

A Modern Liquidity Framework: Unlocking Value Through Private Investment Grade Credit

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Brian Weinstein

Apollo Partner and Head of Fixed Income Replacement

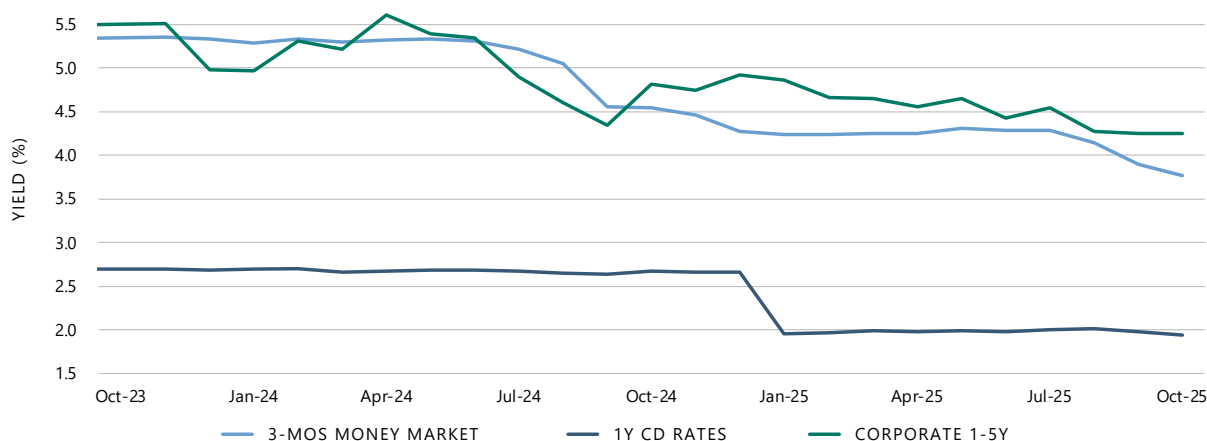
Across market cycles, investors have gravitated toward daily liquid cash instruments such as deposits, Treasury bills and money market funds for safety and flexibility. Much of this cash is often earmarked for future spending, strategic reserves, long-term capital deployment and other needs that do not require the daily liquidity provided by these instruments.

As policy rates drift lower and public credit spreads remain tight (**Exhibit 1**), the opportunity cost of holding excess cash in traditional vehicles is rising. While money market funds and short-term bonds remain essential for operating and reserve liquidity, these vehicles increasingly embed a “liquidity premium” — investors accept materially lower yields in exchange for daily liquidity they do not actually need.

This imbalance creates an opportunity to revisit the cash segmentation framework and introduce a distinct “strategic” or surplus tier that balances principal preservation, liquidity needs and enhanced return potential.

By integrating Private Investment Grade Credit (“Private IG”) as a new tier within a modern liquidity framework, investors are able to reduce the cost of holding excess daily liquidity, align cash more effectively with its intended use and meaningfully improve the efficiency of their overall portfolio.

Exhibit 1: Cash is Not “King”



Sources: Bloomberg, Apollo Analysts

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The Next Evolution

A tiered framework for liquidity management has long helped investors align cash holdings with their intended use. While this framework has stood the test of time, the opportunity set available to the surplus tier has evolved meaningfully in recent years. Historically, public short-duration bond funds were the primary tool available for investors seeking incremental return over money market or equivalent strategies. Today, Private IG has matured into a distinct and scalable segment of the fixed-income universe that sits as a natural extension beyond daily liquid instruments and public bond ladders.

A modern approach to liquidity segmentation can organize capital into three buckets based on when dollars are actually needed (**Exhibit 2**):

- **Tier 1: Operating Liquidity (Daily Needs)**

Cash intended for immediate outflows, payments and treasury operations. Instruments include bank deposits, Treasury bills and money market funds.

- **Tier 2: Reserve Liquidity (Weekly/Monthly Needs)**

Capital earmarked for rolling reserves, risk buffers and known near-term obligations. Ultra-short-term public strategies and short-duration portfolios have traditionally played this role.

- **Tier 3: Surplus or Strategic Liquidity (3-Month+ Needs)**

Assets with modest liquidity needs, stable credit characteristics and a higher return objective. Historically addressed through public short-duration strategies, this tier now includes Private IG, which can offer enhanced yield while still maintaining credit quality.

Exhibit 2: A Three-Tiered Framework for Liquidity Management

	TIER 1 Operating Cash	TIER 2 Reserve Cash	TIER 3 Strategic/Surplus Cash
Time Horizon	Daily	Weekly/Monthly	3-Month+
Objective	Certainty of access; Yield is secondary	Modest yield enhancement over cash with very low duration	Highest yield while maintaining capital preservation
Role	• Immediate spending • Emergency funds	• Planned disbursements • Rolling reserves	• Strategic balances • Fund capital calls
Cash settlement	Same day/overnight	1–30 days	45–60 days
Investment options	• Bank deposits • Money Markets	• Certificates of Deposits (CDs) • Ultra Short Fixed Income • Short-term fixed income	IG Short Duration
Illustrative yield	< 4%	3–5% (Cash +100-150 bps)	6–7% (Cash +150-300 bps)
Consideration	• Daily liquid with stable NAV	• Excess yield vs. cash; Still high average credit quality	• Access to Private IG with monthly liquidity redemption option • 150-200 bps incremental yield due to complexity and origination premiums • Maintain high credit quality at all times

Source: Apollo Analysts

Why Private IG Can Function Well as a Surplus-Tier Allocation

Private IG has evolved significantly over the last decade. Once anchored in corporate private placements, the market now includes a much broader opportunity set that spans corporate credit, asset-backed finance and structured solutions. Larger transaction sizes, more standardized documentation, increased participation from banks and intermediaries, and the emergence of dealer-supported pricing have all contributed to a more tradable and transparent market. Semi-liquid structures have also improved access, enabling investors to allocate to Private IG without locking up capital for years at a time.

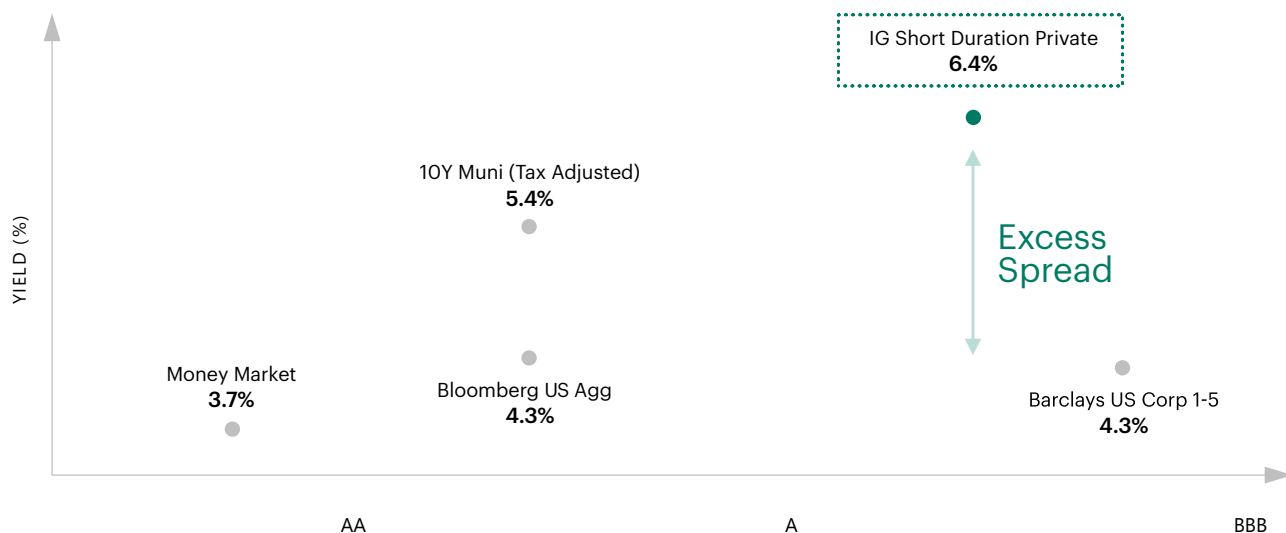
As Private IG has expanded, its combination of high-quality credit exposure, stable income and measured liquidity has made it an effective complement to public IG and well suited to a surplus-tier mandate. The asset class is characterized by investment-grade equivalent credit quality, often supported by structural protections such as collateralization, conservative underwriting and covenants designed to preserve seniority. Private IG strategies frequently maintain short effective duration or floating-rate exposure, enabling them to navigate shifting rate environments with limited sensitivity. Just as

important, they provide access to parts of the credit market that are more complex to originate or less intermediated, creating opportunities to earn yields above those available in comparable public markets.

These strategies typically target mid- to high single-digit yields, exceeding traditional money market or public short-duration options by roughly 150 to 300 basis points (**Exhibit 3**). The additional return reflects complexity and origination premia rather than a meaningful increase in credit risk. Private IG transactions have historically exhibited low default rates and stronger recoveries than comparable public bonds. Through diversification across corporate and asset-backed exposures, the category aims to deliver high-quality income while maintaining capital stability.

Periodic liquidity also aligns naturally with the role of surplus capital. Monthly redemption windows provide practical access without imposing the cost of daily liquidity. For many investors, these intervals match the cadence at which strategic cash is deployed or rebalanced. While Private IG does not function as a substitute for operating cash, it can provide liquidity that is usually more than sufficient for the majority of surplus-tier use cases, particularly for investors with predictable cash-flow cycles.

Exhibit 3: Private IG Can Offer Enhanced Yield Relative to Comparable Public Markets



Data as of October 31, 2025. IG Short Duration Private ratings are based on the underlying investment ratings using S&P, Kroll, Moody's and Apollo Analysts. Future results may vary substantially. Sources: Apollo Analysts, Barclays, ICE BofA, Pension & Investments

The Bottom Line

As Private IG becomes a more transparent, liquid and widely adopted segment of the market, we see it emerging as a valuable addition to existing tools to strengthen the overall architecture of liquidity management. Incorporating Private IG can help allocators improve the efficiency of their liquidity stack by preserving the safety and flexibility of operating cash

while unlocking additional value from dollars that do not require immediate deployment. For investors navigating today's world of declining cash yields, this evolution creates a timely opportunity to reposition surplus capital in a way that can enhance both return potential and portfolio resilience.



Brian Weinstein
Apollo Partner and
Head of Fixed Income
Replacement

Brian Weinstein is a Partner and Head of Fixed Income Replacement, responsible for shaping Apollo's Fixed Income Replacement strategy and product suite. Prior to joining in 2025, Brian was at Morgan Stanley Investment Management, where he most recently served as the Head of Global Markets and Head of Fixed Income.

Previously, he was a cofounder and CIO of Blue Elephant Capital Management, and held senior roles at BlackRock including Head of Multi-Sector Fixed Income. Brian is a graduate of the University of Pennsylvania.

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