NORTHERN TRUST
ASSET MANAGEMENT

CASE STUDY

THINKING OUTSIDE THE BOX MAXIMIZES LIQUIDITY MANAGEMENT YIELDS

"How can we optimize our liquidity management product for retail investors, so that we deliver a higher yield without taking too much interest rate risk?"

The Client

An RIA with $12 billion in assets under management.

With $12 billion in assets under management, this registered investment advisor focuses on high-net-worth and mass affluent investors. It specializes in managing model-driven portfolios, constructed with ETFs and mutual funds.

The Challenge

Increasing yields in a strict regulatory environment.

How to generate yield after the SEC's Money Market Fund Reforms

After the 2008–2009 global financial crisis, managing short-term financial liquidity became far less straightforward. Until the crisis, the conventional solution was to invest in money market funds that delivered a decent return. But the crisis "broke the buck," meaning that it drove the net asset values of some money market funds below $1, resulting in investors losing money.

To protect investors, the Securities and Exchange Commission (SEC) introduced reforms in 2010, restricting funds' underlying investments to very-high-quality securities with a maximum duration of three months. That left this RIA and investors generally facing the challenge of how to generate yield in liquidity management. The RIA's high-net-worth investors were disappointed with the yield on its standard money market fund. Failing to offer a competitive liquidity management strategy could result in its investors choosing to place their money elsewhere.

Our Approach

Develop liquidity portfolios based on desired outcomes.

Segmenting liquidity portfolios according to goals

We worked with the RIA to better understand their needs and ultimately those of their high-net-worth and mass affluent investors. We then proposed a new approach, which is now known as "segmentation." This operated on the principle that a liquidity portfolio could be split into different elements with different goals. Doing so would lift aggregate yield.

The key was to segment liquidity portfolios according to three priorities: principal preservation, liquidity and yield. For instance, if a client needed liquidity for day-to-day spending that would need to be invested in a money market fund with principal preservation, while capital not needed so urgently might be left in reserve in a fund with slightly reduced liquidity. Finally, if the investor intends to keep a part of the liquidity portfolio invested for over a year, then it is likely possible to invest that part strategically in a way that would seek to generate a higher yield. Consequently, a liquidity solution could be customized for each client by splitting the portfolio across three corresponding strategies or products (see segmentation illustration).

THE THREE PILLARS OF CASH SEGMENTATION

Changes in the global liquidity market require investors to adopt a more strategic and focused approach to liquidity management — moving beyond a one-size-fits-all approach.

Operational (1- to 30-day maturities)	Reserve (1- to 90-day maturities)	Strategic (6- to 18-month maturities)
Day-to-day spending needs Highly liquid, invested conservatively	Intermediate or uncertain spending needs Slightly reduced liquidity	Long-term spending needs Reduced liquidity Seeks highest possible yield while preserving principal
PRODUCT TYPE: Money market fund	**PRODUCT TYPE:** Money market fund Custom strategy	**PRODUCT TYPE:** Ultra-short Custom strategy

In particular, investments with a time horizon of a year or more tend to earn a higher yield than shorter term investments, while only modestly increasing risk. Described as ultra-short-term, these slightly longer-term investments do not fall under the SEC's Money Market Fund Reforms, freeing them to invest in a wider range of securities and durations that offer higher yields (see analysis below).

RETURN AND RISK: THE LONGER THE TERM, THE GREATER THE RETURN

Index Return and Risk Analysis (01/1990–03/31/22)	3-Month T-Bill[1]	50% 3-Month T-Bill + 50% 1–3 Year Government/Credit[2]	1–3 Year Government/Credit[3]
Yield	0.24	1.33	2.41
Duration	0.17	1.00	1.84
Frequency of Loss			
Rolling 12-Mo. Periods (376 observed)			
# of Negative Periods	0	5	10
Minimum Return	0.01	-1.46	-2.98
Frequency of Loss (%)	0.0%	1.3%	2.7%
Rolling 3-Mo. Periods (385 observed)			
# of Negative Periods	4	24	39
Minimum Return	-0.11	-1.50	-3.04
Frequency of Loss (%)	1.0%	6.2%	10.1%

[1] Bloomberg U.S. 3-Month Treasury Bill. [2] Bloomberg 50% 3-Month Treasury Bill/50% 1–3 Year Government/Credit Bond Index. [3] U.S. 1–3 Year Government/Credit Bond Index.

Source: Bloomberg and Northern Trust. Data period: January 1990 through March 2022.

Past performance does not guarantee future results. Index returns do no reflect the deduction of any fees, trading costs or other expenses. Direct investment in an index is not possible

How helpful was this?

northerntrust.com

IMPORTANT INFORMATION

For Use with Financial Professionals 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.

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.

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.

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.

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 ofliquidity, 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.

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.

An investment in Northern Funds is not insured by the FDIC, and is not a deposit or obligation of, or guaranteed by The Northern Trust Company or any affiliate. An investment in Northern Funds involves risks, including possible loss of principal.

Please carefully read the prospectus and/or summary prospectus, which contains the investment objectives, risks, charges and expenses of Northern Funds and consider this and other information about the funds before investing. Call 877-867-1259 to obtain a prospectus.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Before investing, carefully consider the FlexShares investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by visiting www.flexshares.com. Read the prospectus carefully before you invest. Foreside Fund Services, LLC, distributor.

An investment in FlexShares is subject to investment risk, including the possible loss of principal amount invested. Funds' returns may not match the returns of their respective Indexes. The Funds may invest in emerging and foreign markets, derivatives and concentrated sectors. In addition, the Funds may be subject to asset class risk, small cap stock risk, value investing risk, non-diversification risk, fluctuation of yield, income risk, interest rate/maturity risk, currency risk, passive investment risk, inflation protected security risk, market risk and manager risk. For a complete description of risks associated with each Fund please refer to the prospectus.

FlexShares ETFs are managed by Northern Trust.

Northern Funds are distributed by Northern Funds Distributors, LLC, not affiliated with Northern Trust.

© 2022 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

Index performance is not indicative of the Funds' performance. For Fund performance, please call 1-800-595-9111.