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Africa Israel Investments Ltd.

Building a better world to live in

Creating and Maintaining a Corporate Cash Investment Policy

December 2007

Ron Fainaro, CFO



Agenda



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- Corporate Cash Investment Policy (“CCIP”) – Motivation and Market Trends
- Corporate Cash Investment Policy – Components
- Summary



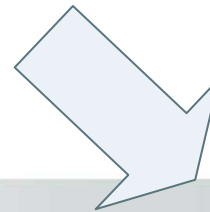


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Motivation & Market Trends



- There is a change in current environment:
 - More **oversight** by the regulatory bodies (**SOX, SEC**)
 - Growing scrutiny by the **BOD**
 - **Shareholders** become more sensitive to the way corporate assets are being managed and safeguarded (with high visibility to cash)
 - **Personal liability** in addition to corporate liability
 - **Compliance and Risk Management** moved to the “front seat”
 - High levels of cash in corporations (in absolute terms, as a % of equity or EV) - the **returns on cash investments** has become meaningful to corporate earnings and returns



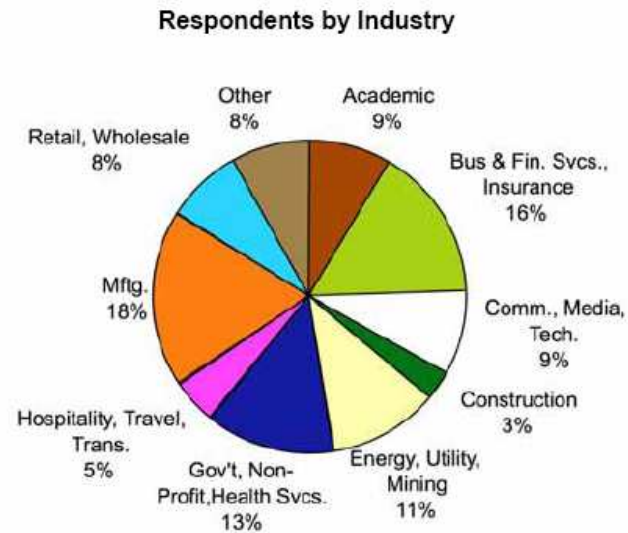
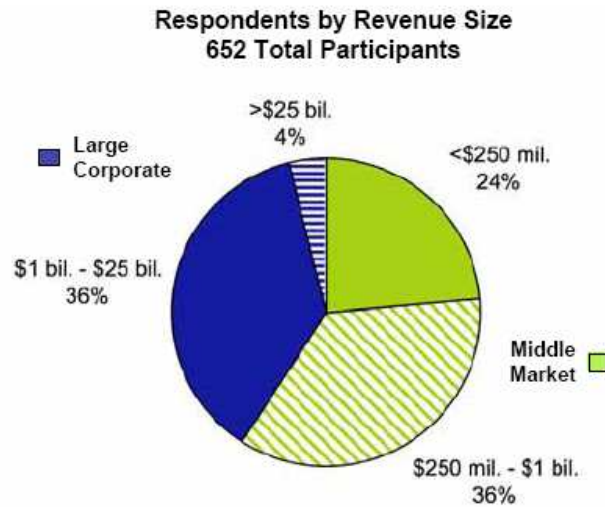
- So...:
 - Managing the corporate cash effectively became even more critical to corporate performance and valuations
 - Maintaining the right amount of funds in the right place at the right time can help increase earnings and reduce costs
 - Designing a cash management and investing solution to suit the company's liquidity needs, investment timeline and risk tolerance has become a must

- **Creating and Maintaining an up-to-date Corporate Cash Investment Policy is one of the most important tools to execute on these objectives**



CCIP - Motivation and Market Trends

- 652 Organizations participated in the largest liquidity and investment practice research program in the USA (2004-2007)



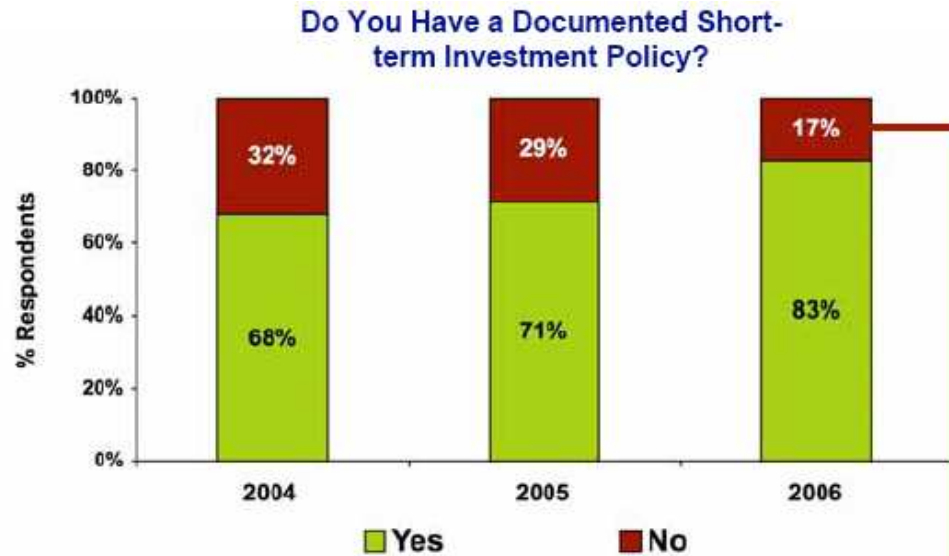
Source: Treasury Strategies, Inc. 2006 U.S. Corporate Liquidity Study



CCIP - Motivation and Market Trends



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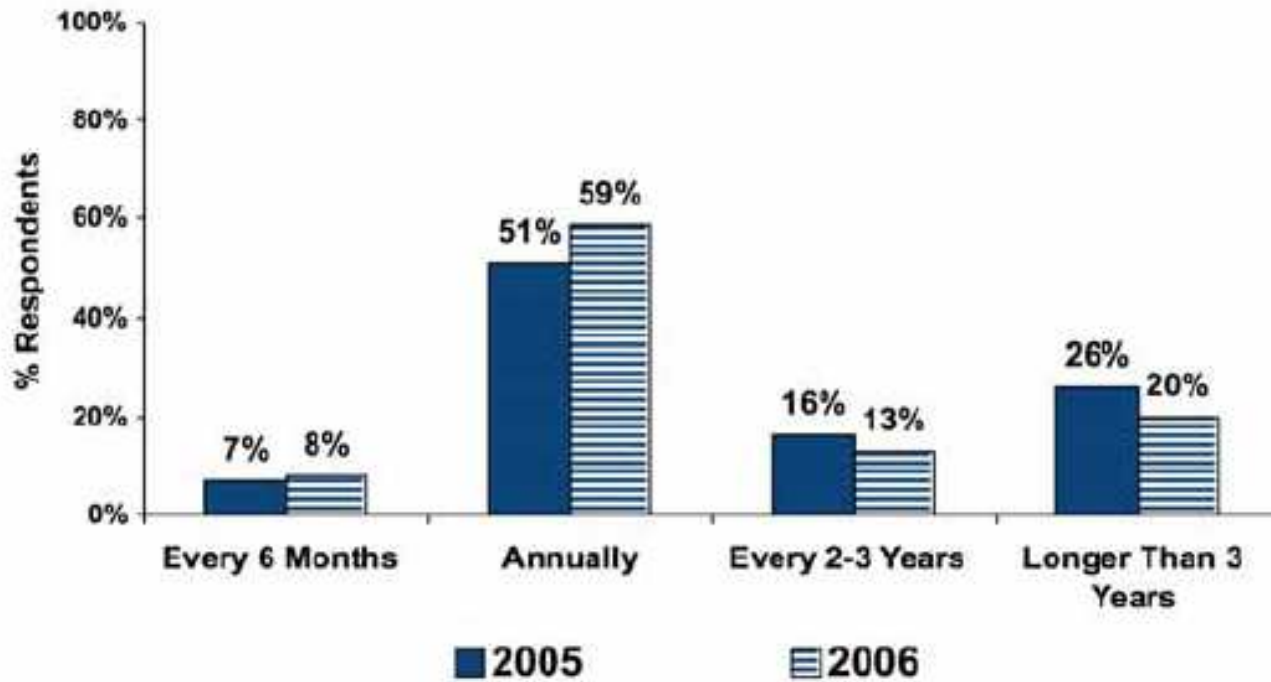
- Smaller Investment Portfolios (40% No Policy)
- Middle Market Companies (33% No Policy)
- Retailers (33% No Policy)
- Net Borrowers (28% No Policy)
- Privately Held Companies (25% No Policy)

Source: Treasury Strategies, Inc. 2006 U.S. Corporate Liquidity Study





Frequency With Which Short-Term Investment Policy Is Reviewed





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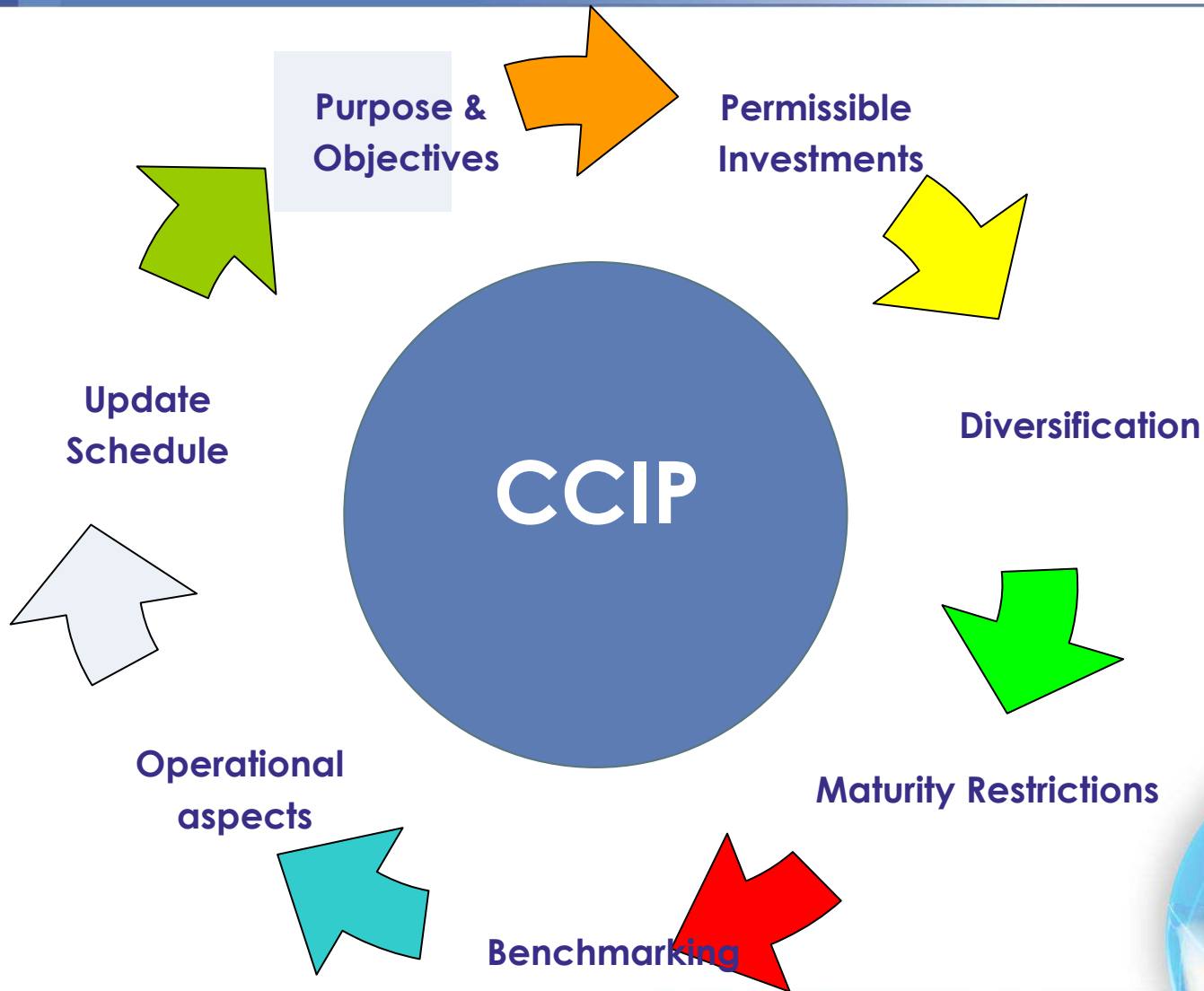
Components



CCIP - Components



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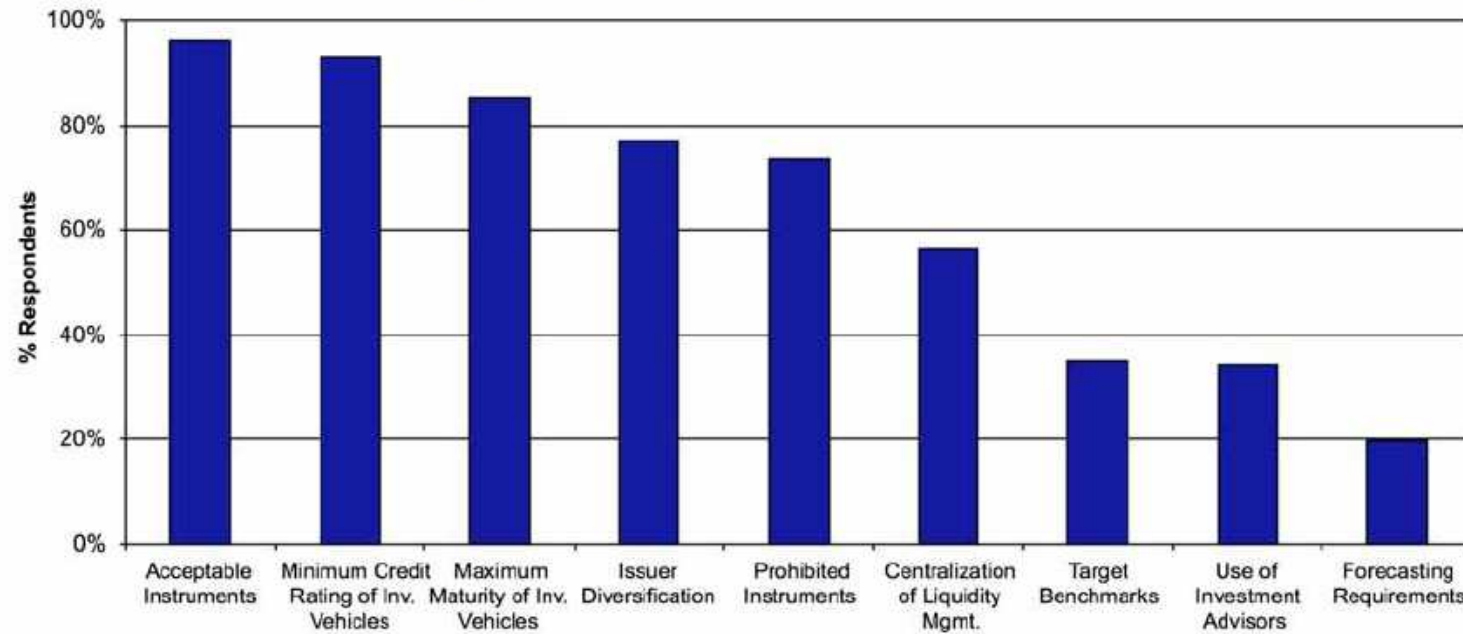


CCIP - Components



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Components of Short-Term Investment Policies

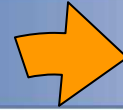


Source: Treasury Strategies, Inc. 2006 U.S. Corporate Liquidity Study





Purpose and Objectives

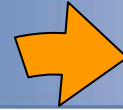


- The Investment Procedure should contain
 - a **Purpose Statement**;
 - an **Overall Objective** for the portfolio;
 - a **Return Objective** and
 - a **Risk Objective**
- **Purpose Statement** – clearly outlines the purpose of the invested funds – i.e. “provide market return on excess cash generated from operations”.
- Usually it is best to differentiate between **Core and Non-Core cash policies** – Core being the medium to long term liquidity balances and non-Core being the short term operating liquidity balances
- A good policy is flexible enough not to prevent prudent actions being taken, but robust enough to ensure rash decisions are avoided





Purpose and Objectives



- **Overall Objective** – Usually contains 3 elements:
 - Preserve the principal value of the investment portfolio
 - Maintain liquidity to meet anticipated cash flows
 - Achieve the best available yields consistent with capital preservations and liquidity requirements
- **Return Objective** – minimum return required on the portfolio in relations to its benchmark. Proper Risk objective definitions allow the corporation to determine whether or not the portfolio is positioned to earn the maximum possible risk-adjusted return on net cash
- **Risk Objective** – highly driven by the corporate appetite for risk associated with the portfolio. It might stipulate the corporate diversification requirements, weighted average credit rating of the portfolio, minimum ratings of individual securities, portfolio duration, sector concentration limits, etc.



CCIP - Components



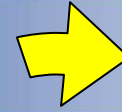
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Risk	Definition	Risk	Definition
Interest-rate	The risk of principal loss associated with a rise in interest rates	Yield Curve	The risk associated with changes in market (or principal) value based on changes in the shape of the yield curve
Default (Credit)	The risk that the issuer of a security will default	Downgrade	The risk to principal associated with the rating of an issuer's security being downgraded
Reinvestment	The risk that yields will fall causing maturing investments to be reinvested in lower yielding instruments	Shareholder (this risk is unique to fund products)	Risk to principal associated with the timing of fund shareholder redemptions
Sector (Industry)	The risk of default, or downgrade associated with a downturn in a specific industry group	Return Volatility	The risk associated with return variances surrounding the expected return
Liquidity	The likelihood that a security can be sold at or near its value	Accounting	The risk that the audit community will reclassify a security leading to restatement of corporate financials





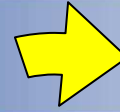
Permissible Investments



- The Investment Policy should clearly state the **allowable and prohibited investment** instruments, including credit ratings, for the investment portfolio
- Credit Ratings should be limited in **short and long term investments** (as applicable)
- The Investment Policy should also state the **maximum amount of the portfolio invested in a specific vehicle**
- **Segment** limitations – Tobacco, own segment, ...
- **Currency** limitations
- **Markets** limitations
- **Private/Public** Vehicles



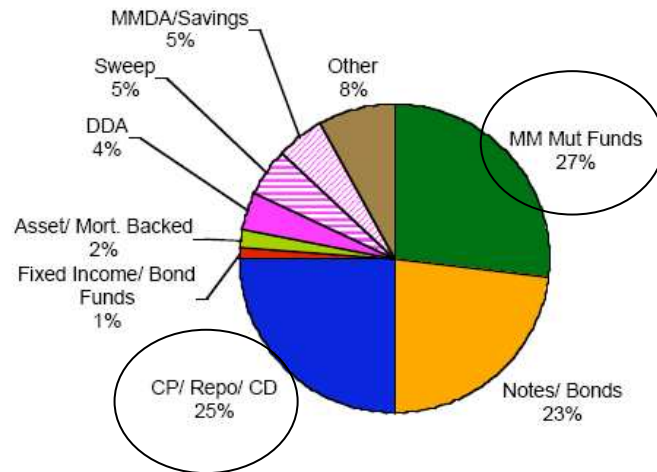
Permissible Investments



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2006

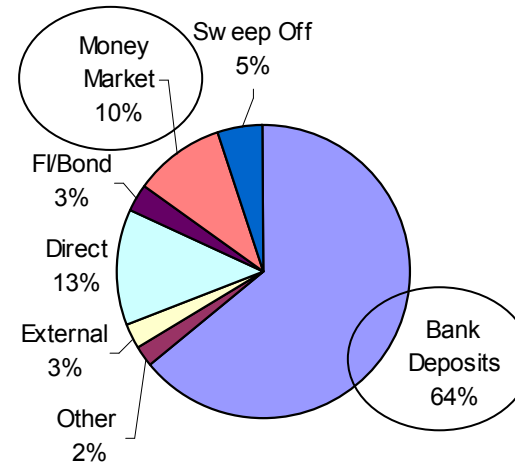
Corporate Liquidity by Instrument



Source: Treasury Strategies, Inc. 2006 U.S. Corporate Liquidity Study

2007

Corporate Liquidity by Instrument - Europe



Source: Treasury Strategies Inc. 2007 Key Trends In European Treasury

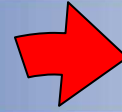




- Usually states limitation on concentrations in the portfolio from
 - A specific issuer perspective (% , \$) – “No position in any individual issuer is to exceed X% of the portfolio or \$Y whichever is lower...”
 - A specific Vehicle limitations (US Treasuries & Agencies and Money Market Funds – usually no limit)
 - No position shall exceed 20% of an outstanding trenches
 - A specific sector
 - ...



Maturity Restrictions



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- The Investment Policy should clearly state the maximum allowable maturity for any given instrument in the investment portfolio
- A second parameter is usually the average maturity days of the portfolio (“The weighted average maturity should not exceed V days...”)
- for Auction Rate Securities (and other variable rate securities), the final maturity corresponds to the next reset date



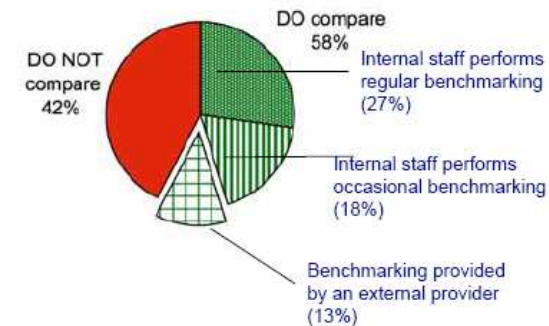
Benchmarking



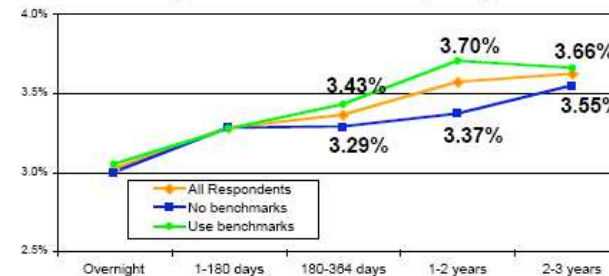
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- The Investment Policy should
 - state the **requirement for benchmarking performance** of the investment portfolio,
 - the **frequency** of benchmarking and
 - the appropriate **benchmarking indexes** to use
- Firms that benchmark the performance of ST investments reported higher yields on their liquidity portfolios

Percentage of Respondents That Compare Investment Performance Against External Benchmarks



Average Annualized Yield on Investments by Maturity



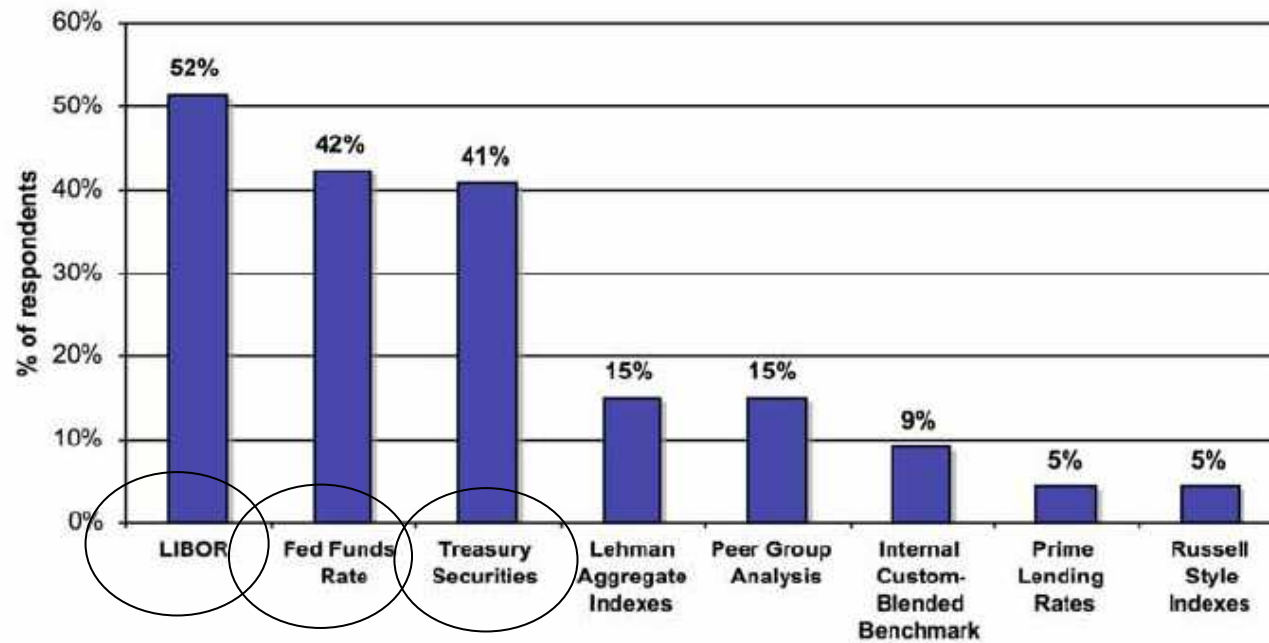
Source: Treasury Strategies, Inc. 2006 U.S. Corporate Liquidity Study





Benchmarking

Commonly Used Investment Benchmarks

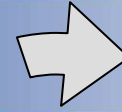


Source: Treasury Strategies, Inc. 2006 U.S. Corporate Liquidity Study





Operational Aspects



- **Internal Responsibility** – who is authorized to do what investment? Whose job is it to monitor and change? Etc.
- **Dealer Qualification and Performance Measurement :**
“Company is authorized to conduct transactions with investment entities which have total capital in excess of \$1 billion and are members of SIPC (Securities Investor Protection Corporation). Dealers are to provide safekeeping services and are expected to provide comprehensive month-end reporting...”
- **Review and Reporting** – Investment Committee – Monthly report / Quarterly presentation
- **Accounting/Reporting** requirements for statements
- **Outsourcing Cash Management**



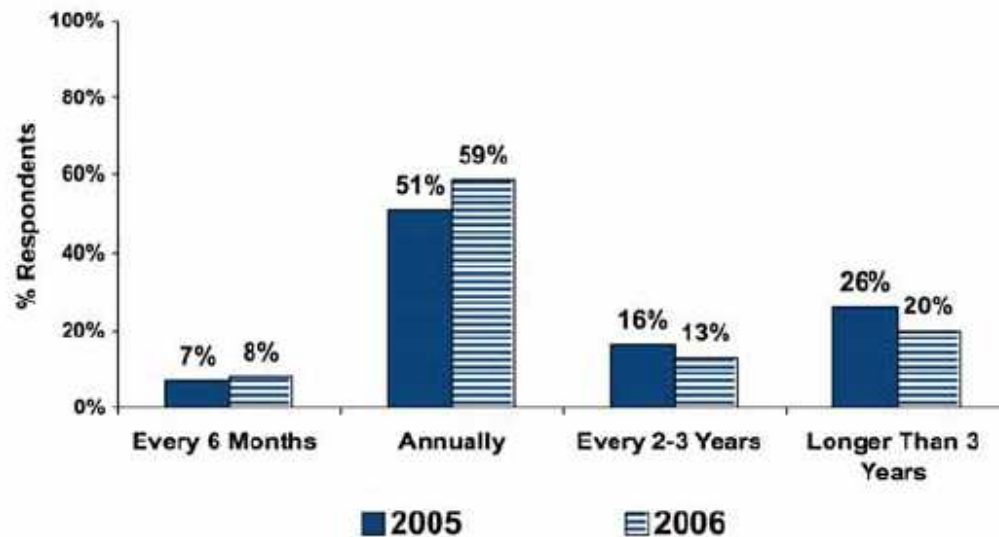
Policy Update Schedule



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- The frequency of periodical Investment Policy review
- In cases major events occur (major M&A), Change of long term strategy, major changes in external factors – “on the spot review”

Frequency With Which Short-Term Investment Policy Is Reviewed





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Summary





Summary

- Developing and Maintaining a Corporate Cash Investment Policy became critical in the current environment we are living in
- A good policy is flexible enough not to prevent prudent actions being taken, but robust enough to ensure rash decisions are avoided
- According to recent researches there is a growing trend in documenting and reviewing such policies
- A clear and solid, frequently reviewed, policy is a good mean to improve company performance and increase valuation





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Thank You

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For Further Information:

www.africa-israel.com



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CCIP - Components



MOODY'S

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