



Money Market Funds (MMFs)



Money Market Funds (MMFs) – An Introduction





Money Market Funds (MMFs) are all about **short-term** dependable **debt instruments** embodying the true essence of **the money market**



Invest in **short term dependable debt instruments**



Aim: To sustain a **stable net asset value**



Core remains stable with **interest on top**



Money Market Fund



Set aside for future ventures

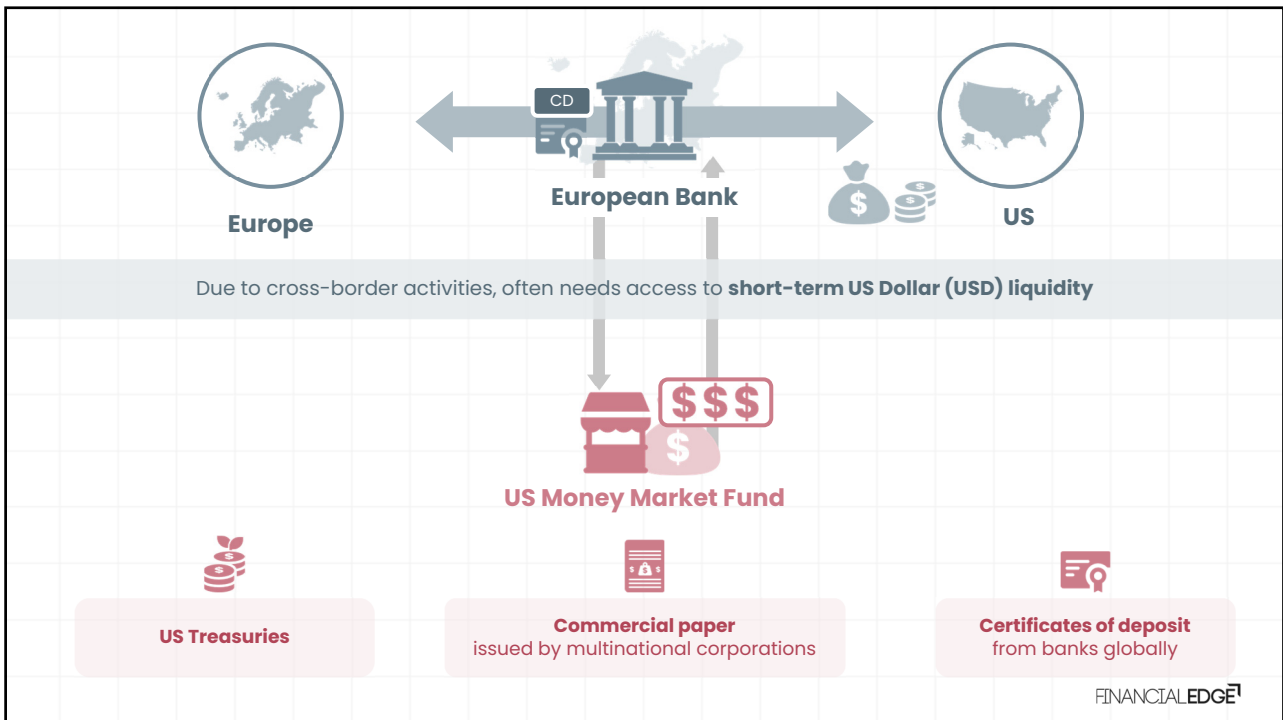
Short term safe haven

Stable and adds value



Investors, seasoned or novices, are on the **lookout for stability**, especially when the broader markets are **unpredictable**



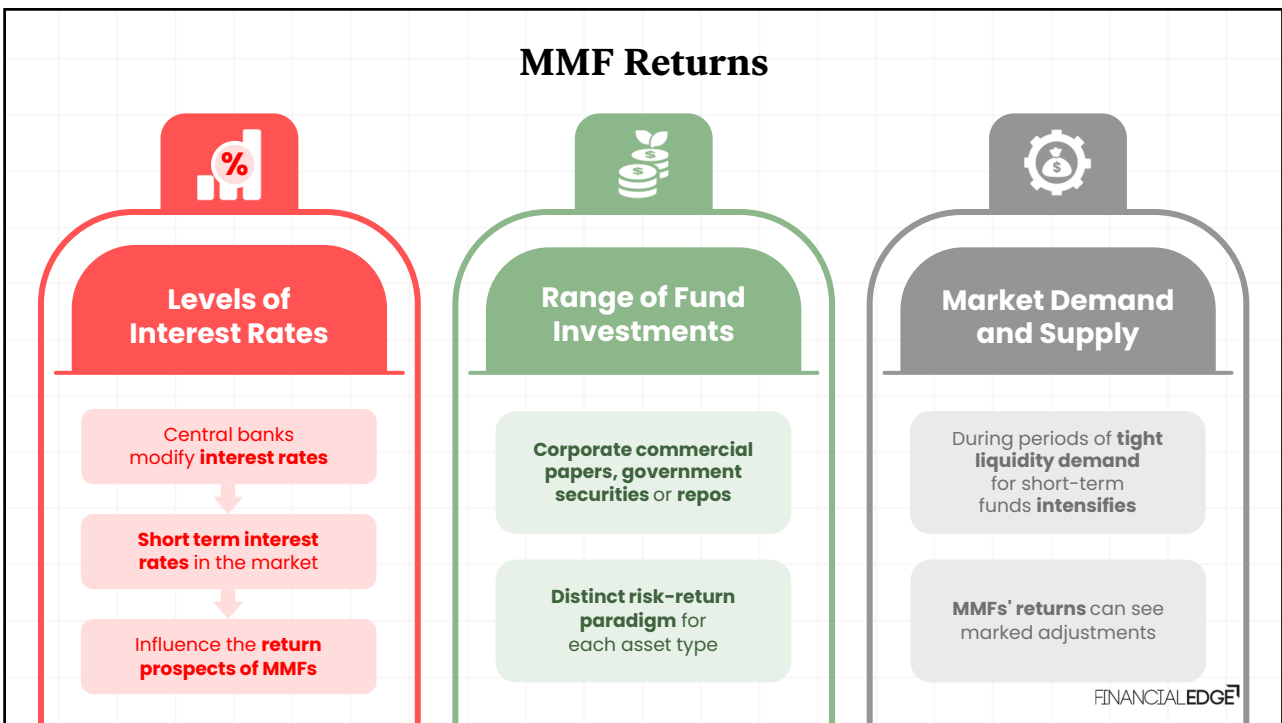


MMF – Risk and Return

The section features three icons in rounded squares: a gear with a dollar sign, a stack of coins with a plant growing from them, and a bar chart with an upward-pointing arrow. Below these icons is an illustration of a shopping cart and a storefront with a large green checkmark above it. The FINANCIALEDGE⁷ logo is in the bottom right corner.

MMF Type	Primary Investments	Credit Risk Profile	
Government lower yield	Government securities (e.g. T-Bills, short-term sovereign bonds)	Low risk	Slightly lower yields compared to Prime Funds
Prime higher yield	Commercial paper from corporations	Moderate risk	Offer the allure of potentially higher yields
Tax exempt	Municipal securities	Varies (generally moderate)	The interest earned is often exempt from certain taxes

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Fund Valuation – The NAV



The **Net Asset Value (NAV)**

Per-share value
of a mutual fund

What one share is **worth**



The amount a shareholder would receive for **each share owned**



How is the **NAV** calculated?

$$\text{NAV} = \frac{\text{Total fund assets} - \text{Total fund liabilities}}{\text{Total number of outstanding shares}}$$



How is the **NAV** calculated?

$$\text{NAV} = \frac{100\text{m} - 10\text{m}}{10\text{m}} = 9$$

Why is NAV so important?

1



2

Price for **buying and/or selling** a mutual fund:

Invest: Purchase price = NAV

Sell: Selling price = NAV

3

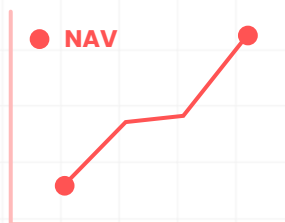
Why is NAV so important?

1



Used as a **performance indicator**

2



Positive fund performance

3

Why is NAV so important?

1



2

Used for **daily valuations** of positions in the **mutual fund**

Calculated at the end of the **trading day factoring**
in closing prices of all the **securities** in the **fund's portfolio**

3

NAV provides a snapshot of the **fund's true value** on that **specific day**



Constant NAV Funds





Constant (or fixed) NAV



Variable NAV

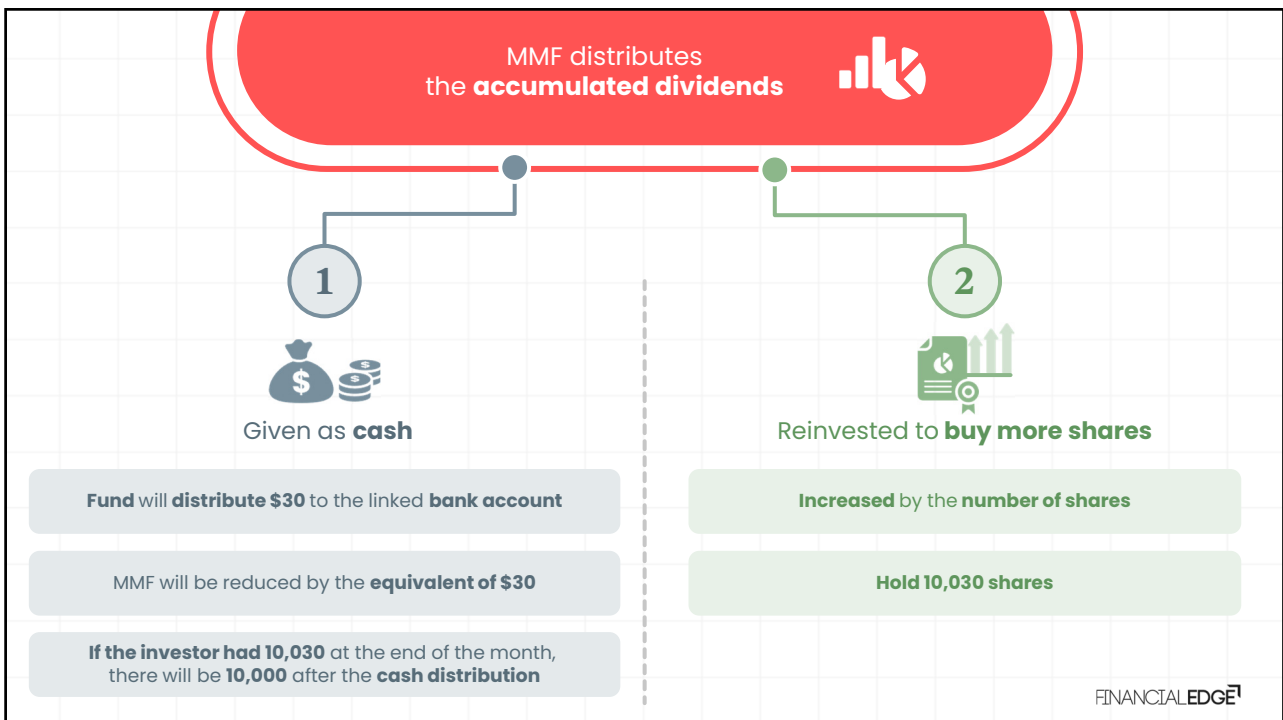
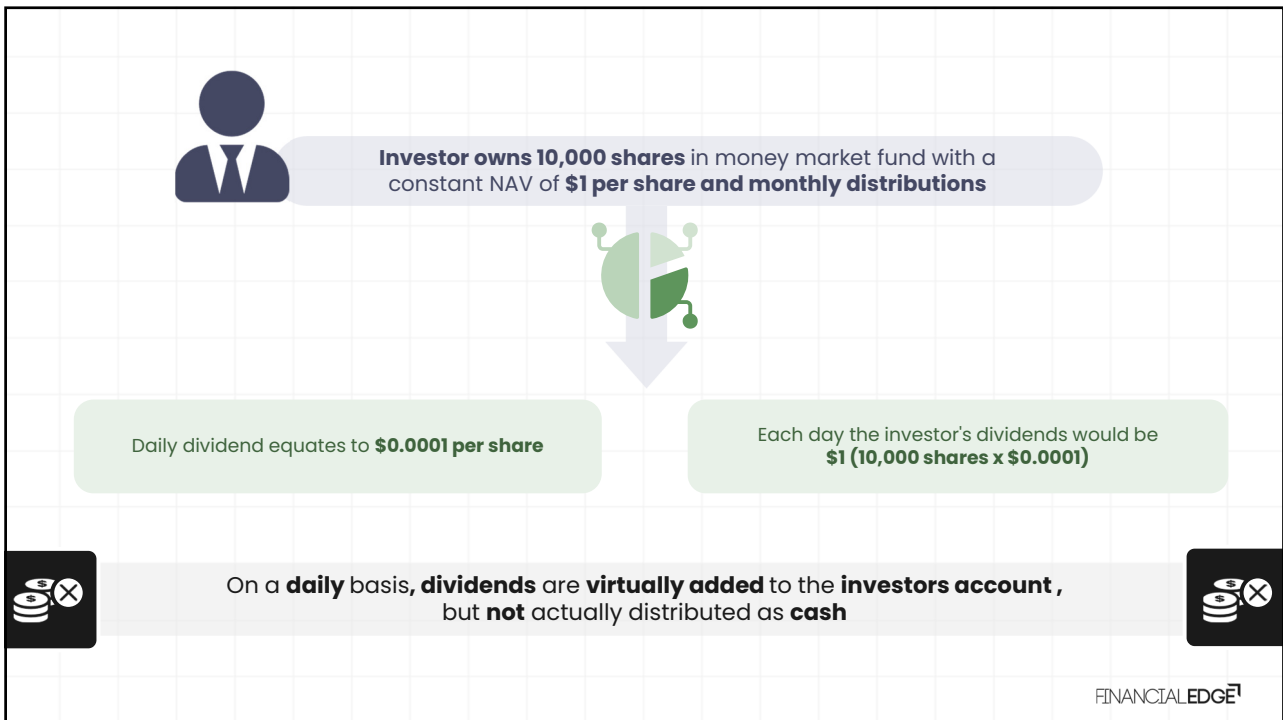
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Constant (or fixed) NAV

Strives to maintain **share price stability** – typically at **\$1 per share**

Fund returns = **➤ Increase** in the **number of shares** in an **investor's account**

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How **money market funds** keep their **NAVs at a stable \$1?**

(If they invest in securities that have a market price that **fluctuates daily**)



Amortized cost accounting

When you buy a bond for either **more or less** than its **face value**, the **difference** isn't **immediately recognized**



"Amortized cost" method **spreads out** this **difference** over the **life of the bond**



By using **amortized cost accounting** to value their **portfolio securities** instead of **marking them to market**

Money market funds can **sidestep short-term market price fluctuations** and keep their **NAV steady**



Fixed NAV money market fund should not be considered as **completely risk free**

Aim for stability, but **external events** can **disrupt** this

2008



In 2008 for example, significant exposure to **Lehman Brothers defunct commercial paper** forced the **NAV** of a fixed **NAV money market fund** **below \$1**

Breaking the buck



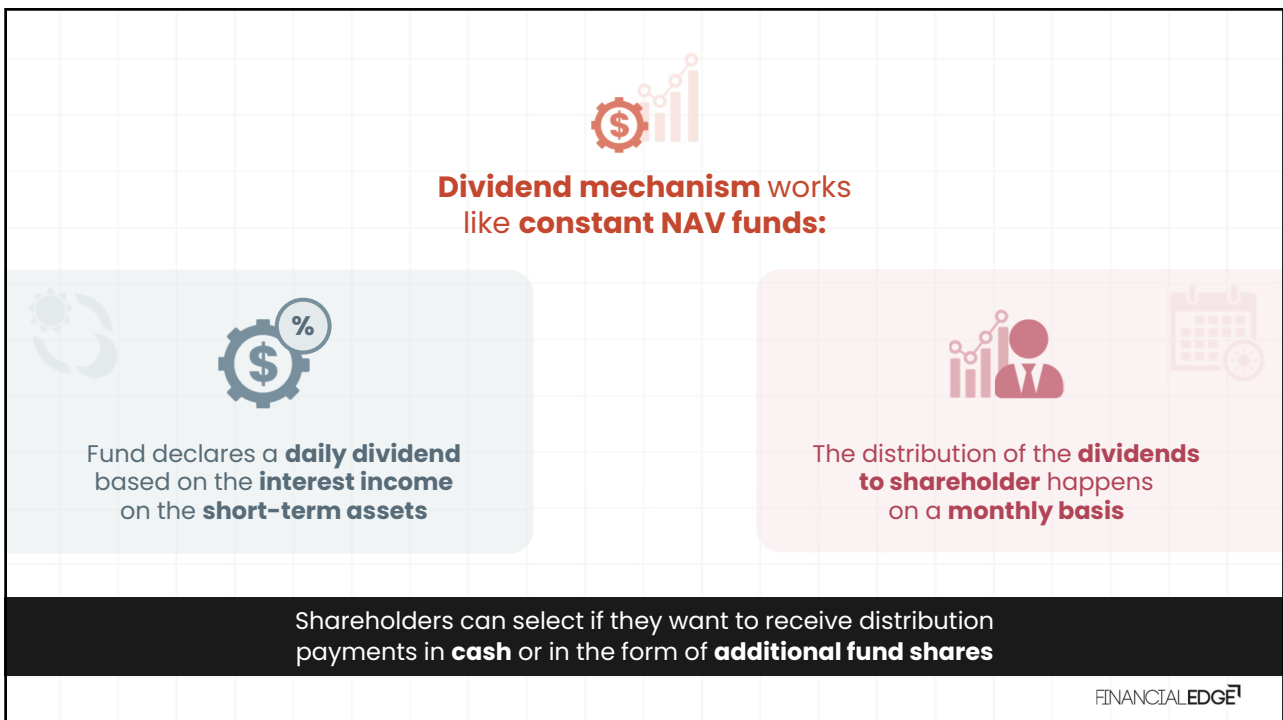
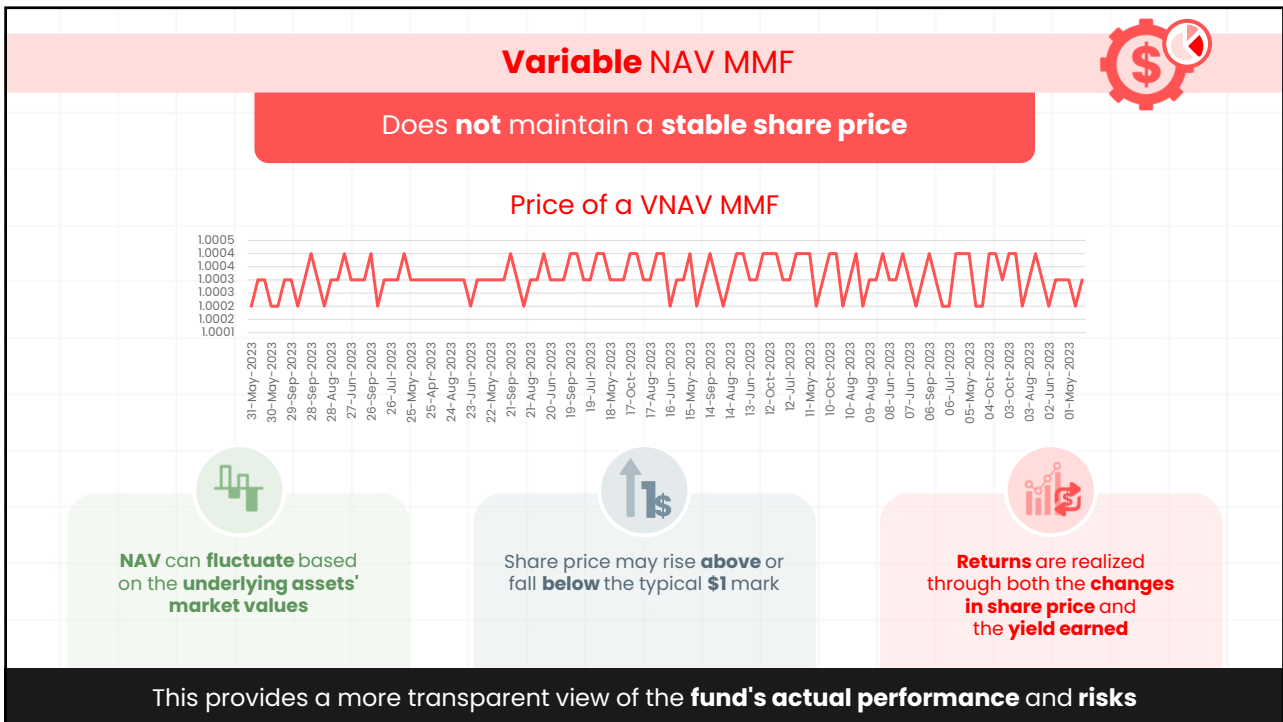
Variable NAV Funds



Constant (or **fixed**) NAV



Variable NAV MMF






Key Regulatory Requirements



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Money market funds (MMFs) are held to stringent standards

1




Credit quality

2




Diversification

3



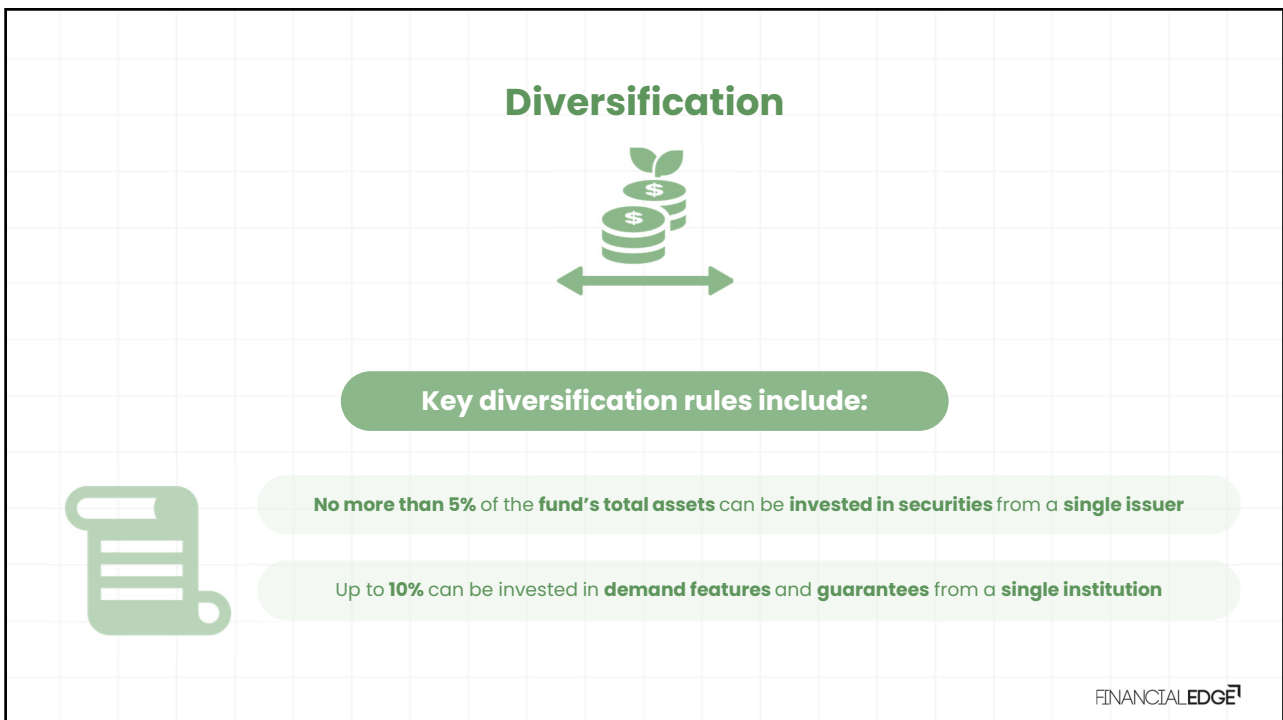
Maturity

4




Liquidity


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Maturity




Maximum time to maturity for each security
capped at **397 days**






Regulators have placed **restrictions** on the **maximum** allowable **WAM** and **WAL**



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Maturity




Weighted Average Maturity (WAM)

WAM calculates the **average time** until the securities in a **MMF's portfolio mature** weighted by the **dollar amount** that is invested in **each security**

Gives more weight to **securities** that make up a **larger portion of the portfolio**




In case of **floating rate notes** the **maturity** considered in **WAM calculation** is the time until the **interest rate is reset**




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Maturity




Weighted Average Maturity (WAM)




WAM calculates the **average time** until the securities in a **MMF's portfolio mature** weighted by the **dollar amount** that is invested in **each security**




WAMs of MMFs cannot exceed 60 days






Fund owns
1Y FRN




Linked with
SOFR




Maturity to be used for the **WAM calculation** would be **1 day** – although the **FRN actually matures in 1Y**

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Maturity



Weighted Average Life (WAL)





WAL is an average of the **final maturities** of all **securities held** in the **portfolio**




Similar calculation as **WAM** but using the time to the **final payment** of each **security's principal**

WAMs of a MMFs cannot exceed 120 days






Fund owns
1Y FRN



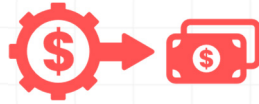
Linked with
SOFR



In the context of **WAL** we use the **1Y time to maturity**

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Liquidity



Ensuring sufficient **liquidity** is paramount to meet **redemption requests**

Regulatory requirements stipulate:

10%

At least 10% in
daily **liquid assets**

30%

At least 30% in
weekly **liquid assets**

5%

No more than 5%
can be invested in
illiquid securities

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