No two companies are the same when it comes to their cashflow and asset and liability matching needs. Those wanting a more customisable experience and full control over how they manage liquidity may find significant benefits from a segregated mandate.

“...for the simplicity that lies on the other side of complexity, I would give my life.”

Oliver Wendell Holmes Jr.

Cash investors have faced a turbulent few years as the effects of the Covid pandemic ripped through markets and the subsequent unwind of years of monetary easing came home in the form of rampant inflation. While it is easy to focus on these dramatic events, all of these developments serve only to remind us of a universal truth: cash is always king. With that in mind, we believe now is the right time for investors to think about optimising cash in tailored solutions.

Many investors will look to pooled solutions for their cash needs. While these bring significant benefits, a tailored solution can become more meaningful, especially as complexity increases, be that through investor-specific requirements, market context, or both.

In the current market environment, investors in pooled vehicles also need to be cognisant of co-investor risk. Pension funds and other large investors, potentially facing margin calls, may well draw down cash balances, thus, effectively, pressuring liquidity available to other investors in pooled solutions. An investor centric tailored solution negates this risk, while also facilitating yield-liquidity optimisation. We can help you with yield-liquidity optimised portfolios for both today’s volatility and tomorrow’s opportunities.

Flexible, efficient cash portfolios

Segregated mandates enable companies to take an active approach to liquidity that is fully customisable according to cash flow and asset-liability matching needs, and readily adaptable to changes in circumstance. These key advantages are made possible by the flexible, bespoke nature of the vehicle: clients have direct ownership of the underlying investments and full control over investment guidelines, allowing them to create a finely tuned risk-return profile.

Aviva Investors key strengths

Experience: Cash management is one of our core capabilities, which has developed over decades of managing assets for our parent, Aviva plc, and third-party investors. Clients have entrusted us with creating and managing bespoke mandates that are fit for purpose and meet a certain set of criteria as set out by their investment guidelines.

Expertise: Liquidity solutions are treated as a discrete asset class with a dedicated team and specialist members. Our conservative approach to managing cash is built on robust credit analysis and rigorous risk management.

Scalability: Our collaborative approach and depth of resource enables us to deliver an efficient process which aims to provide the best risk-adjusted returns within a client’s specific parameters. We have the scale to deliver competitive fee structures; in many situations, segregated mandates can be more economical for clients than a pooled fund.

Global solution: Our specialist knowledge of local markets is supported by our global infrastructure, enabling us to offer a range of liquidity strategy solutions in multiple currencies.
At Aviva Investors, our liquidity team manages segregated mandates designed to maximise yield and deliver required levels of liquidity. Our process has four phases:

1. **Identify liquidity characteristics**
   - To help companies define an overall investment strategy, we draw on personalised analytical tools, such as customised liquidity-return matrixes to illustrate different scenarios which can facilitate day-to-day liquidity alongside the potential for more attractive risk-adjusted return. The core of our process is based on fully understanding each client’s unique needs and risk appetites so that we can propose and implement appropriate portfolios.

2. **Formulate investment objectives and establish guidelines**
   - Our team is capable of working within pre-existing guidelines, partnering with clients to build a new suite of restrictions from the ground up, and all variations in between. For clients who wish to simplify the process, we are able to suggest a set of guidelines based on answers to a short list of key questions.

3. **Construct optimal portfolio allocation**
   - In the portfolio construction phase, our focus is on optimising portfolios for maximum efficiency and risk-adjusted returns within client-specified guidelines, and with careful attention to anticipated cash flows. Our team works with data scientists to filter the entire investment universe to create an optimised return profile according to each client’s parameters – for example, limits on duration or spread risk, rating constraints or an ESG overlay. We strive to provide clients with the necessary armory of information to scrutinise their portfolios and make suitable decisions. This includes creating model portfolios for multiple scenarios to facilitate evaluation of various combinations of returns and liquidity.

Because our global business acts as one team, we are uniquely able to leverage our firm’s expertise in multiple areas to construct portfolios with finely tuned risk and return characteristics. As a result, clients are empowered to access a large investment universe and exploit additional opportunities. For example, our credit team co-manages segregated liquidity mandates to seamlessly deliver the benefit of our extensive credit research and in-depth analysis. Additionally, members of our rates team provide the expertise needed to enhance diversification and target the longer end of the yield curve by investing in highly-rated liquid sovereign securities.

4. **Active management**
   - Ongoing management of a segregated liquidity mandate includes consistent yet flexible communication with our dedicated client service team. By engaging in an ongoing dialogue—daily or weekly conversations with a corporate treasurer, in many cases—we can shift portfolios based on changes in operating environments or unexpected liquidity requirements. We work closely with clients to maximise the flexibility of a segregated mandate, for example, by selectively selling down assets to meet cash demands as efficiently as possible.
Seamlessly integrated ESG solutions

As we work to establish investment objectives and guidelines, we are able to seamlessly integrate ESG criteria into each client’s mandate. We recognise that ESG is a key determinant of value creation and protection, and therefore highly relevant to treasurers’ aims to invest their firm’s money to preserve capital, maintain liquidity and deliver appropriate yield. Because ESG is complex, investors need to choose managers that understand a wide set of metrics and carry out their analyses within the context of dynamic global events. ESG has been a key part of our investment philosophy for decades and our record of engaging and voting at company annual general meetings dates back to the 1970s.

Our liquidity team is supported by a Global Responsible Investment Team, where 22 ESG analysts act as a center of excellence on ESG. We generate macro, thematic, industry, security- and asset-specific qualitative insights to enhance investment processes. We have proprietary quantitative ESG scoring tools to underpin the assessment of ESG risks at both a security and a portfolio level.

We are committed to building long-term relationships and providing excellent service, which includes delivering regular, relevant, transparent information about portfolio construction and performance. Detailed reporting packages include monthly valuations and a quarterly investment review.

**Article 6 Funds**

ESG considerations are a non-binding, but critical part of the investment process viewed alongside other risk factors.

Our portfolio managers are empowered to make the right decisions for the best investment outcome.

**Article 8 Funds**

Beyond any binding ESG constraints in the strategy and baseline exclusions policy, the investment manager retains discretion over final investment decisions, taking into account wider risk factors.
Case studies

We have extensive experience creating segregated mandates to meet a range of liquidity needs. Examples include:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Solution</th>
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</thead>
<tbody>
<tr>
<td>Manage both volatile cash flows and cash that can be invested over a six-month horizon.</td>
<td>Run proprietary optimisation models to target maximised risk-adjusted return.</td>
</tr>
<tr>
<td>Create one portfolio with two buckets:</td>
<td>• Structure a bespoke mandate that creates a customised investment universe to satisfy the client’s internal restrictions.</td>
</tr>
<tr>
<td>(1) One-third dedicated to managing volatile cash flows (“liquidity bucket”).</td>
<td>• Run proprietary optimisation models to target maximised risk-adjusted return.</td>
</tr>
<tr>
<td>(2) Two-thirds to be invested over six months with return objective of +50bps over cash benchmark (“return bucket”).</td>
<td></td>
</tr>
<tr>
<td>Client benefits from access to our various in-house portfolio management teams, that can allocate a small portion of the return bucket to a different asset class, helping to offset reduced return from the liquidity bucket.</td>
<td></td>
</tr>
<tr>
<td>Monthly rebalancing between portfolio segments.</td>
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</table>

Addressing regular liquidity alongside a cash injection

<table>
<thead>
<tr>
<th>Objective</th>
<th>Solution</th>
</tr>
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<tbody>
<tr>
<td>Manage regular liquidity needs together with an injection of cash that the client does not plan to deploy in the next 12 months.</td>
<td>Ladder the portfolio to meet the liquidity need while utilising the cash injection to achieve a higher overall return whilst minimising risk.</td>
</tr>
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</table>

Navigating internal restrictions

<table>
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<tr>
<th>Objective</th>
<th>Solution</th>
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<tr>
<td>The client benefits from the flexibility of pooled products but has certain internal restrictions that are not met with available products, such as issuer limits and ESG filters.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Structure a bespoke mandate that creates a customised investment universe to satisfy the client’s internal restrictions.</td>
</tr>
<tr>
<td></td>
<td>• Run proprietary optimisation models to target maximised risk-adjusted return.</td>
</tr>
</tbody>
</table>

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