

Liquidity Perspectives—2Q17

Money market funds: what to look for under the hood

Overview

- Corporate treasurers are presented with a wide array of money market funds, but selecting the right vehicle can be challenging.
- In a stable market environment, it would seem that the difference between funds is minimal. What's more, considering how much SEC regulatory requirements restrict the way they operate, it is easy to get the impression that all money market funds are the same. But there are small, yet distinct differences among money market funds ranging from management style to credit research processes to size and scale, to name a few.
- This edition of *Liquidity Perspectives* provides an overview of key criteria and the questions cash managers should consider when selecting a money market fund.

Manager skill and experience

Money market funds are among the most diversified and lowest credit risk vehicles for cash management—especially when compared to bank deposits, which are concentrated and single counterparty investments, some of which carry low short-term credit ratings. With the effects of the financial crisis still on the minds of investors however, many are evaluating money market funds more proactively. We believe how a fund is managed is more important than ever because not all money market funds are created equal. That is why we think it is important to understand the portfolio management team's experience and tenure at the firm and whether they have managed the fund through different market cycles. Through our analysis, we believe looking at current market performance is not sufficient, and an extra effort should be made to ascertain how funds performed historically, especially during a stressed market environment. We believe that understanding whether a fund provider was able to deliver capital preservation and liquidity to investors during times of stress without seeking sponsor support speaks volumes to the portfolio management team's experience and skill.

How much does a fund's size matter?

Some cash managers often think investing in a fund with the largest assets under management (AUM) makes the most sense. But size doesn't always work in investors' favor. If a fund is excessively large, it may become less nimble, more rooted in bureaucracy and may incur higher distribution fees in its perpetual pursuit of higher AUM. All these factors could lead to extra costs that are passed on to shareholders in the form of a higher expense ratio.

We believe a fund doesn't necessarily have to be the largest to have improved buying power either. It also has to do with the fund sponsor's presence in the money markets and the overall relationships it has with broker/dealers. This is in addition to the fact that a very large fund might be limited in its universe of assets available for investment, especially in the context of SEC Rule 2a-7 issuer limits. This may drive certain funds to seek out non-traditional instruments that could potentially lead to higher risk and reduced liquidity.

Looking beyond gross yield

Given that a large number of investors in money market funds access these vehicles through portals, there is a tendency to pick the fund with the highest yield or to consider yield to be a key differentiator between similarly structured funds. However, higher gross yield can be a misleading indicator because it may mean excessive risk, which could be in conflict with the capital preservation mandate that most cash investors require. Investors should also pay close attention to the expense ratio, because cost-effective funds may provide better returns on a “net yield” or after-fee basis.

Putting it all together

Many investors may view money market funds as generic vehicles, with few differences between them. In reality, money market funds can vary widely, not only in the yield and size, but also in the securities they invest in, experience of the management team, the expenses they charge and many other features and services. We believe investors should look for an established provider with a successful track record and experience in managing money market funds through different economic cycles.

Asking the right questions

- How long has the fund sponsor been managing money market funds?
- What was the fund’s experience in the financial crisis?
- What is the experience and tenure of the portfolio management team? What is their market reputation?
- What is the portfolio management team’s credit and risk management process?
- How focused is the sponsor on increasing fund size versus obtaining efficiencies for shareholders?
- What is the fund’s expense ratio? How does the net performance compare to similarly structured funds?

The views and opinions expressed were current as of June 2017. We encourage you to consult your Financial Advisor regarding your personal investment program.

UBS Asset Management (US) Inc. serves as distributor for 29 US SEC-registered money market funds and is located at 1285 Avenue of the Americas, New York, NY 10019.

You could lose money by investing in a money market fund. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, a fund cannot guarantee it will do so. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. A money market fund’s sponsor has no legal obligation to provide financial support to a money market fund, and you should not expect that the fund’s sponsor will provide financial support to a money market fund at any time. For more information on money market funds, contact your Financial Advisor or call UBS Asset Management (US) Inc. at 888-793 8637. He or she can send you a current prospectus, which includes a discussion of investment risks, sales charges, expenses and other matters of interest. Please read it carefully before you invest.

© UBS 2017. All rights reserved.
17-0495 C-0617 6/17
www.ubs.com/am-us

UBS Asset Management (Americas) Inc. is an indirect asset management subsidiary of UBS Group AG.

