NOTTINGHAMSHIRE
Fire & Rescue Service
*Creating Safer Communities*

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

# MONEY MARKET FUND INVESTMENTS

## Report of the Treasurer to the Fire Authority

**Agenda Item No:**

**Date:** 09 July 2010

**Purpose of Report:**

To inform Members about the use of money market funds before using them as an investment vehicle for the Fire and Rescue Authority.

**CONTACT OFFICER**


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## 1. BACKGROUND

1.1 The Finance and Resources Committee agreed the strategy for Treasury Management at its meeting on 9 April 2010 and this has since been ratified by the full Fire Authority.

1.2 Within this strategy is the authorised lending list which sets out the conditions to be met by all and any counterparties that the Authority may wish to invest surplus fund with. For a number of years "AAA Rated" Money Market Funds have been available to Local Authorities and the Fire Authority have been able to invest in them.

1.3 As this represents a significant move away from the sort of counterparties that are normally used it is felt appropriate to produce this report to explain to Members the nature and purpose of money market funds before seeking to invest in them.

## 2. REPORT

2.1 The Fire Authority does not have significant amounts of surplus cash and it is becoming more difficult to find borrowers who will meet the stringent credit worthiness requirements that the Authority imposes. Similarly the type of institution that the Authority may wish to invest with are often not interested in small sums of cash neither do they offer the flexibility that the Authority needs in terms of being able to access funds quickly.

2.2 Both of these requirements in turn create a risk that the number of counterparties is low and significant (from the Fire Authority's perspective) sums of money end up being deposited with an increasingly small group of counterparties.

2.3 The Authority, again because it has only small amounts to invest, does not get any exposure to other investments in the market and is limited instead to straightforward cash loans to large financial institutions.

2.4 Members may be familiar with the concept of pooled funds or "funds of funds" from such as pension investments but the best way to describe a money market fund is that it is a little like a unit trust with a large number of investors placing cash into a single fund which is then used to invest in a whole range of different "cash like" financial instruments to the benefit of the fund members.

2.5 For example a typical fund may contain:

| | |
|---|---|
| Treasury Bills | (short dated government securities) |
| Other Government Stock | (typically Gilts) |

| | |
|---|---|
| Repurchase Agreements | (Where a seller agrees to repurchase a security at a given price and a later date) |
| Term Deposits | (A loan granted for a fixed period) |
| Certificated Deposits | (A Certificate issued by a bank has assume on deposit for a fixed period – usually tradeable) |
| Commercial Paper | (Unsecured short term deposit 2-270 days) |
| Floating Rate Notes | (Debt instrument with variable rate) |
| Non-Governmental Bonds | (A bond issued by an institution) |
| Asset Backed Securities | (Backed by underlying security) |
| Other Securities | (Typically a mortgage) |

2.6 All of these instruments have the potential to secure better rates than straightforward market investments but none of these would be available directly to the Fire Authority due to the sums required and the variable repayment terms. By pooling large sums of money and spreading the risk across a number of different instruments the fund itself can acquire a high credit rating, typically "AAA" which is what makes it attractive to Local Government investors.

2.7 These funds also have two other major advantages over traditional lending routes:

i) Low initial investment of between £250k and £1m
ii) Instant Access with no penalty

2.8 The Authority has an obligation to achieve three things from its Treasury strategy:

i) Security
ii) Liquidity
iii) Yield

The first two of these are requirements under the CIPFA code and the third is a local requirement.

A Money Market Fund can achieve all three of these objectives as well as allowing some diversification even within a small portfolio.

2.9 Money Market Funds are typically denominated in Sterling although usually domiciled in Luxembourg or Dublin due to 10% tax levels. Recently rules have changed which allow funds to be domiciled in London although few have done so.

2.5 It should be emphasised that money market funds are only really of any use for short term investment of up to 60 days, but this is the level that the Authority tends to use most often.

2.6 This report proposes that the option to use Money Market Funds remains within the existing approval.

## 3. FINANCIAL IMPLICATIONS

The financial implications are twofold in that on the one hand money market funds represent a way of maximising returns on short term investment without extending risk beyond “AAA”. On the other hand they also represent a means of diversifying a small portfolio. These two issues combined with meeting the requirements of the CIPFA code make money market funds an attractive option.

## 4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no direct human resources or learning and development implications arising from this report.

## 5. EQUALITY IMPACT ASSESSMENT

There are no direct equality implications arising from this report.

## 6. CRIME AND DISORDER IMPLICATIONS

There are no direct crime and disorder implications arising from this report

## 7. LEGAL IMPLICATIONS

Under the Local Government Act S15(1)(a) a Local Authority cannot invest in “loan or share capital in a body corporate” and this will include so called “Open Ended Investment Companies”. Some Money Market Funds are deemed to be OEICs and therefore investment in them would be precluded under the Act. Nevertheless there are a number of funds that are compliant with the Act and therefore investments must be confined to those.

## 8. RISK MANAGEMENT IMPLICATIONS

8.1 Aside from selecting the correct fund in order to comply with legal requirements there are two main risks to operating a Money Market Fund:

i) The interest rate for a fund is not fixed as it is the underlying value of the assets which determines the profit made on investment. There is therefore an exposure to both interest rate and credit risk although this is mitigated to a large extent by the “AAA” rating of the fund.

ii) It is possible that the underlying capital value of the fund will decrease below the capital sum invested thus causing the fund to lose money. The structure of the fund however is set up to minimise the movement of capital value due to the restrictions laid down by the ratings agencies to ensure that the "AAA" rating can be retained. In no instance since 1970 has a fund credit score been downgraded

It is also true to say that whilst there is some risk to yield from interest rate fluctuation, returns are usually between 7 day and 1 month LIBID and always consistently better than call money or overnight money.

8.2 On the issue of interest rate exposure it is also worth noting that these investments tend to perform at their best when rates are falling and not so well when rates are rising, due to time lags in underlying investments. Nevertheless rates are still expected to outstrip other short money.

8.3 The Head of Finance and Resources has taken professional advice on this matter from the Authority's Treasury Management consultants and they are recommending Money Market Funds as an appropriate short term option to help maximise opportunity as well as spread risk. Their explanatory report is shown as Appendix A to this report.

## 9. RECOMMENDATIONS

That Members note the contents of the report and support the Head of Finance and Resources in retaining Money Market Funds as an investment option within the Treasury Management Strategy. .

## 10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Peter Hurford
**TREASURER TO THE FIRE AUTHORITY**

SECTOR

# Information Pack on Money Market Funds

SECTOR

# Contents

Section 1 An introduction to Money Market Funds (MMFs)

# Money Market Funds

The Money Market Fund industry has developed hugely since the 1970s. The industry first started in the US **as a result of high inflation and a capping on interest rates by the banking sector on financial instruments**. As a result of this capping, Money Market Funds were developed and became extremely popular amongst investors. In 1983, as Money Market Funds grew in popularity and competition, the US developed a structure to regulate the industry and the **Securities and Exchange Commission (SEC) rule 2a-7 of the Investment Act 1940 was born**. **This rules set detailed parameters governing credit, market and operational risk for US based funds.** During the 1980s these products continued to grow in the US and also started to develop in Europe. In 1984, the credit rating agencies published criteria on Money Market Funds specifically expressing opinions on maintenance of capital and limiting exposure to loss.

In the European Union, Money Market Funds are governed by **UCITS** (Undertakings of Collective Investments in Transferable Securities). This is a European directive which allows Money Market Funds to be sold in any EU country. They are also rated by the credit rating agencies. **Whilst UCITS governs the way that MMFs are established it does not set detailed rules on the investment parameters that define MMFs.** Instead operators use the **credit rating agencies** which lay down **investment restrictions** to enable the fund to maintain its AAA, MR1+ status.

Money Market Funds may also be governed by the **Institutional Money Market Fund Association** (IMMFA) which is a voluntary code of practice issued in 1992 by a trade body for Money Market Funds. **This ensures all members offer a consistently high quality product to investors by promoting best practice, transparency of fund values and a standardised format for published data.** This code is in addition to any legal and regulatory requirement.

**On the 1st April 2002, LAs were allowed to use Money Market Funds for the first time.** The Local Authorities (Capital Finance and Approved Investments) Regulations 2002 SI 451 was repealed on the 1st April 2004 and replaced by the Local Government Act 2003 (LGA2003) Part 1.

The new Local Government Investments Guidance falls under 15(1)(a) of the Local Government Act.  Under this new guidance, LAs will be penalised under the capital expenditure rules if they invest in ‘loan or share capital in a body corporate’.  Some Money Market Funds are set up as Open Ended Investment Companies (OEIC) and thus fall under the heading ‘loan capital in a body corporate’.

In 1987, the Irish Government set a 10% tax rate for financial companies operating out of the International Financial Services Centre (IFSC) in Dublin.  The majority of UK Money Market Funds started in the mid-1990s and the very competitive Irish tax structure made Dublin an obvious domicile for such funds.  **Within a short space of time, Dublin was the established domiciliary choice for MMFs with a significant number of MMFs registered in, and administered from, Dublin but managed from London.** There are also a number of funds which are domiciled in Luxemburg and **recently the rules changed to allow funds to be domiciled in London as well**.

Sector currently obtains data from **imoney net,** an industry standard information provider which report on all Money Market Funds.

Money Market Funds are defined as:

- **AAAm**
- **UCITS approved**
- **£ denominated**
- **Domiciled in Dublin or Luxembourg**

Sector has invited all Money Market Funds to provide information to enable inclusion in our Selection Process.  **Currently Sector has 20 subscriptions out of the 25 Money Market Funds available.**

If you require any further information on specific Money Market Funds, Sector will be happy to obtain this for you through our Money Market Fund contacts.

# Section 2 Why should LAs use Money Market Funds?

## Rewards of using a Money Market Fund:

A Local Authority should consider using a Money Market Fund as part of its overall investment strategy mix. The main reasons for considering a Money Market Fund as a tool to manage short term cash are set out below.

- Balances provide active management of small and large cash balances available for short periods.
- Daily access allows investors access than funds as and when required
- AAA rated provide a higher credit rating to other alternatives of short term cash management i.e. bank accounts or money markets
- Enhanced returns through active management of short term money by experienced investment houses, LAs can expect a return equivalent to 7 day to 1 month LIBID on their investments within a stable market environment.
- Diversification of assets – access to a wider range of investments diversifies risk and ensures counterparty limits are not breached even if large amounts are deposited within a Money Market Fund.
- Pooled vehicle – Money Market Fund managers will have access to a wider range of instruments of higher credit quality than the Authority can access itself. MMFs will also benefit from economies of scale as managers have the ability to buy in bulk from institutions that may not deal with individual LAs. This ‘placing power’ allows LAs to take advantage of finer pricing and more competitive rates.
- Easy management of short term investments – Investing in a Money Market Fund will reduce the time consuming calls to brokers to try and obtain the best short term rates and will reduce the administrative work load of separate deals.

## Risk of using a Money Market Fund:

- Capital Fluctuations - It must be noted that Money Market Funds’ underlying assets e.g. Certificates of Deposits, Gilts and other bonds are subject to capital fluctuations. The movements in capital are as a result of interest rate risk and credit risk. The structure of the fund minimises the movement of capital value due to the restrictions laid down by the credit rating agencies. (There has never been a sterling AAA Money Market Fund that has been downgraded since their existence began in the 1970’s.)

# Section 3 Broad principles of Money Market Funds

There are three underlying principles to Money Market Funds: **Security, Liquidity and Yield.** The Guidance issued by the ODPM under SI9 of the Local Government Act 2003 recommends that priority be given to security and liquidity. Nevertheless, it will be appropriate to seek the highest rate of return consistent with the proper levels of security and liquidity. **The general objective is that LAs should prudently invest the surplus funds held on behalf of their communities. Money Market Funds address all three of these principles and fully meet the new guidelines' primary objectives.** They generally have the highest security – AAA and liquid – with daily access, and often yield enhancers to short term cash instruments. Money Market Funds can also be considered a prudent investment in the active management of an Authority's short term cash flows.

## 3.1 Security

When managing their short term cash, LAs are restricted to the overnight/7day/1month market and bank accounts. Money Market Funds offer an interesting and useful alternative to those investments and provide a AAA rated investment, which the majority of counterparties within the money market and the Authority's own bank accounts probably do not. **All the Money Market Funds monitored by Sector are AAA rated by one or more of the rating agencies.**

As outlined above, funds have specific criteria that they must adhere to enabling them to display the AAA rating.

The main areas of security are:

- **Minimum credit criteria**
- **Maximum concentration of funds**
- **Weighted Average Maturity (WAM) and limits imposed**

Custodian – A MMF is held as one account with the custodian and is separate to any other business by the custodian i.e. ring fenced. The assets are held like a discretionary fund with the fund manager's name on the nominee account, underlying which are the shareholders' names.

## 3.2 Liquidity

Money Market Funds allow daily access to funds and same day settlement. Managers have a proportion of the fund usually between 5-15% in the overnight market. **This natural liquidity allows investors the ability to buy and sell assets quickly and in large volumes, without substantially affecting the fund's price.**

The duration distribution shows the make up of the average life of the fund and will give an indication of the fund's internal view of where interest rates are going in the future, which is heavily constrained by the max WAM. When the yield curve is upward (positive) sloping making longer-term investments more attractive than shorter term, Managers will invest longer commensurate with the proper levels of liquidity.

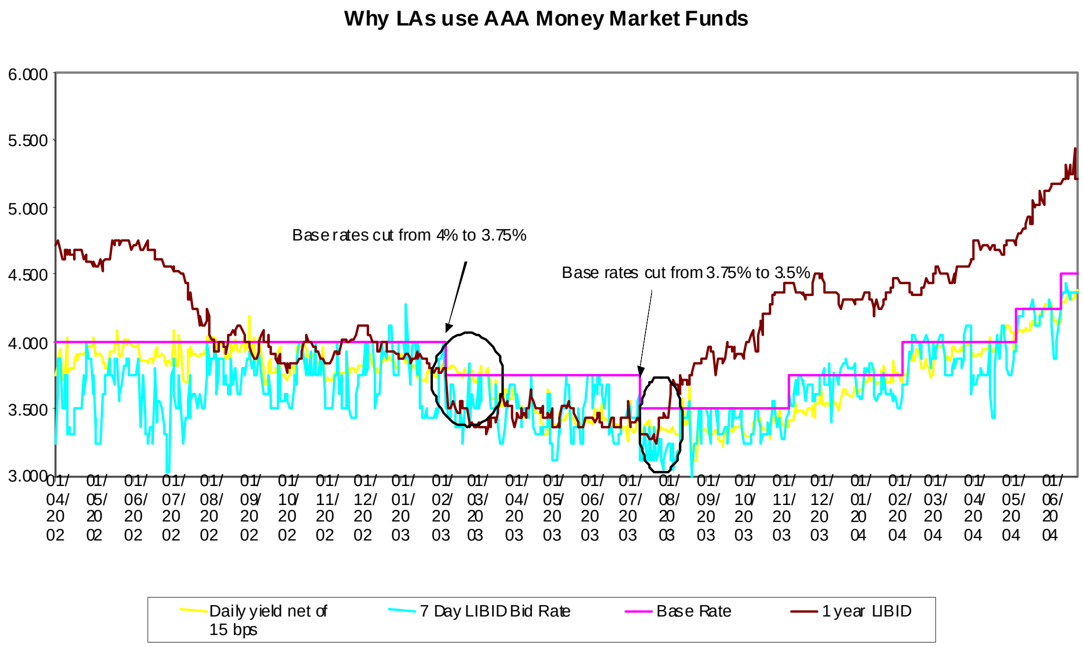
## 3.3 Yield

Money Market Funds offer an overnight investment but with the benefits of being able to use other parts of the yield curve through active management. **Returns are usually between 7 day and 1 month LIBID**. In addition, because of the ability of managers being able to invest longer, **returns are smoother and less volatile than the overnight market and call money.** Finally, Money Market Funds generally offer a better rate than bank current accounts do. However, the daily return of a Money Market Fund is only known after the transactions have been complete unlike a bank deposit where the return is known before making the deposit.

**In a rising interest rate environment**, Money Market Funds usually lag behind the base rate move and the money market yield curve. This is because managers can invest up to two years on particular investments, taking advantage of the yield curve. Hence, when base rate moves up, managers will have to wait until investments mature before they can lock into the higher rates. **In a falling interest rate environment**, Money Market Funds are more advantageous. This is because when base rate is cut, Money Market Funds which are holding longer term investments can still enjoy the higher rates until they mature and have to lock into the lower money market rates. The lag usually varies between 2 and 4 weeks.

In a stable interest rate environment, Money Market Funds usually track the 7 day to 1 month LIBID rates.

Please refer to graph below.



# Section 4 The Selection Process

**Sector has designed its own selection process to aid investors interested in investing in Money Market Funds.** Sector has invited all Money Market Funds within the industry that meet the definition described in section 1 to subscribe to our selection process. **Currently, Sector monitors and reports on 20 out of the 25 AAA Money Market Funds**, which because of the criteria laid down by the credit rating agencies are very similar. Nevertheless, the distinguishing characteristics between them mean that **selecting the correct fund or funds that suits each individual local authority's need is important.**

In order to ensure the selection of a Money Market Fund remains independent, this selection process is based on criteria given by the LA on what they consider to be the **most important three factors** in choosing a Money Market Fund.

Once a local authority chooses the **top three characteristics**, from the 8 which they consider significant, and ranks them in order of importance, they can then input them into the **selection spreadsheet** (as shown below). A list of 5 Money Market Funds that are the **best fit to the criteria chosen by the Authority will then appear**. The connection to the initial criteria chosen by the Authority becomes much looser the further you move down the ranking order, so Sector has only opted to release the top 5 Money Market Funds. **A colour matrix highlights all the characteristics as the best, near and worst characteristics of a good Money Market Fund.** (Green = Best Match, Yellow = Near Match, Red = Worst Match).

Once a fund or funds are selected, Sector will send a league table on a monthly basis, allowing the investor to monitor their chosen funds. This table is produced by imoney net.

| | Importance rating 1 to 3 |
|---|---|
| Fund size (£m) | 1 |
| No. of clients | |
| Diversification of client base | |
| Minimum initial amount | |
| Trading deadline | |
| Performance (7 day comp) | |
| Fees | |

1

| Money Market Funds | Fund size (£m) | No. of clients | Diversification of client base | Minimum initial amount | Transactional amount | Trading deadline | Customer service | Performance (7 day comp) | Fees |
|---|---|---|---|---|---|---|---|---|---|
| **Maximum Value All Funds** | **7,904.30** | **17,000** | **7** | **5,000,000** | **50,000** | **14.00** | | **4.00** | **23.00** |
| Barclays Global Investors | 7,904.30 | 955 | 7 | 250,000 | 50,000 | 10.30 | Good | 4.00 | 12.50 |
| SWIP | 7,683.40 | 4,600 | 0 | 5,000,000 | 0 | 12.30 | Excellent | 3.90 | 20.00 |
| Royal Bank of Scotland | 2,780.40 | 1,832 | 0 | 50,000 | 1,000 | 13.00 | Good | 3.88 | 15.00 |
| Standard Life | 2,735.20 | 346 | 5 | 100,000 | 0 | 12.00 | Good | 3.94 | 15.00 |
| JP Morgan | 2,619.90 | 500 | 0 | 1,000,000 | 0 | 13.30 | Good | 3.88 | 15.00 |
| **Minimum Value All Funds** | **24.00** | **10** | **2** | **10,000** | **1,000** | **10.30** | | **3.78** | **10.00** |

## 4.1 Criteria to consider when selecting a Money Market Fund

In the absence of any equivalent US SEC 2a-7 rule governing Money Market Funds in the UK, funds are guided by the rules of the credit rating agencies. The tight restrictions laid down by these agencies mean that it is hard to differentiate between the 30+ AAAm Money Market Funds available. **However, once an LA has decided to go down a selection process there are certain key criteria that they will need to consider.** The following criteria are naturally interlinked.

| **Selection of a Money Market Fund** | | | |
|---|---|---|---|
| Size of fund | Minimum initial amount | Transactional amount | Performance |
| Number of clients | Diversification of client base | Cut off times | Fees |

The **size of fund** could impact on return. The bigger the fund, the more likely the managers can follow their interest rate view and, if the investment strategy dictates, get closer to the maximum duration (60-days) without compromising liquidity requirements. In addition, the bigger the fund the greater the buying power and managers can take advantage of economies of scale in transaction costs leading to lower overall costs.

Size of fund should be taken into consideration with other factors such as the **number of clients and diversification of client base**. A large diversified client base should flatten the liquidity requirement of the fund. As a result, the managers are unlikely to have to hold back investment strategies in case of unexpected liquidity demands from clients. If the fund is large but its clients are few or from similar sectors, there is a risk that a large proportion of funds could be withdrawn at short notice leaving the fund exposed to a liquidation of assets in a hostile market.

Depending on the **amount of cash available**, the LA will have to consider the fund's minimum initial amount (MIA) and transactional amount. Although the spread of MIA tends to be between £250k and £1m, no initial amount is normally required to set up the facility.

Other factors to consider are **cut off times**. This will depend upon whether the LA's internal dealing procedures require them to have an early or late cut off time. LAs therefore may want to open up funds which meet both requirements. However, it is arguable whether the increased flexibility to place deposits later in the day will result in giving up some yield.

The performance of Money Market Funds is **governed by the restrictions laid down by the credit rating agencies**. In a rate cutting environment Money Market Funds tend to lag by 2-4 weeks due to their ability to invest in longer investment. In a rising rate rising environment, Money Market Funds tend to lag by again 2-4week. Money Market Funds in a stable environment usually return between 7 day and 1 month Libid.

**Fees**, usually range in the region of 12bp – 20bp for LAs.  If an Authority's own bankers have a Money Market Fund available, CHAPS fees are usually waived, which encourages LAs to use that Money Market Fund as it is easier, the relative performance net of fees will be higher and a history of customer service prevails.

## Other factors to consider

Money Market Funds have different share classes, which is dependent upon the client base.  **Generally the bigger depositors will have smaller fees hence the return (net of fees) is greater.**  If a local authority has a discretionary fund with a manager that has a Money Market Fund, they may be able to get access to the larger, better performing share class.  Sector can advise where this is the case.

**Sector currently monitors 20 Money Market Funds, and can provide up-to-date information on any of the aforementioned factors.**  With 25 providers in the market at the time of writing, choosing a fund is difficult. Sector is happy to advise on the selection of MMFs based on the criteria and objectives set by the LA.

## 5.1 What is a Money Market Fund?

A Money Market Fund is a pooled vehicle whose assets comprise cash like instruments. Closely resembles a unit trust except equities are replaced by short term money market instruments.

## 5.2 Portfolio Composition

Money Market Funds can invest in a number of different instruments. The underlying investments are Treasury Bills, Government bonds, Repos, Term Deposit, Certificates of Deposits, Commercial Paper, Floating Rate Notes, Bonds (not Gov.) and Asset-backed Securities.

| | |
|---|---|
| Treasury Bills | Short-dated government securities known as Treasury Bills. |
| Govt Other | Other Government securities such as Gilts |
| Repo | Repurchase Agreement is an agreement between a seller and buyer whereby the seller agrees to repurchase the securities at an agreed upon price and usually at a stated time. |
| TD | Term Deposit. A loan granted for a pre-determined length of time. |
| CD | Certificate of Deposit. A certificate from a bank stating that the named party has a specific sum on deposit, usually for a given period of time at a fixed rate of interest. It is a tradable instrument unlike a TD. |
| CP | Commercial Paper. An unsecured short-term promise to repay a fixed amount on a certain future date, usually maturing between 2 and 270 days. This obligation is issued by banks, companies and other borrowers. |
| FRN | Floating Rate Note. Debt instrument with a variable interest rate. |
| Bonds (not-Gov) | A bond issued by a financial or non-financial institution |
| Asset-backed | An instrument that is backed by an underlying security |
| Securities | For example, a mortgage. |

## 5.3 Types of cash

Money Market Funds should be used as a helpful addition to the management of cash flow/short term investments. They should not replace the active management of longer term investments which should be utilising the yield curve to maximise returns. The use of Money Market Funds as part of the overall investment mix may help to enhance returns, diversify risk and aid with in-house administration.

## 5.4 Types of Money Market Funds

There are two types of funds; Stable Net Asset Value (SNAV) or Accumulating Net Asset Value (ANAV).

**SNAV** – These are the most common funds available. An investor will purchase units of £1. Daily interest on each of the units is paid to a separate dividend account and is paid out at pre-determined intervals (usually monthly). The interest is either returned to the investor or reinvested back into the fund by buying additional units.

**ANAV** – The funds does not operate two separate accounts. An investor will purchase units of £1. Daily interest will be added to the units resulting in the value of each unit increasing.

## 5.5 Credit rating criteria

The concept of Money Market Fund ratings is transparency as it is based on a set of comprehensive and published rules that are used to calibrate an entire structure of any given fund.

The credit rating agencies (Standard and Poor's, Moody's, Fitch) lay down strict credit criteria. Money Market Funds may have ratings from one, two or all of the credit rating agencies. The highest credit rating for each of the rating agencies is as follows:

- Standard and Poor's AAAm
- Moody's Investor Services Aaa MR1+
- Fitch AAAmmf

Standard and Poor's and Fitch provides a credit quality rating. Moody's provide a credit quality rating and a volatility rating i.e Moody's MR1+. The credit quality rating looks at the probability of default and is based on financials. The volatility rating looks at the sensitivity of the share value changing and is based on market factors, such as interest rates and liquidity.

The majority are rated by Standard and Poor's. S & P's definition of a AAAm rated Money Market Fund is, '**safety is excellent. Superior capacity to maintain principal value and limit exposure to loss**'

Money market ratings are assigned following a thorough evaluation of the fund and assessment of the management group. Credit rating agencies monitor the fund through weekly surveillance of the portfolio and a regular review of the management group.

## 5.6 Profile of a typical AAAm-rated fund

The credit quality of the asset within the fund must have a minimum of 50% of investments rated A1+ with the remainder A1

Weighted Average Maturity. Generally for AAAm the WAM is fixed at a maximum of 60 days. This limit means that the maximum average life of deposits in the fund must not exceed 60 days. This is a key determinant in maintaining the high credit rating. Credit rating agencies can lower this if they believe liquidity is an issue i.e. the fund size is small.

- Single counterparty exposure 10% max
- Illiquid holdings <10% max
- Final maturity of all assets 397 days max except FRN
- Floating Rate Notes (FRN) maturity 2 years max
- FRN's maturing beyond 397 days must be A1+ and limited exposure in aggregate to 5% of assets
- Share values may be stable NAV (1.00) or accumulating NAV

# Section 6 Frequently Asked Questions

Q1 **Why do we not know the rate of return we will receive when we invest?**

A1 Money Market Funds are pooled vehicles which are actively managed on a day to day based. The rate of return is not known until all deals are placed and the rate is calculated. A daily yield is sent to all investors after the cut off time on the same day or the following day.

Q2 **How safe are Money Market Funds in terms of capital preservation?**

A2 Money Market Funds are subject to credit and interest rate risk. However, the credit rating agencies lay down credit criteria and restrictions allowing the capital movement of units with the fund to only deviate 0.5% either way of 1.00 per unit. This allows the funds to enjoy a AAAm status and restricts the weighted average maturity to only 60 days.