



# Introduction to Money Market Funds

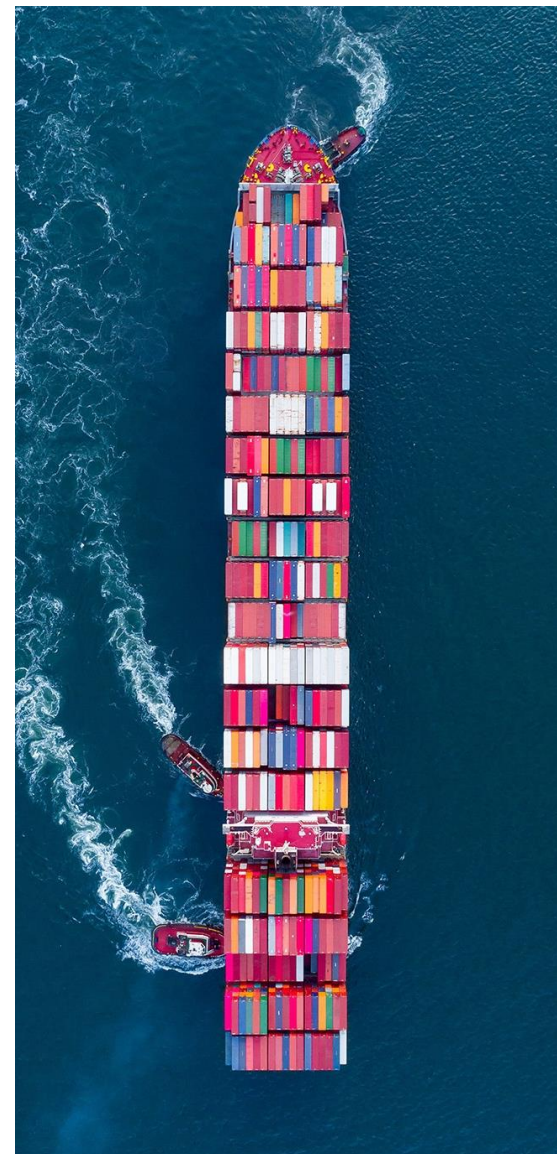
ACT Middle East Treasury  
Summit 2019

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& Asia-Pacific



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# 1

## Introduction to MMFs

# Money Market Funds in a Nutshell



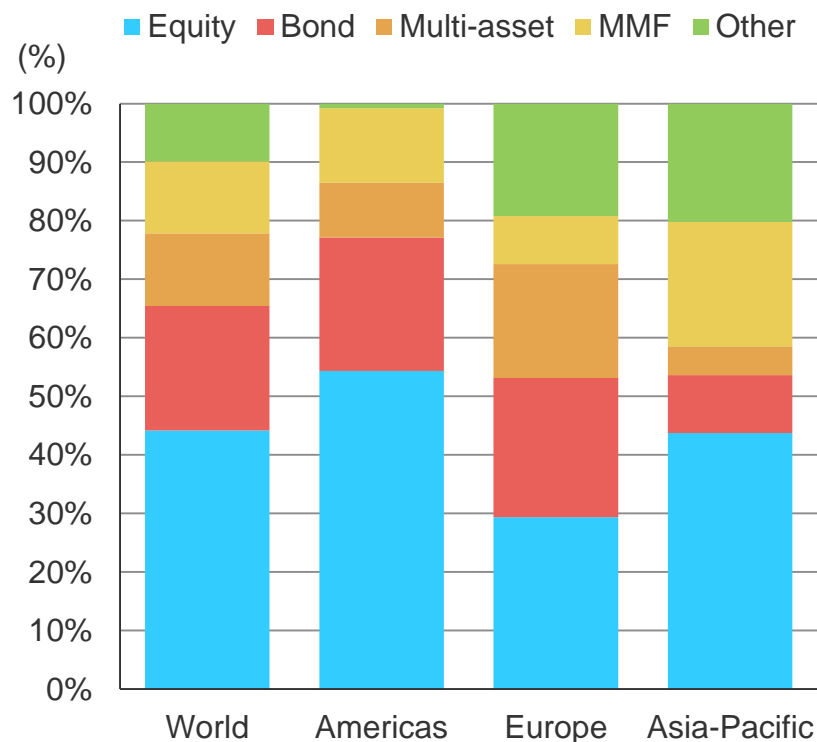
Mutual Funds

Significant Asset Volumes

Regulated

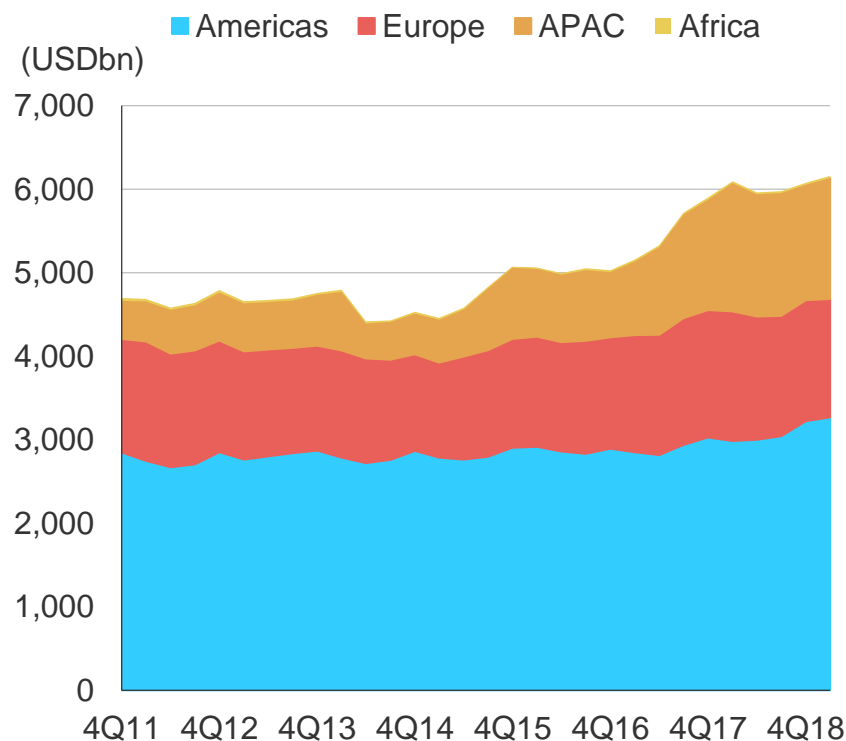
# Global Money Fund Assets Are Growing

## MMFs Around 12% of Global Mutual Fund Total



Source: ICI Global, 1Q19, USD

## China Has Been the Global Growth Engine



Source: ICI Global, Fitch Ratings

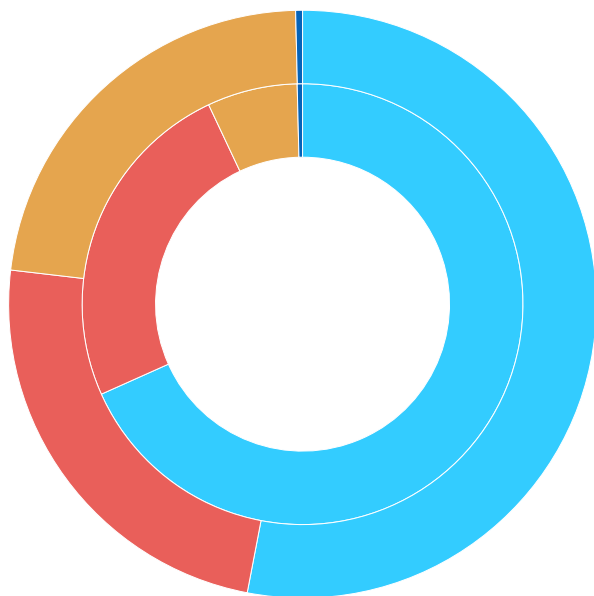
# China has Emerged as a Major MMF Domicile

## The Last Ten Years Have Seen a Material Asset Shift

Inner Ring: 4Q08

Outer Ring: 4Q18

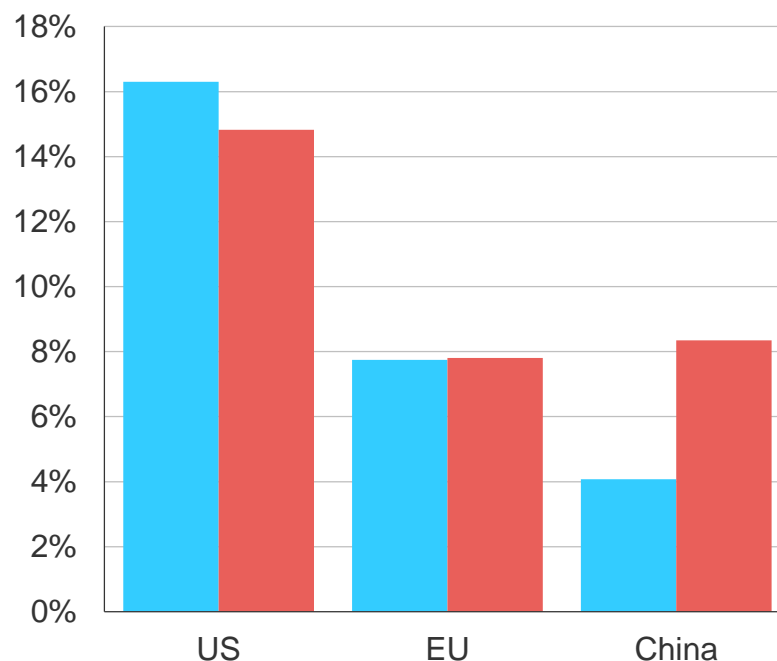
Americas Europe APAC Africa



Source: ICI Global

## MMF Allocation Shows Substantial Variance

MMF/M2 MMF/GDP



Source: Fitch Ratings, ICI Global

# Global Money Market Fund Reform Now Advanced



<b>Reform Status</b>	Complete Oct 16	Complete Mar 19	Ongoing
<b>AUM (USDtrn)</b>	3.04	1.45	1.11
<b>1 Year growth rate (%)</b>	3	-5	7
<b>What to Watch</b>	Asset growth and a modest shift back to prime	Liquidity levels post-reform	Introduction of VNAV MMFs

Source: Fitch Ratings, ICI Global 4Q18 (USD terms)

# US & European MMF Regulation Similar



	<b>Gov't</b>	<b>Prime</b>	<b>Gov't</b>	<b>LVNAV</b>	<b>VNAV</b>
<b>NAV / Share</b>	Stable	Varying	Stable	Stable <sup>a</sup>	Varying
<b>Valuation</b>	A/C	MTM	A/C	A/C <sup>a</sup>	MTM
<b>Fees / Gates</b>	No	Yes	Yes	Yes	Yes <sup>a</sup>
<b>Credit Risk</b>	99.5% gov't	Varies	99.5% gov't	Varies	Varies
<b>Market Risk</b>	WAM: 60 days	WAL: 120 days	Max. maturity: 397 days		
<b>Liquidity Risk</b>		O/N: 10% Weekly: 30%		O/N: 7.5% Weekly: 15%	

<sup>a</sup> In most scenarios

Source: Fitch Ratings, ICI Global 4Q18 (USD terms)





# 2

## How MMFs are Used

# Corporate Cash Management Policy

## Use of Surplus Funds

Group Net Asset Position	
Operating Investments (incl. cash)	Strategic Investments

### Policy – excerpt

.....The operating cash requirement is calculated as the cash required by the business for the next six months of operations based on a Board approved budget

....Where the group net asset position is less than the operating cash requirement, there is “0” funds available for strategic investments

### Asset (Investment) Limits

Asset type	Cash & Cash equivalents	
	Operating investments	Strategic investments
Cash & deposits with eligible financial institutions	10%–100% (maturities < 181 days)	0%–90% (no fixed maturity limit)
Govt. & agency securities	10%–100% (maturities < 181 days)	0%–100% (no fixed maturity limit)
Money Market Funds	0%–50% (AAAmmf, T0)	0%–50% (min Af/S1, T+2)

# Money Market and Bank Deposits Show Diverse Characteristics

LVNAV	ST VNAV	Bank Deposits
<b>Credit</b> High credit-quality assets (favourable outcomes from internal credit quality assessment procedure) Diversification (UCITS rules, MMF Regulation)		<b>Credit</b> Depends on bank credit quality  Single entity
<b>Liquidity</b> O/N – 10% Weekly – 30%	<b>Liquidity</b> O/N – 7.5% Weekly – 15%	<b>Liquidity</b> Depends on deposit type, EG call account, term deposit
<b>Yield</b> Depends on fund types (Government vs Prime) Depends on fund currency Range: USD Prime 2.63		<b>Yield</b> Depends on bank credit quality Depends on terms of deposit

Source: Fitch Ratings, IMoneyNet

# Is it Cash?

Under IFRS, a "cash equivalent" instrument requires	LVNAV	Short-term VNAV
Very strong credit rating	✓	✓
WAM of not more than 90 days	✓	✓
Insignificant risk of changes in value	✓	✓
A highly diversified portfolio	✓	✓
Low liquidity risk	✓	✓
Benchmarked returns	✓	✓

**Fitch considers the holdings in new forms of European money market funds typically as equivalent to cash**

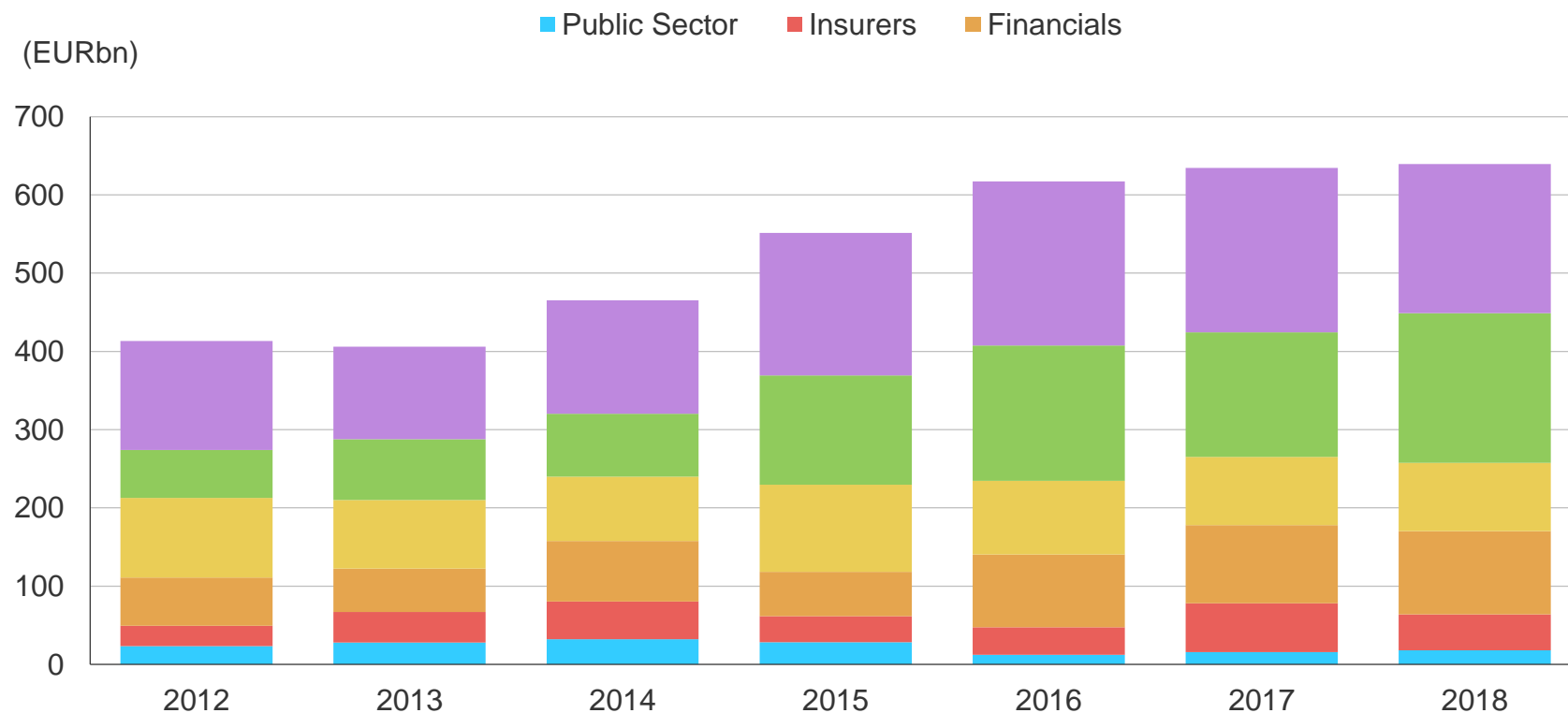
**AMF:** ... funds authorised under the MMF Regulation would benefit from a presumption of eligibility for classification as cash equivalents in investors' IFRS accounts...

**US Division of Investment Management:** ... an investment in a floating NAV money market fund would, under normal circumstances, meet the definition of a "cash equivalent" (under U.S. accounting standards) ...

Source: Fitch Ratings, AMF – Q&A on Money Market Funds – November 2018, Division of Investment Management – 2014 MMF Reform FAQ – May 2016

# Diversified Investor Base

## Corporates & Sweep Dominate



Source: Institutional Money Market Fund Association



An aerial photograph of a port area. A large red ship is docked at a pier. The pier is made of concrete and has various structures on it. The water is dark blue. The background shows more of the port and some buildings.

# 3

## Assessing Risks in MMFs

# Defining Fitch's Money Fund Ratings

“...a money market fund's (or other liquidity/cash management product's) capacity to meet its investment objective of *preserving principal and providing ready liquidity* through limiting **credit, market and liquidity risk**...”

# Fitch's New Approach to Short-Term Rating Provides Greater Differentiation

Moving to **5** crossover points

From only **3** previously

	Tier 1	Tier 2	Tier 3
AAA	F1+		
AA+	F1+		
AA	F1+		
AA-	F1+		
A+	F1+	F1	
A	F1+	F1	
A-		F1	F2
BBB+		F1	F2
BBB			F2
BBB-			F3
BB+			F3

Options added

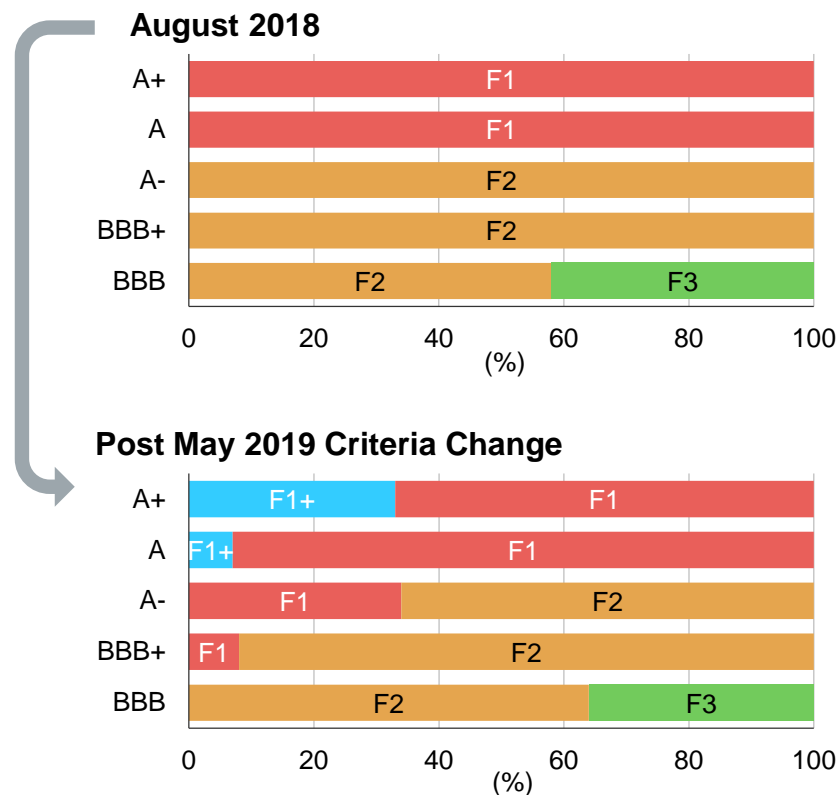
Fitch's new criteria for short-term ratings introduced in May 2019 across sectors

- Offer more **differentiated views** of short-term creditworthiness
- Provide a **more appropriate reflection of a company's short-term credit risk** through more detailed analysis of relevant credit risk drivers
- **Improved transparency** on the attribution of short-term ratings
- Ensuring the short-term rating scale provides **added value** to investors
- Concluded a major review initiated in August 2018 and taking short-term rating **users' feedback** into account

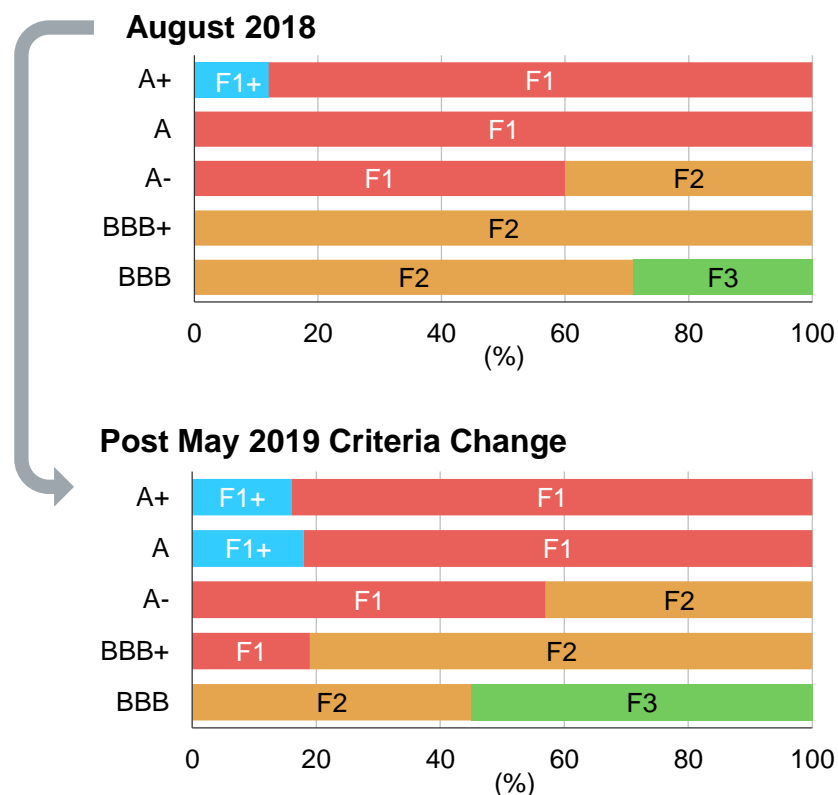
Learn more about our approach at [your.fitchratings.com/short-term-credit-2019](https://your.fitchratings.com/short-term-credit-2019)

# More Optionality: The Picture After Implementation

## Corporates



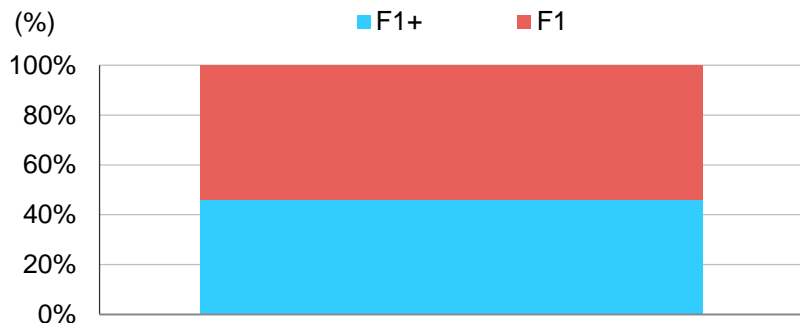
## Financial Institutions



Source: Fitch Ratings, indicative distribution, assuming all UCOs convert in the direction indicated after criteria publication

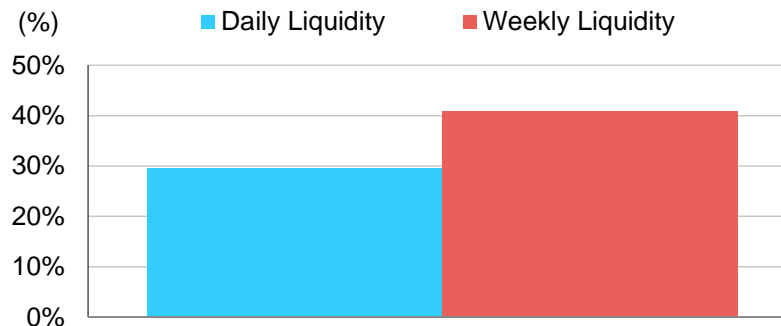
# Profiling MMF Risks

## F1+ & F1 Quality



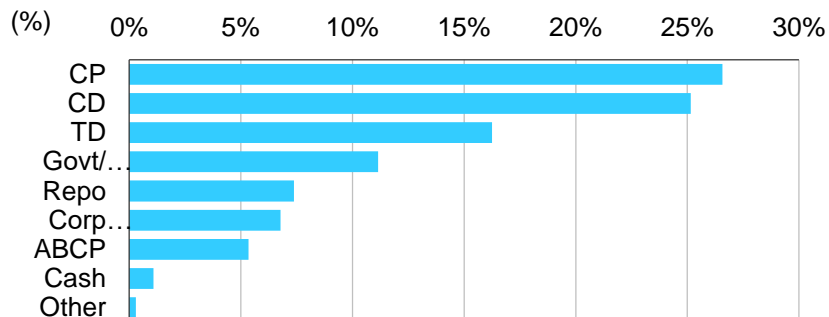
Source: Fitch Ratings, July 2019

## High Liquidity



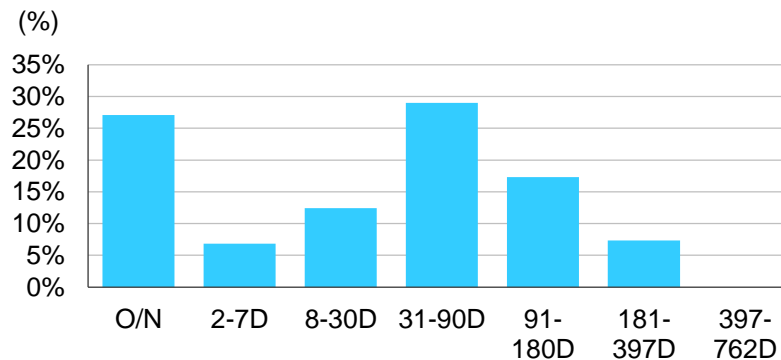
Source: Fitch Ratings, July 2019

## CP & CD Dominate



Source: Fitch Ratings

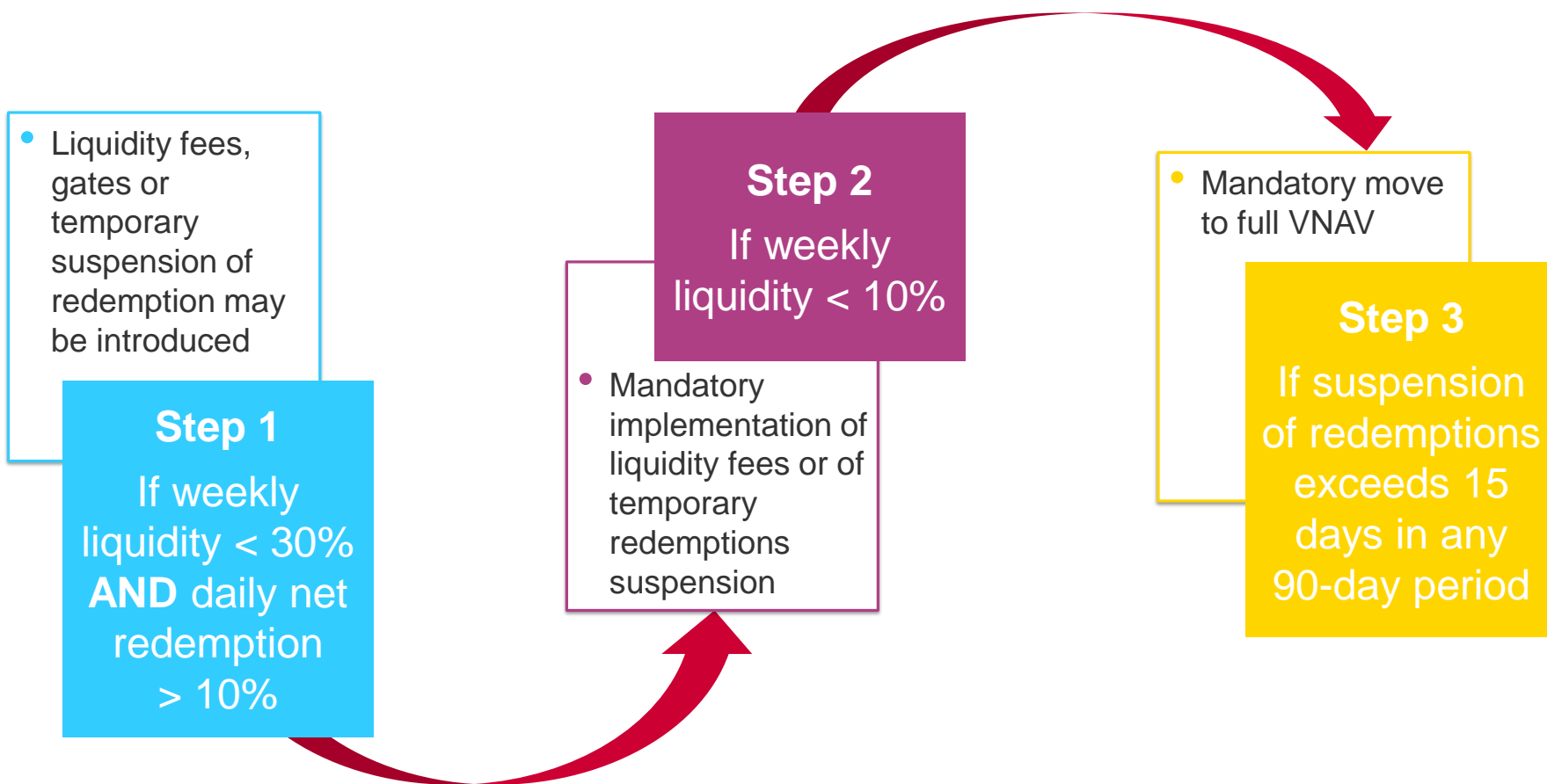
## Short Maturities



Source: Fitch Ratings

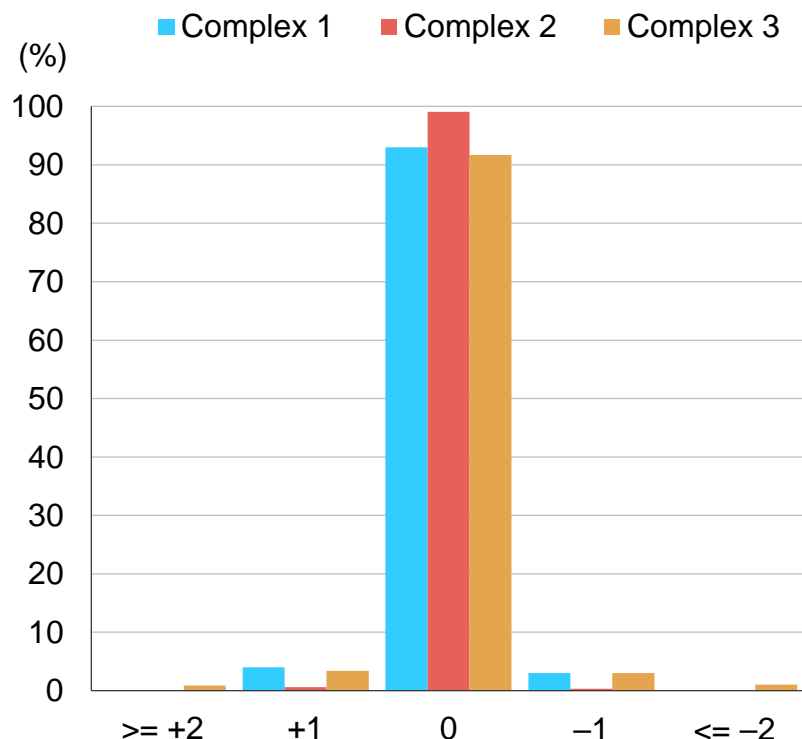


# Redemption Gates in European MMFs



# Historic Record Shows Negligible NAV Movements

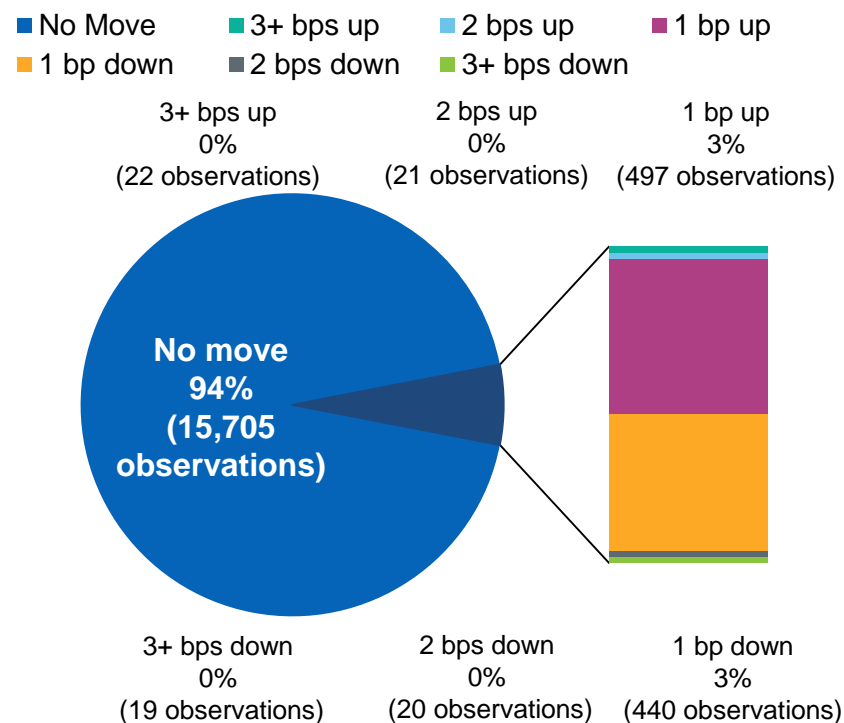
## Negligible MTM NAV Movements Over the Last Five Years in European Funds



Source: Fitch Ratings, Fund Managers

## US Prime Funds NAVs Stable Too

No. and % of observations across 45 funds



Source: Fitch Ratings, Crane Data



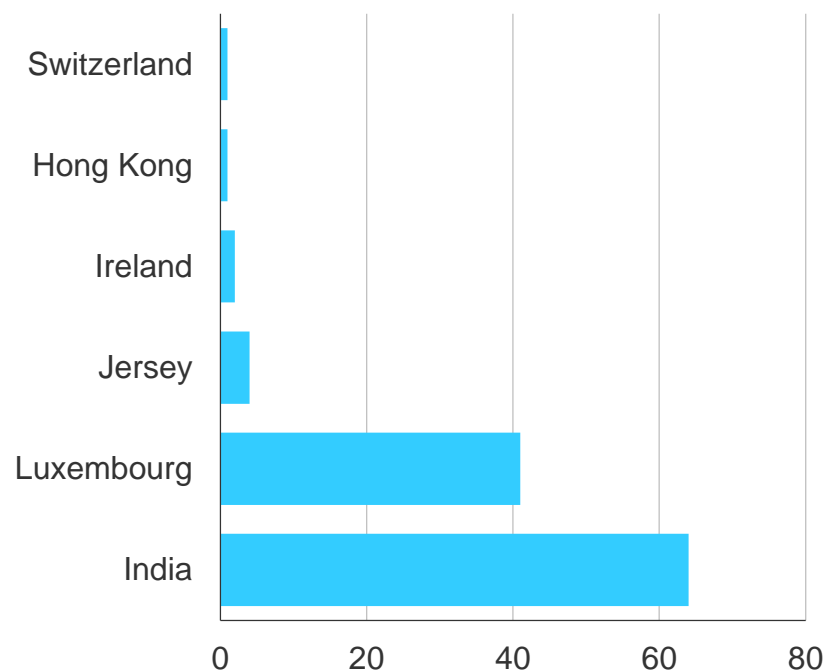
# 4

## MMFs in GCC Countries

# Offshore Funds Significant in the Region

## Luxembourg & Indian Funds Prevalent

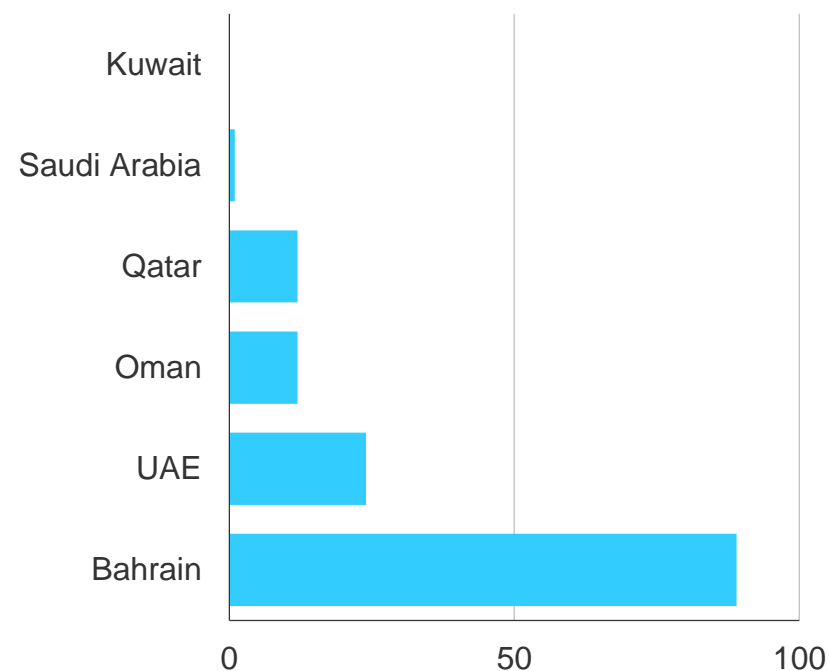
(# of funds)



Source: Lipper for Investment Management

## Highest Offshore Presence in Bahrain

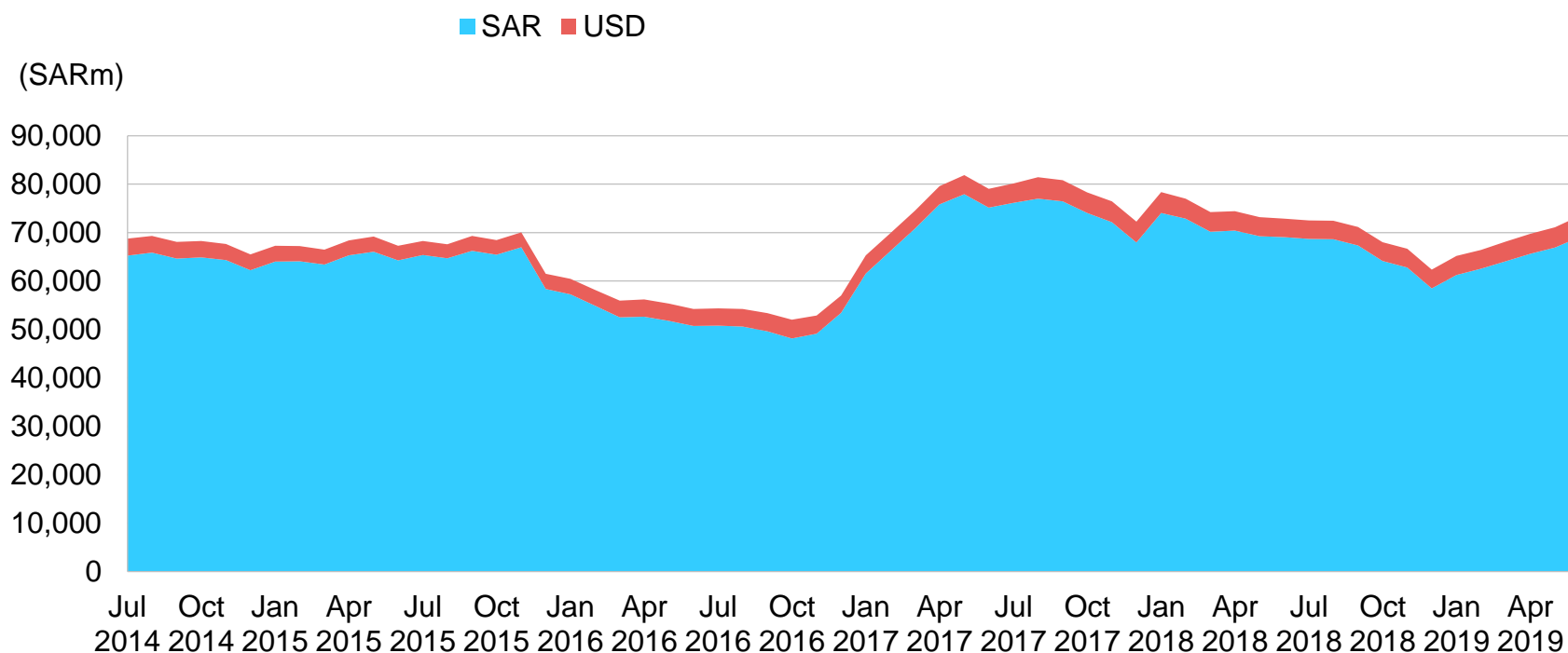
(# of funds)



Source: Lipper for Investment Management

# Saudi Arabia: A Domestic Industry

## Marginal Asset Growth in Saudi Arabia

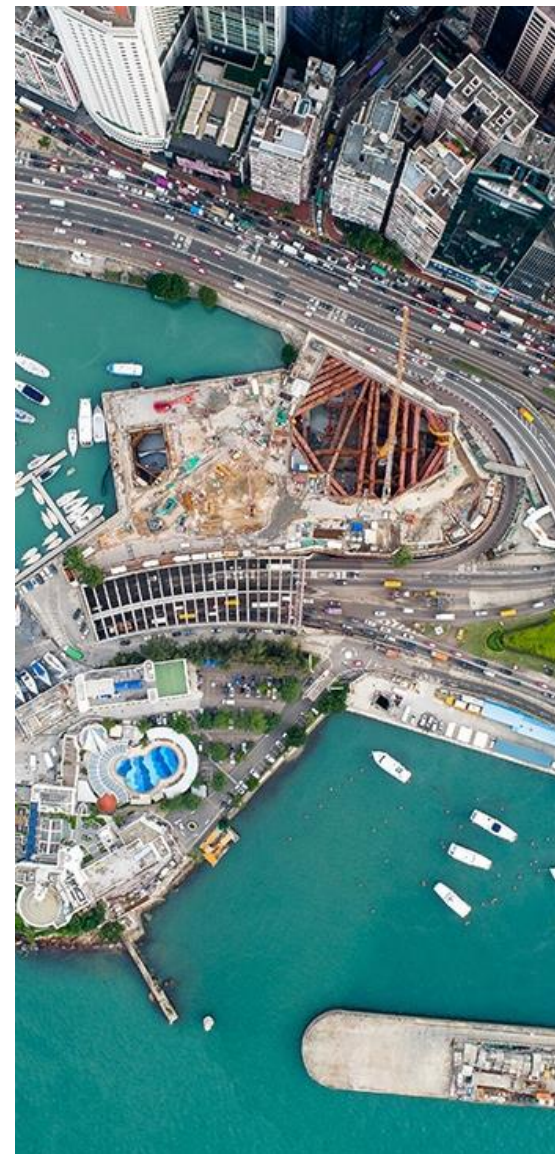


Source: Fitch Ratings, Lipper for Investment Management



# Saudi MMF Regulation Limited

		LVNAV	Saudi Arabia
<b>Diversifi- cation</b>	Max direct exposure per issuer	5%	n.a.
<b>Market Risk</b>	Longest maturity	397	n.a.
	WAM	60	n.a.
	WAL	120	120
<b>Liquidity Risk</b>	O/N and eligible assets	10%	n.a.
	7D and eligible assets	30%	10%
<b>Other</b>	Derivatives	5% per counterparty	5%
	Securitisation	15%	10%
	Max MMF	5%/17.5%	No explicit limit
	Reverse repo	15%	n.a.



# Case Study

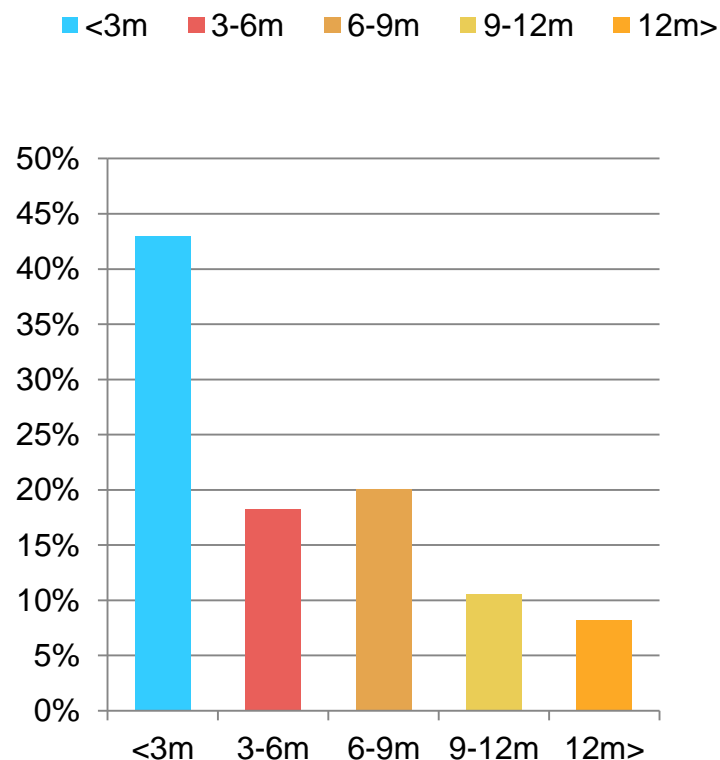


## Saudi Arabia

<b>Representative Fund</b>	Riyad SAR Trade Fund
<b>Manager</b>	Riyad Capital CJSC
<b>AUM</b>	SAR9.6bn
<b>Launch Date</b>	1993
<b>Return 1Y</b>	2.94%
<b>Credit Risk</b>	Moderate
<b>Market Risk</b>	Moderate
<b>Liquidity Risk</b>	High

Source: Fitch Ratings, Lipper for Investment Management, Fund Factsheet August 2019

## Long Maturity Tail



Source: Fund Manager Factsheet, August 2019

# Any Questions



# Related Research



Dedicated Webpage for all Fund Content

[www.fitchratings.com/site/fam](http://www.fitchratings.com/site/fam)

- ESG in Money Market Funds – July 2019
- French Money Market Funds – June 2019
- New Developments in Hong Kong Money Market Funds – March 2019
- Singapore MMFs Growing but Still Lack Scale – March 2019
- European Money Market Fund Gate Risk Low – September 2018
- Fitch: Governance of European Money Funds to Face Greater Investor Scrutiny – September 2018



[MMF Compare: Interactive Data Comparison Tool](#)

- MMFs key risk attributes
- Graphical peer comparison
- Published monthly

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