

A Guide to Segmenting Cash for Liquidity and Return Goals

- + Managing large cash balances adds impetus to the need for more optimal cash management.
- + An appropriate investment strategy depends on an assessment of an organization's specific liquidity needs and risk tolerances.
- + Dividing cash balances into three segments—operating cash, working capital, and strategic cash—may help enhance the return of an overall cash portfolio.

We have always advised our clients to optimize, or segment, their cash by time horizon and risk tolerance and then invest each segment in a way that maximizes expected risk-adjusted returns.

Solutions that help optimize a cash portfolio invariably require an intimate understanding of client needs and a sophisticated approach to help balance the competing challenges of maximizing investment returns after ensuring adequate safety and liquidity.

This paper outlines practical ways to help optimize a cash portfolio's investment strategy by using a full spectrum of liquidity solutions. In addition to money market funds for operating cash, solutions for assets that do not need to be available daily may include ultra-short-term fixed income funds, short-term bond funds, or customized separate accounts. These additional liquidity solutions have the potential to enhance total returns because they are able to extend the average maturity of the portfolio out on the yield curve and/or add credit risk—the two primary levers that cash investors can pull as they seek to increase returns.

Why consider "segmenting" cash? And what do we mean?

As a rule, successful optimization of an organization's cash reserves hinges on reasonably accurate estimates of near-term cash flows.

As Exhibit 1 shows, it's helpful to think of three potential segments for cash investments:

- 01** Operating cash is used for regular cash needs, such as payroll and vendor payments. Its key characteristics are capital preservation, daily liquidity, and low volatility. This segment should also be available for unexpected cash needs.
- 02** Working capital is used on a less frequent basis for items such as quarterly tax payments, dividends, or other capital expenditures. As a result, its average maturity is longer than that of operating cash and it does not require same-day liquidity.
- 03** Strategic cash is not needed for daily liquidity and instead has an average maturity greater than one year. Ideally, this would be a pool of money that's maintained on a firm's balance sheet for a number of years at a relatively stable amount.



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Accurate forecasting of how much and how long cash will be available in each of these segments is important.

If the amount of operating cash is overstated, then the benefit of investing an optimal amount in higher-yielding investment strategies is lost. If cash with a longer average maturity is overstated, an unexpected gain or loss may occur if that cash is not available. If that cash is needed immediately and unexpectedly, this could prove costly, particularly during periods of rising interest rates and/or widening credit spreads.

EXHIBIT 1: SPECTRUM OF LIQUIDITY SOLUTIONS

SEGMENT	OPERATING CASH	WORKING CAPITAL	STRATEGIC CASH
Used for	Payroll, operating expenses, etc.	Quarterly tax payments, capital expenditures, etc.	Long-term spending
Time horizon	1 day to 30 days	1 month to 12 months	1 year to 5 years
Risk/reward tolerance	Low-risk, low-return overnight cash	Medium-risk, medium-return enhanced cash	Higher-risk, higher-return limited duration
Investment type	Money market funds, bank deposits	Ultra-short-term fixed income, separate accounts, self-directed investments	Short-duration fixed income, separate accounts, multi-asset solutions

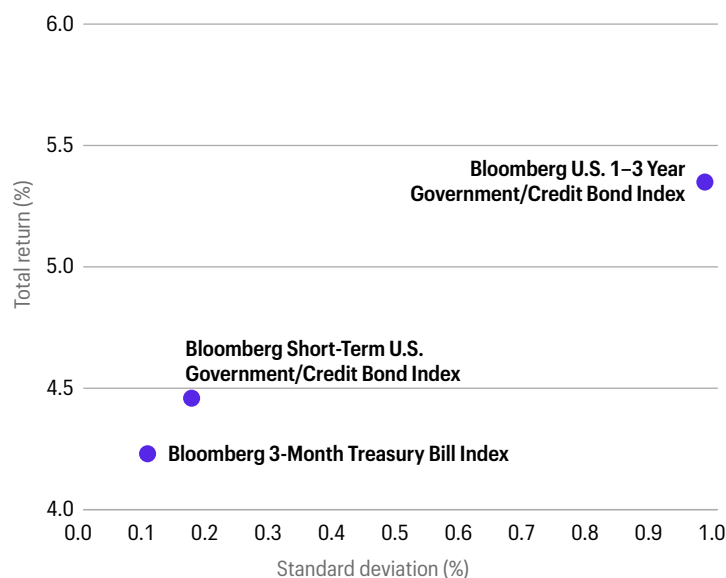
Source: Allspring

What types of investment strategies are in each segment?

The investment choices along the liquidity solutions spectrum (Exhibit 2) are most liquid and have the greatest stability of capital on the left. As you begin to move to the right of the spectrum and seek additional yield or total return opportunities, risk also increases, as measured by standard deviation of returns. It's important to understand the investment objective of each of these strategies and translate that knowledge into whether the expected investment outcome is suitable for a particular organization's cash needs.

EXHIBIT 2: THE LIQUIDITY SOLUTIONS SPECTRUM SHOWS THAT LONGER MATURITIES HAVE HISTORICALLY PROVIDED HIGHER RETURNS BUT WITH HIGHER VOLATILITY

One-year risk-return profiles



Sources: Allspring and Bloomberg Finance L.P.; data as of December 31, 2025. Past performance is no guarantee of future results. You cannot invest directly in an index.

Operating cash (1 day to 30 days)

MONEY MARKET FUNDS

Money market funds continue to be a widely used investment strategy for operating cash because they offer investors daily liquidity. Government/Treasury money market funds transact at a constant or stable net asset value (NAV) of \$1.00—an attraction for investors seeking the highest levels of principal preservation and liquidity. It also means they are often a fund of choice for cash sweep purposes.

BANK DEPOSITS

Bank deposits are less attractive today than in years past due to stricter banking regulations, such as Basel III. Among the reforms designed to strengthen the banking sector's resilience to liquidity shocks is the liquidity coverage ratio (LCR). The LCR is the requirement that banks have sufficient high-quality liquid assets to withstand a period of significant liquidity stress lasting 30 days. The new regulations make some types of deposits less profitable for banks. Therefore, they are likely to move them off the bank's balance sheet or charge fees to hold those types of deposits.



Working capital (1 month to 12 months)

ULTRA-SHORT-TERM FIXED INCOME STRATEGIES

Ultra-short-term fixed income strategies are often used by cash investors seeking additional yield opportunities for a portion of working capital beyond daily liquidity needs. These types of funds and separate accounts are the first step beyond money market funds in the liquidity spectrum. They offer longer-term allowable maturities and credit risk, which allows for additional yield. They typically have an average duration of less than one year.

Characteristics in the ultra-short-term fixed income universe can vary. They represent a range of investment strategies with varying maturity and credit profiles. For example, three of the ultra-short-term fixed income funds and separate accounts offered by Allspring (Exhibit 3) aim to deliver competitive risk-adjusted returns through taxable income, or in the case of municipal strategies, may offer tax-exempt income for investors. With different types of strategies available in the ultra-short-term space, investors should choose solutions that most closely meet their objectives.

EXHIBIT 3: COMPARISON OF ALLSPRING ULTRA-SHORT-TERM STRATEGIES

	ULTRA SHORT-TERM INCOME FUND	ULTRA SHORT-TERM MUNICIPAL INCOME FUND	U.S. TAXABLE 6-MONTH STRATEGY
Duration target	Maximum effective duration of 1 year and target duration of 6 months	Weighted average effective duration target of 0.75 years	Maximum effective duration of 1 year and target duration of 6 months
Credit quality	Has a maximum of 15% in below-investment-grade securities	Has a maximum of 10% in below-investment-grade municipal securities	Does not invest in below-investment-grade securities
Principal investments	Treasuries/Government-related, Corporate bonds, ABS, CMOs, CMBS, and MBS	Municipal securities such as general obligation and revenue bonds, variable-rate demand notes	Treasuries/Government-related, Corporate bonds, ABS, MBS

Source: Allspring

STRATEGY RISKS

MARKET RISK: Security markets are volatile and may decline significantly in response to adverse issuer, regulatory, political, or economic developments with different sectors of the market and different security types reacting differently to such developments. **DEBT SECURITIES RISK:** Debt securities are subject to both credit and interest rate risk. Credit risk is the possibility that the issuer or guarantor of a debt security may be unable, or perceived to be unable or unwilling, to pay interest or repay principal when they become due, and credit risk increases as an issuer's credit quality or financial strength declines. Interest rate risk is the possibility that interest rates will change over time such that when interest rates rise, the value of debt securities tends to fall and the longer the terms of the debt securities held the greater the impact of this risk. **HIGH YIELD RISK:** If a strategy invests in high yield securities (commonly known as junk bonds), these securities are considered speculative and have a much greater risk of default or of not returning principal and their values tend to be more volatile than higher-rated securities with similar maturities. **FOREIGN SECURITIES RISK:** If a strategy invests in the securities of non-U.S. issuers, these investments may be subject to lower liquidity, greater price volatility, and risks related to adverse political, regulatory, market, or economic developments and may be affected by changes in foreign currency exchange rates.

Investors should know that this strategy deployed may be subject to additional investment risks. For important information about the investment manager, please refer to the investment manager's Form ADV Part 2, which is available upon request.

MBS: Mortgage-backed securities. ABS: Asset-backed securities. CMOs: Collateralized mortgage obligations. CMBS: Commercial mortgage-backed securities.

Strategic cash (1 year to 5 years)

SHORT-TERM BOND FUNDS

Short-term bond funds are the next step beyond ultra-short-term fixed income funds and are part of the strategic cash segment of the liquidity spectrum. In fact, short-term government bond funds are an intermediate step between ultra-short-term and short-term bond funds because they mainly seek additional yield by extending duration and maintaining a high-quality credit profile (government). For nongovernment short-term bond funds, additional yield is sought by extending duration, credit quality, and asset type. Funds in the short-term bond fund category have durations of 1.0 to 3.5 years according to the Morningstar definition. These funds are attractive to moderately conservative investors, as they are less sensitive to interest rates than funds with longer durations. The

returns, as measured by the representative indexes in Exhibit 4, show that the strategic cash segment has outperformed funds in the working capital segment. It's important to note that its volatility has been greater as well over the past 3-, 5-, and 10-year periods.

CUSTOMIZED SEPARATE ACCOUNTS

Customized separate accounts may also be an investment consideration for institutional clients. The benefit of using a separate account is the ability to customize investment preferences for risk tolerances, return objectives, and cash flows. Customization can also address gain/loss sensitivity, financial statement implications, and tax concerns. Due to their flexibility, customized separate accounts can be used along the entire liquidity spectrum for operating cash, working capital, and/or strategic cash needs.



MULTI-ASSET SOLUTIONS

A customized solution that is unconstrained by asset class and can deliver on client outcomes, be it preservation, growth, and/or income, may be appropriate for strategic cash. Our Multi-Asset Solutions (MAS) team works with institutional clients to invest this portion of their cash by understanding their investment objectives and risk tolerances, including any constraints they may have. The MAS team then creates a customized solution offering globally unconstrained investments, including passive, factor-based, fundamental, and derivative-based investment strategies that incorporate dynamic asset allocation and downside risk management.

SELF-DIRECTED INVESTMENTS

Self-directed investments are an option for treasury departments with the expertise and resources to manage a fixed income portfolio. It's time intensive to conduct in-depth credit research, analyze yield curve shifts, and understand supply and demand technical factors. The ability to achieve best execution in a competitive environment is also important. For total return needs, we believe it's important to be able to judge if a particular security presents a good value at a particular price. It's not enough that an asset is cheap because there may be a good reason for it, and it may be at risk of becoming even cheaper. Additionally, portfolio reporting and risk management should be undertaken internally.

How do the three cash segments compare?

Just as Exhibit 2 shows, Exhibit 4 also shows that total returns and volatility (as measured by standard deviation) increase as the duration and investment types are extended. As expected, the investment types within the operating cash segment have lower volatility and lower returns than the working capital and strategic cash segments.

EXHIBIT 4: HISTORICAL PERSPECTIVE OF INVESTMENT OUTCOMES AS OF DECEMBER 31, 2025

CASH SEGMENT	OPERATING CASH	WORKING CAPITAL	STRATEGIC CASH
Representative index	Bloomberg 3-Month T-Bill Index	Bloomberg Short-Term U.S. Government/Credit Bond Index	Bloomberg U.S. 1-3 Year Government/Credit Bond Index
TOTAL RETURNS (%)			
1 year	4.23	4.46	5.35
3 year	4.89	4.99	4.77
5 year	3.23	3.12	1.97
10 year	2.21	2.34	2.09
STANDARD DEVIATION (%)			
3 year	0.18	0.31	1.77
5 year	0.63	0.74	2.02
10 year	0.56	0.60	1.57
Duration	0.24	0.52	1.85
	↓	↓	↓
Example investment strategies	Money market fund	Ultra-short-term bond fund/separate account	Short-term bond fund/separate account
Example settlement schedules	Same day	Next day	Next day

Sources: Allspring and Bloomberg Finance L.P.; data as of December 31, 2025. **Past performance is no guarantee of future results.** You cannot invest directly in an index.



To expand on this idea, Exhibit 5 shows the range of total returns over the past 10 years based on the rolling one-year returns as of month-end. This gives investors an idea of the highest, lowest, and mean returns over the long term, which may be helpful in assessing an investor’s risk tolerance. We’ve provided Exhibit 6, which shows similar data but instead shows rolling three-month returns over the same period to give investors an idea of what return volatility may look like for a three-month holding period. Both exhibits indicate that as duration is extended, average returns increase over time but with additional volatility.

EXHIBIT 5: MORE DURATION RISK HAS RESULTED IN HIGHER RETURNS BUT WITH MORE VOLATILITY

Rolling one-year returns at month-end December 31, 2015–December 31, 2025

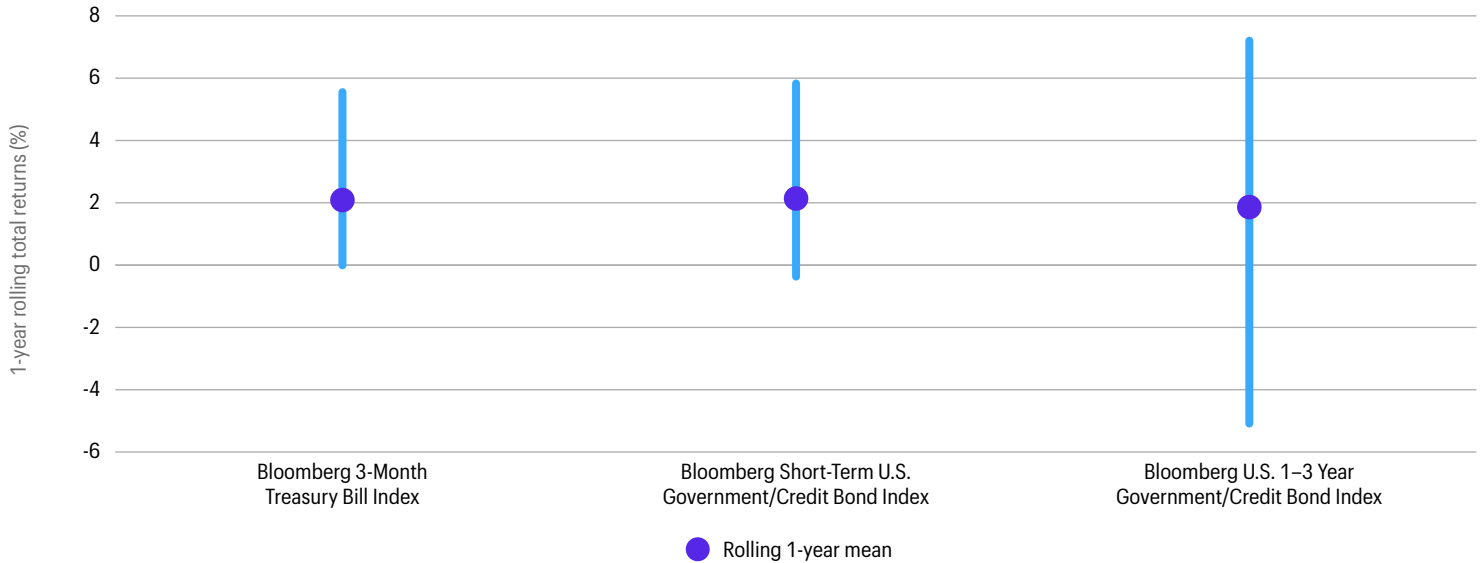
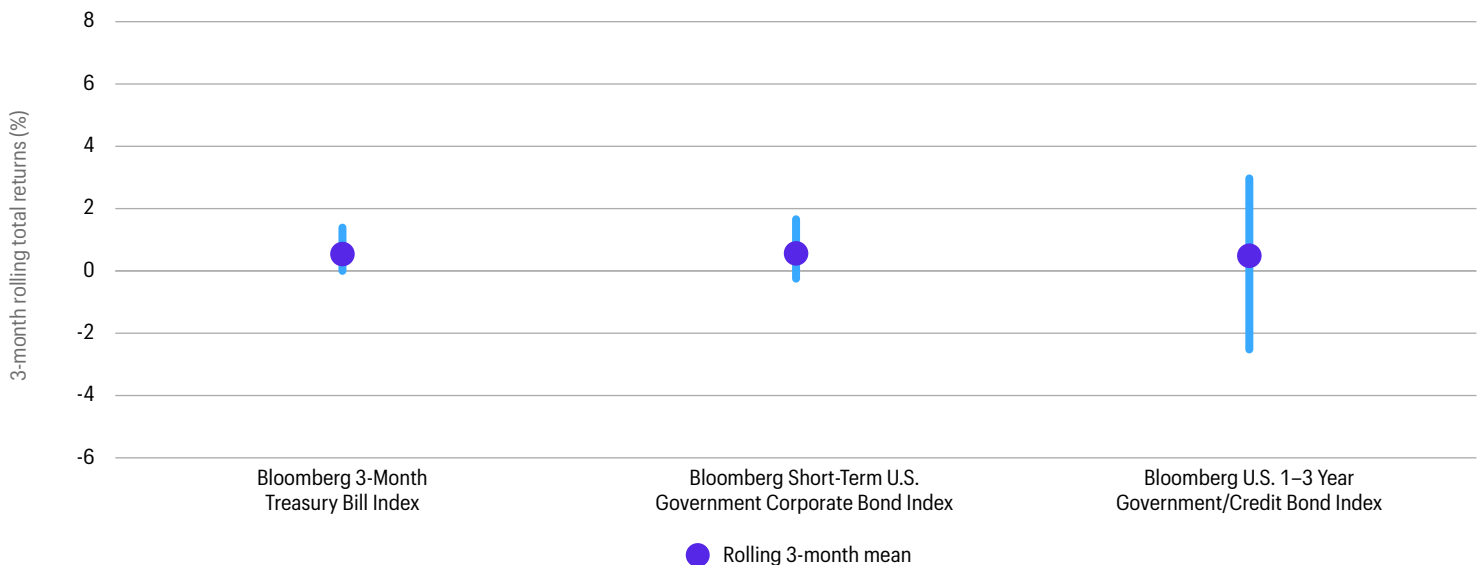


EXHIBIT 6: SHORTER TIME PERIODS HELP FURTHER QUANTIFY RISK AND RETURNS

Rolling three-month returns at month-end December 31, 2015–December 31, 2025



Sources: Allspring and Bloomberg Finance L.P.; data as of December 31, 2025. Past performance is no guarantee of future results. You cannot invest directly in an index.

The takeaway is that the working capital and strategic cash segments may have some negative quarterly returns, but the average rolling one-year returns historically were positive. Operating cash investments, which are focused on capital preservation, consistently did not experience any negative periods of three-month rolling returns during the measured time period.



What are some practical ways to assess investment needs and risk tolerances?

After cash has been allocated to the appropriate investment strategy segment, a periodic assessment of an organization's liquidity needs, risk tolerances, and return objectives is needed. Many treasury departments will work with us to develop appropriate investment policies and strategies. This conversation should include a realistic understanding of what each investment strategy would mean to a cash portfolio. Questions that should be asked include:

HOW LIQUID IS AN INVESTMENT SOLUTION?

For money market funds, daily liquidity is possible, as the fund's holdings can be sold quickly and converted to cash to meet shareholder redemptions. This allows government and retail money market funds specifically to also transact at a stable NAV. Ultra-short-term bond funds and separate accounts are also very liquid; however, liquidity is typically available next day.

HOW MUCH INTEREST RATE RISK IS ACCEPTABLE?

Duration of a fixed income investment is an important consideration in determining an appropriate investment. Simply put, duration measures the interest rate sensitivity for a fixed income security or portfolio as interest rates fluctuate. For example, a fixed income security or bond portfolio with a duration of one year means that if interest rates fluctuate up or down by 1.00%, the value of the security or portfolio would be expected to fall or increase by 1.00%, respectively. Over the course of one year, however, a 1.00% rise in interest rates would be offset by coupon income and also provide an opportunity to reinvest at higher rates.

HOW CAN OTHER DOWNSIDE RISKS BE GAUGED?

A scenario analysis is done by using a proxy portfolio of potential duration and credit profiles to analyze the effect of higher interest rates or an increase in credit spreads. For cash management decisions, it's appropriate to analyze the effect of these potential events on return and income potential over a 3-month and 12-month period.

Review the investment policy statement

The investment policy statement (IPS) is a document that serves as a policy guide to meet the goals and objectives of an investment portfolio over the long run. Whether reviewing an IPS or broadening it to include a full spectrum of liquidity solutions, the goal is the same: to fully understand an institution's specific situation, including investment objectives, risk tolerance, return expectations, and investment constraints.

We recommend that an IPS be reviewed at least annually to determine if the institution's needs have changed. Within the permitted investments portion of an IPS, a fund (money market or short-term bond) should be an approved investment type itself, as opposed to looking at each security within a fund on an individual basis.

Develop an investment strategy for each segment

An investment strategy should be developed for each cash segment based on the investment objectives, which are generally prioritized in the order of capital preservation, liquidity, and competitive returns. As risk tolerance and return requirements are at the heart of an institution's investment objectives, it's worth a closer look with regard to each investment segment.

INVESTMENT RISK TOLERANCE

While a risk-averse client is likely to seek capital preservation above all other objectives, there are a number of sources of risk that an investment committee needs to consider, such as credit risk, interest rate risk, and liquidity risk. The potential effect of these risks on a cash portfolio should help an investment committee understand the risk it may be undertaking and the amount of risk it's willing to take.

RETURN REQUIREMENTS

An investment committee should consider how much return is needed and is realistic for various yield environments. The type of return matters as well. Short-term operating cash portfolios may not require much in terms of total return and may focus primarily on capital preservation. Others may need a certain amount of income or yield, and still others may seek a combination of income and capital appreciation and therefore specify total return requirements.





Conclusion

In order to achieve your desired investment objective, now is a good time to explore ways to optimize your cash portfolio's investment strategy.

Money market funds are likely to remain a good choice for many investors, particularly for operating cash needs. Ultra-short-term and short-term bond strategies are designed to offer more yield and total return potential but have less liquidity and more volatility. In thinking about optimizing investments along the liquidity spectrum, it's important to keep in mind that ultra-short-term and short-term bond funds as well as customized separately managed accounts are designed for cash investors who desire additional yield opportunities for a portion of their working capital or strategic cash beyond daily liquidity needs. These types of investment strategies seek to efficiently manage cash with appropriate amounts of volatility by limiting interest rate risk, owning high-quality securities, and relying on experienced credit research teams.

For further information

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Investing involves risks, including the possible loss of principal. Bond values fluctuate in response to the financial condition of individual issuers, general market and economic conditions, and changes in interest rates. Changes in market conditions and government policies may lead to periods of heightened volatility in the bond market and reduced liquidity for certain bonds held by the fund. In general, when interest rates rise, bond values fall and investors may lose principal value. Interest rate changes and their impact on the fund and its share price can be sudden and unpredictable. Funds that concentrate their investments in a single industry may face increased risk of price fluctuation over more diversified funds due to adverse developments within that industry. Foreign investments are especially volatile and can rise or fall dramatically due to differences in the political and economic conditions of the host country. These risks are generally intensified in emerging markets. High yield securities and junk bonds have a greater risk of default and tend to be more volatile than higher-rated securities with similar maturities. Municipal securities risk includes the ability of the issuer to repay the obligation, the possibility of future tax and legislative changes and other factors, that may adversely impact the liquidity and value of the municipal securities in which the fund invests. A portion of the fund's income may be subject to federal, state, and/or local income taxes or the alternative minimum tax. Any capital gains distributions may be taxable. Consult a fund's prospectus for additional information on these and other risks.

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