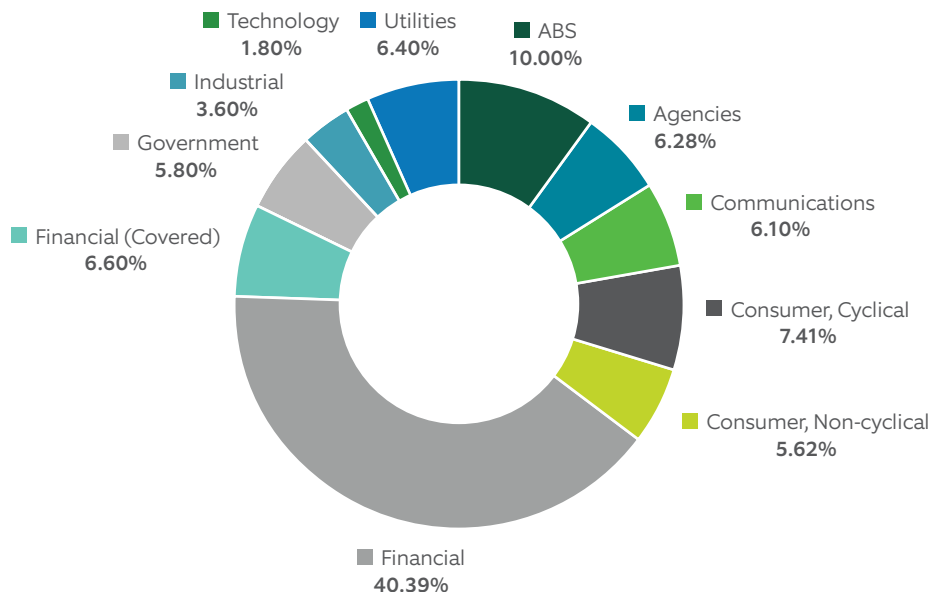
Ultra-short strategies have a broader credit investment universe than money market funds, which are heavily skewed to financials due to restrictive regulatory guidelines and the lack of corporate issuance in money market securities. Ultra-short strategies can invest in traditional corporate bonds, governments, agencies, asset-backed securities, consumer cyclicals, communications, financials, non-cyclicals, and utilities, ultimately delivering a more diversified portfolio (see risk diversified across sectors illustration).

CONSERVATIVE ULTRA SHORT AND ULTRA SHORT STANDARD DEVIATION

GBP	Conservative Ultra Short	Ultra Short	1–3 Year UK Gilts
2-Year Standard Deviation	0.66	1.32	0.65
5-Year Standard Deviation	0.46	0.91	0.76
10-Year Standard Deviation	0.46	0.92	0.83
EUR	Conservative Ultra Short	Ultra Short	1–3 Year EUR Treasury
2-Year Standard Deviation	0.62	1.22	0.74
5-Year Standard Deviation	0.40	0.79	0.72
10-Year Standard Deviation	0.40	0.75	0.78
USD	Conservative Ultra Short	Ultra Short	1–3 Year US Treasury
2-Year Standard Deviation	0.74	1.40	1.06
5-Year Standard Deviation	0.52	0.96	0.92
10-Year Standard Deviation	0.36	0.64	1.10

Source: iMoneyNet and Barclays Live as of March 31, 2021 — Conservative Ultra Short EUR = 75% IMMFA MMI EUR Prime Stable Avg./25% Bloomberg Barclays EUR 1–3 Year Corporate Index. Conservative Ultra Short GBP = 75% IMMFA MMI GBP Prime Stable Avg./25% Bloomberg Barclays GBP 1–3 Year Corporate Index. Conservative Ultra Short USD = 75% IMMFA MMI USD Prime Stable Avg./25% Bloomberg Barclays USD 1–3 Year Corporate Index. Ultra Short EUR = 50% IMMFA MMI EUR Prime Stable Avg./50% Bloomberg Barclays EUR 1–3 Year Corporate Index. Ultra Short GBP = 50% IMMFA MMI GBP Prime Stable Avg./50% Bloomberg Barclays GBP 1–3 Year Corporate Index. Ultra Short USD = 50% IMMFA MMI USD Prime Stable Avg./50% Bloomberg Barclays USD 1–3 Year Corporate Index. For illustrative purposes only. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

RISK DIVERSIFIED ACROSS SECTORS – ULTRA SHORT MODEL ALLOCATION



For illustrative purposes only. Information is provided to illustrate typical sectors and securities in which the portfolio may invest. It should not be considered investment advice or a recommendation to buy or sell any security. There is no guarantee that securities remain in the portfolio or that securities sold have not been repurchased. It should not be assumed that any investments were profitable or will prove to be profitable, and past performance does not guarantee future results.

Our Solution

A dynamic, liquid and diversified allocation, blending cash and ultra-short, according to the client’s needs.

Raising yield with ultra-short ESG funds

Having completed the exploratory phase, the pension fund agreed with NTAM’s proposal for a cash segmentation model. It made separate allocations to a combination of a sterling money market fund (operational bucket), conservative ultra-short fund (reserve), and an ultra-short fund (strategic), with the ability to adjust the composition as cash demands evolve.

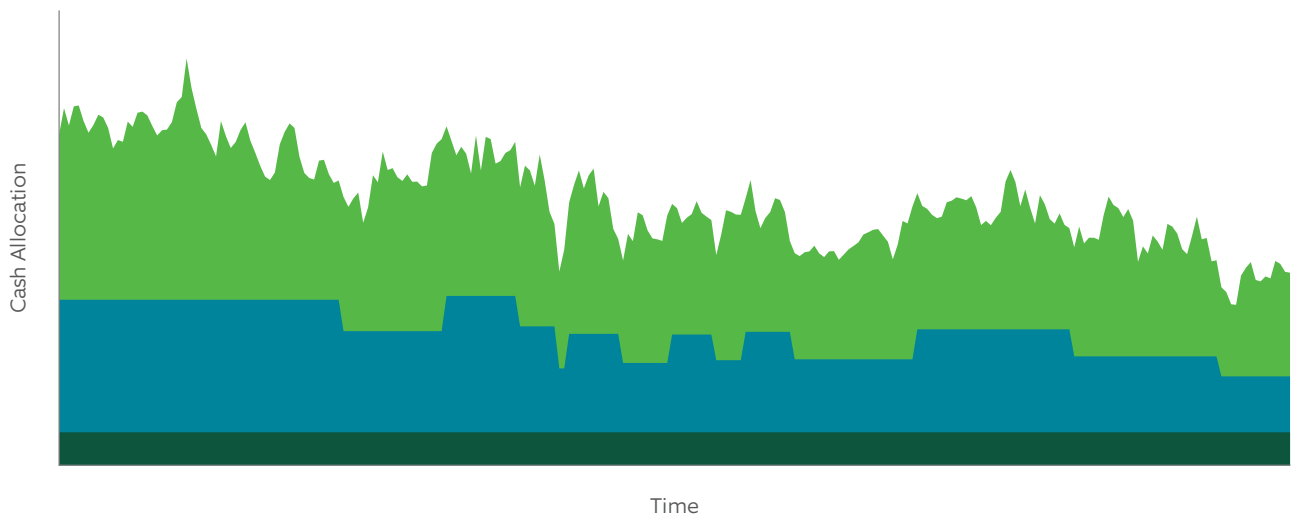
At the beginning of 2021, the pension invested a total of £500m across the NTAM Sterling Global Cash Fund (£300m) for its operational cash needs; the NTAM Sterling Conservative Ultra Short ESG Fund (£100m) for reserve cash; and NTAM Sterling Ultra Short ESG Fund (£100m) for strategic cash. This resulted in an optimized approach to managing its cash position.

The ultra-short funds have greater flexibility than money market funds, as they can invest further out along the yield curve and across a wider range of sectors. The Conservative Ultra Short ESG Fund has a maturity limit of three years and can invest across the investment grade universe, giving a greater opportunity to maximize returns through credit selection. Meanwhile, the NTAM Sterling Ultra Short ESG Fund also invests across investment grade securities, with a maturity limit of five years.

In addition to financial goals, both these funds include environmental, social and governance (ESG) screens. They exclude companies that breach pre-defined thresholds based on exposure to weapons producers, tobacco producers, violators of the U.N. Global Compact, companies involved in notable ESG controversies, and companies with ESG ratings of CCC. Secondly, it prioritizes companies where fundamental analysis identifies strong ESG metrics, aiming to foster better governance and less risk.

THE SEGMENTATION MODEL AND CASHFLOWS

■ Ultra Short ■ Conservative Ultra Short ■ Money Market Fund



Source: Northern Trust Asset Management. For illustrative purposes only. The segmentation model and cashflows will vary for each client and is based on the liquidity needs and risk tolerance of a client.

A balance of return, risk and diversification while matching liquidity needs

The Benefits

A strategy for reducing cash drag and matching liquidity needs across market conditions.

By segmenting the portfolio three ways, with each bucket targeting a different level of return and risk, the overall yield has been raised and is more responsive to changes in interest rates, something that is compromised when locking cash away, for example, in a term deposit. This has been achieved with only an incremental increase in duration and credit risk, while benefiting the pension fund with issuer diversification.

An increase in yield and adaptability to rate changes

The Result

Optimizing the outcome in any rate environment.

For this pension fund, the benefits of cash segmentation to provide an uplift in yield will likely be proven over time. However, the strategic cash segmentation approach puts it in a strong position to respond to a changing rate environment. In fact, money market funds and ultra-short funds are far more sensitive to rate increases than the bank deposits that treasurers often use.

ABOUT NORTHERN TRUST ASSET MANAGEMENT

Northern Trust Asset Management is a global investment manager that helps investors navigate changing market environments, so they can confidently realize their long-term objectives.

Entrusted with \$999.1 billion in assets,* we understand that investing ultimately serves a greater purpose. We believe investors should be compensated for the risks they take — in all market environments and any investment strategy. That's why we combine robust capital markets research, expert portfolio construction and comprehensive risk management to craft innovative and efficient solutions that deliver targeted investment outcomes.

As engaged contributors to our communities, we consider it a great privilege to serve our investors and our communities with integrity, respect and transparency.

*AUM as of September 30, 2022. Article published as of September 30, 2022. For more recent AUM, please visit northerntrust.com.

CASE STUDY: HOW A UK MULTINATIONAL'S PENSION RAISED YIELD WITH CASH SEGMENTATION

	Rewards	Risks
The Sterling Fund	<ul style="list-style-type: none"> The objective of the Fund is to preserve capital, maintain liquidity and generate current income by investing in high quality short-term fixed income or adjustable rate securities denominated in the base currency of the Fund. The Fund is a Short Term Low-Volatility Net Asset Value (LVNAV) Money Market Fund as defined by the EU Money Market Funds Regulations. LVNAV funds are valued using a mixture of the amortised cost and market pricing to facilitate a stable NAV. However in certain circumstances LVNAV funds may be priced with a variable NAV. The Fund invests in high quality short-term government and corporate bonds as well as cash deposits and debt instruments issued by financial institutions. All securities in which the Fund invests will be denominated in Sterling and at the time of purchase have a minimum credit rating of A2/P1 by Moody's credit rating agency or an equivalent rating from another agency and will have a maximum maturity of 397 days. The Fund may use derivatives and other financially linked instruments (such as currency forwards) and may also enter into repurchase and reverse repurchase agreements to achieve its objective and to reduce risk, minimise costs or generate additional capital or income. A derivative is a financial contract whose value is derived from other assets. 	<ul style="list-style-type: none"> Credit Risk – A borrower or a counterparty may fail to repay or otherwise fail to meet contractual obligations to the Fund. Liquidity Risk – The inability to sell investments quickly may result in failure to return funds to investors on a timely basis. Investment Risk - The Fund may not achieve its investment objective. An investment in the Fund involves investment risks including possible loss of the amount invested. Issuer Risk – The issuer of a bond held within the Fund may not be able to meet its obligations to the Fund. Counterparty Risk - In case of bankruptcy of the broker, there is no guarantee collateral held by the broker will be returned to the Fund. In the event of bankruptcy of the counterparty, the premium and any unrealised gains may be lost. Derivative Risk - Derivatives may result in gains or losses that are greater than the original amount invested. Valuation Risk - A position in the Fund may be valued incorrectly, as some prices may be uncertain at a point in time. Currency Risk - Where a class of shares are in a currency other than the base currency of the Fund, the non-base share classes of the Fund may be affected unfavourably by fluctuations in currency rates.
The Sterling Conservative Ultra Short ESG Fund	<ul style="list-style-type: none"> The objective of the Fund is to provide moderate liquidity and maximise income consistent with a high degree of capital preservation by investing in investment grade fixed income securities. The Fund seeks to achieve its investment objective through investment primarily in investment grade fixed income securities subject to certain environmental, social and governance criteria (ESG). All securities in which the Fund invests will be denominated in Sterling. The Investment Manager will determine the portfolio duration with a neutral target of 12 months. In normal market conditions, the Fund will invest a minimum of 20% of its Net Asset Value in securities, instruments and obligations with a maturity over two years. The fixed income securities the Fund may invest in can be corporate and government issued, fixed, floating or adjustable rate. The Fund may also enter into repurchase and reverse repurchase agreements to achieve its objective and generate additional revenue for the Fund. The Fund may use derivatives and other financially linked instruments (such as currency forwards) and may also enter into repurchase and reverse repurchase agreements to achieve its objective and to reduce risk, minimise costs or generate additional capital or income. A derivative is a financial contract whose value is derived from other assets. 	<ul style="list-style-type: none"> Credit Risk – A borrower or a counterparty may fail to repay or otherwise fail to meet contractual obligations to the Fund. Liquidity Risk – Some recognised exchanges are less liquid or more volatile which may affect the price received and time taken when selling investments. Small capitalisation companies are also less liquid and this may result in fluctuations in the price of shares Investment Risk - The Fund may not achieve its investment objective. An investment in the Fund involves investment risks including possible loss of the amount invested. Issuer Risk – The issuer of a bond held within the Fund may not be able to meet its obligations to the Fund. Counterparty Risk - In case of bankruptcy of the broker, there is no guarantee collateral held by the broker will be returned to the Fund. In the event of bankruptcy of the counterparty, the option premium and any unrealised gains may be lost. Derivative Risk - Derivatives may result in gains or losses that are greater than the original amount invested. Valuation Risk - A position in the Fund may be valued incorrectly, as some prices may be uncertain at a point in time. Currency Risk - Where a class of shares are in a currency other than the base currency of the Fund, the non-base share classes of the Fund may be affected unfavourably by fluctuations in currency rates.
The Sterling Ultra Short ESG Fund	<ul style="list-style-type: none"> The objective of the Fund is to provide moderate liquidity and maximise income consistent with a high degree of capital preservation by investing in investment grade fixed income securities. The Fund seeks to achieve its investment objective through investment primarily in investment grade fixed income securities subject to certain environmental, social and governance criteria (ESG). All securities in which the Fund invests will be denominated in Sterling. The Investment Manager will determine the portfolio duration with a neutral target of 12 months. In normal market conditions, the Fund will invest a minimum of 20% of its Net Asset Value in securities, instruments and obligations with a maturity over two years. The fixed income securities the Fund may invest in can be corporate and government issued, fixed, floating or adjustable rate. The Fund may also enter into repurchase and reverse repurchase agreements to achieve its objective and generate additional revenue for the Fund. The Fund may use derivatives and other financially linked instruments (such as currency forwards) and may also enter into repurchase and reverse repurchase agreements to achieve its objective and to reduce risk, minimise costs or generate additional capital or income. A derivative is a financial contract whose value is derived from other assets. 	<ul style="list-style-type: none"> Credit Risk – A borrower or a counterparty may fail to repay or otherwise fail to meet contractual obligations to the Fund. Liquidity Risk – Some recognised exchanges are less liquid or more volatile which may affect the price received and time taken when selling investments. Small capitalisation companies are also less liquid and this may result in fluctuations in the price of shares. Investment Risk - The Fund may not achieve its investment objective. An investment in the Fund involves investment risks including possible loss of the amount invested. Issuer Risk – The issuer of a bond held within the Fund may not be able to meet its obligations to the Fund. Derivative Risk - Derivatives may result in gains or losses that are greater than the original amount invested. Valuation Risk - A position in the Fund may be valued incorrectly, as some prices may be uncertain at a point in time. Currency Risk - Where a class of shares are in a currency other than the base currency of the Fund, the non-base share classes of the Fund may be affected unfavourably by fluctuations in currency rates.

How helpful
was this?



northerntrust.com

ABOUT SUSTAINABLE INVESTING

At Northern Trust Asset Management ("NTAM"), we define Sustainable Investing as encompassing all of NTAM's investment strategies and accounts that utilize values based and norms based screens, best-in-class and ESG integration, or thematic investing that may focus on a specific ESG issue such as climate risk. NTAM's Sustainable Investing includes portfolios designed by NTAM as well as those portfolios managed to client defined methodologies or screens. As the data, analytical models and aforementioned portfolio construction tools available in the marketplace have evolved over time, so too has NTAM. NTAM's Sustainable Investing encompasses strategies and client assets managed in accordance with client specified responsible investing terms (historically referred to as Socially Responsible), as well as portfolios that leverage contemporary approaches and datasets, including ESG analytics and ESG thematic investing.

IMPORTANT INFORMATION

For Use With Institutional Investors Only. Not for Retail Use. The case studies presented are intended to illustrate products and services available at Northern Trust. They do not necessarily represent experiences of other clients nor do they indicate future performance. Individual results may vary.

This is a marketing communication. Please refer to the prospectus and to the KIID before making any final investment decisions. This material is directed to professional and eligible counterparties only and should not be relied upon by retail investors. For Asia-Pacific markets, it is directed to expert, institutional, professional and wholesale investors only and should not be relied upon by retail clients or investors. The information contained herein is intended for use with current or prospective clients of Northern Trust Asset Management. The information is not intended for distribution or use by any person in any jurisdiction where such distribution would be contrary to local law or regulation. Northern Trust and its affiliates may have positions in and may effect transactions in the markets, contracts and related investments different than described in this information. This information is obtained from sources believed to be reliable, and its accuracy and completeness are not guaranteed. Information does not constitute a recommendation of any investment strategy, is not intended as investment advice and does not take into account all the circumstances of each investor.

This report is provided for informational purposes only and is not intended to be, and should not be construed as, an offer, solicitation or recommendation with respect to any transaction and should not be treated as legal advice, investment advice or tax advice. Recipients should not rely upon this information as a substitute for obtaining specific legal or tax advice from their own professional legal or tax advisors. References to specific securities and their issuers are for illustrative purposes only and are not intended and should not be interpreted as recommendations to purchase or sell such securities. Indices and trademarks are the property of their respective owners. Information is subject to change based on market or other conditions.

Investing involves risk — no investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

All securities investing and trading activities risk the loss of capital. Each portfolio is subject to substantial risks including market risks, strategy risks, adviser risk and risks with respect to its investment in other structures. There can be no assurance that any portfolio investment objectives will be achieved, or that any investment will achieve profits or avoid incurring substantial losses. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Any discussion of risk management is intended to describe Northern Trust's efforts to monitor and manage risk but does not imply low risk.

Simulated and actual past performance is not a reliable indicator of future results and should not be the sole factor of consideration when selecting an investment product or strategy.

continued on next page

Past performance is no guarantee of future results. Performance returns and the principal value of an investment will fluctuate. Performance returns contained herein are subject to revision by Northern Trust. Comparative indices shown are provided as an indication of the performance of a particular segment of the capital markets and/or alternative strategies in general. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index. Net performance returns are reduced by investment management fees and other expenses relating to the management of the account. Gross performance returns contained herein include reinvestment of dividends and other earnings, transaction costs, and all fees and expenses other than investment management fees, unless indicated otherwise. For additional information on fees, please refer to Part 2a of the Form ADV or consult a Northern Trust representative.

Northern Trust Asset Management ("NTAM") may utilize an environmental, social, and governance ("ESG") framework in certain investment strategies. Considering ESG factors may result in reduced or increased exposure to certain companies or industries, which may cause the applicable strategy's performance to be lower than that of strategies that do not consider ESG factors. In addition, the added cost of ESG-related diligence in assessing the ESG parameters of an investment may also reduce the profitability of an applicable strategy's investments. There may also be different views of what it means for an issuer to have positive or negative ESG characteristics. There can be no guarantee that an NTAM's determinations regarding an issuer's ESG characteristics will be accurate, including whether any such ESG characteristics are financially material or immaterial; any such inaccuracies could adversely affect a strategy's performance.

Forward-looking statements and assumptions are Northern Trust's current estimates or expectations of future events or future results based upon proprietary research and should not be construed as an estimate or promise of results that a portfolio may achieve. Actual results could differ materially from the results indicated by this information.

If presented, hypothetical portfolio information provided does not represent results of an actual investment portfolio but reflects representative historical performance of the strategies, funds or accounts listed herein, which were selected with the benefit of hindsight. Hypothetical performance results do not reflect actual trading. No representation is being made that any portfolio will achieve a performance record similar to that shown. A hypothetical investment does not necessarily take into account the fees, risks, economic or market factors/conditions an investor might experience in actual trading.

Hypothetical results may have under- or over-compensation for the impact, if any, of certain market factors such as lack of liquidity, economic or market factors/conditions. The investment returns of other clients may differ materially from the portfolio portrayed. There are numerous other factors related to the markets in general or to the implementation of any specific program that cannot be fully accounted for in the preparation of hypothetical performance results. The information is confidential and may not be duplicated in any form or disseminated without the prior consent of Northern Trust.

This information is intended for purposes of Northern Trust marketing of itself as a provider of the products and services described herein and not to provide any fiduciary investment advice within the meaning of Section 3(21) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Northern Trust is not undertaking to provide impartial investment advice or give advice in a fiduciary capacity to the recipient of these materials, which are for marketing purposes and are not intended to serve as a primary basis for investment decisions. Northern Trust and its affiliates receive fees and other compensation in connection with the products and services described herein as well as for custody, fund administration, transfer agent, investment operations outsourcing and other services rendered to various proprietary and third-party investment products and firms that may be the subject of or become associated with the services described herein.

Products and services provided by subsidiaries of Northern Trust Corporation may vary in different markets and are offered in accordance with local regulation. For more information, read our legal and regulatory information about individual market offices (available at northerntrust.com/disclosures).

Northern Trust Asset Management is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Belvedere Advisors LLC, Northern Trust Asset Management Australia Pty Ltd, and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company.

© 2023 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

I-010523-2453002-010524

Issued in the United Kingdom by Northern Trust Global Investments Limited. Issued in the EEA by Northern Trust Fund Managers (Ireland) Limited.