

New investment opportunities from the expanding money market fund industry

Money market funds have been a popular investment vehicle with US and European cash managers for some time. New technology and a renewed focus on transparency is further increasing their appeal for investors seeking safe and liquid investment vehicles for their organizational cash reserves. All treasurers and finance managers should take a close look at this expanding investment category.



Risk-return trade-off

An uncertain economic environment, rapidly changing regulations in many countries, and high unemployment in the developed markets continue to keep treasurers cautious. Many institutions have built up historically high levels of cash – in the US alone, corporate cash balances reached a record USD2.46 trillion. This situation creates a dilemma for cash managers: how should they achieve an attractive return on cash without sacrificing preservation of capital and access to liquidity?

Investors have a number of options, but in a low-interest-rate environment, the potential gains from higher-yielding investments may not justify increased exposure to risk. For example, an increased return of 30 basis points may appear attractive. However, a yield improvement of a few thousand dollars on a multimillion dollar investment of cash reserves is hardly worth taking on significant added principal risk. Given the risk-return trade-offs in today's environment, the safety and liquidity offered by money market funds are all the more attractive.

The G3 currencies – the euro, the pound sterling, and the US dollar – dominate the international market for money market funds. This is not surprising given the prominence of their respective economies and usage in international trade flows. In the emerging markets, the growth of financial activity has given rise to increased demand for liquid local currency investment products. Although money market fund offerings are currently in their infancy in these markets, this is likely to change in the near future, with countries such as China and India taking the lead.

Regulatory reform

A powerful driver of the growing acceptance of money market funds outside the US is new regulation. One significant, positive change has been the effort by the Committee of European Securities Regulators (CESR) to

enhance investor protection by establishing a common definition of European money market funds. CESR's guidelines, issued in May 2010, are aimed at providing greater clarity around the definition of a European-domiciled money market fund, thus moving closer to a common understanding. This clarity and common understanding will ensure that money market funds – which have already become a global industry – remain a consistent and viable contributor to a healthy global financial system.

The Institutional Money Market Funds Association (IMMFA), the trade association of the European-domiciled money market fund industry, has also been active in providing reassurance to investors in these funds. IMMFA ensures that its members offer a consistently high-quality product to investors, educates investors about the industry, and provides timely statistics on members' funds.

The US has also been further strengthening regulation of money market funds. The Securities and Exchange Commission (SEC) in 2010 adopted amendments to Rule 2a-7 under the Investment Company Act of 1940, imposing further quality, liquidity, and other requirements on money market funds. The amendments are designed to increase the resilience of money market funds to economic stresses, reduce the risks of "runs", and improve the SEC's oversight. As with recent European regulations, these amendments are intended to bolster confidence in money market funds, educate investors, and ensure that investments that are called "money market funds" meet defined minimum requirements for preservation of capital and liquidity.

In addition to new regulations and guidelines, the main major ratings agencies have also enhanced their categorization and criteria for money market funds, a further reflection of the drive for greater consistency and transparency. Major fund providers have embraced these trends, as these help build investor confidence and support continued growth of the industry. ▶



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While regulators are focused on the integrity of money market funds, corporate boards remain attentive to counterparty risk. Boards continue to exercise diligence over how their organizations are investing cash and ensuring they remain within approved counterparty limits. This plays to the strength of money market funds – as pooled investment vehicles staffed with highly experienced, professional credit and portfolio management teams, the instruments provide broad diversification.

Portal power

The growing popularity of money market funds globally is also driven by the growth and acceptance of online portal technology. Portals facilitate the centralized management of short-term investments on a global basis. Today, many multinational organizations manage their short-term investments locally, but want to centralize investment policies and compliance. A portal can help facilitate this.

Citi’s portal, Citibank® Online Investments, integrates investments in dozens of countries and currencies, while efficiently streamlining, centralizing, and integrating local or global investing. Clients can access more than 175 institutional funds, including US dollar-denominated domestic (US-registered), offshore (non-US-registered), tax-exempt, tax-efficient, government/Treasury, and non-dollar currency (euro and sterling) funds through a single channel, making it easier and more efficient to manage liquidity.

For treasurers, visibility and control are some of the platform’s key benefits. Citibank Online Investments tracks conformance to investment policies and facilitates accounting and reconciliation. It provides flexible online reporting and seamless integration with Citi® Treasury Analytics for sophisticated risk management and investment accounting, or a company’s own treasury systems. Investors can transact and monitor activity for multiple legal entities through one window.

The best portals enable treasurers to spread their investments across multiple funds, with the flexibility to ensure that these investments align with company guidelines and operating policies. In the case of Citi, the platform can link directly to the organization’s bank accounts, which eliminates the need for separate wire transfers and custodial services. This also allows the integration of investment processes with cash and banking operations. Where Citi is the organization’s operating cash management bank, surplus balances from cash pools can be automatically invested, ensuring that cash is seamlessly diversified each day in full compliance with investment guidelines.

Citibank Online Investments also supports one legal agreement for all fund families with the ease of adding new investment options in real-time. Moreover, it incorporates a host of other features to customize and simplify investment-related processes. Beyond convenience, a portal must provide ironclad security. Citi’s portal provides the ability for users to view rates, initiate trades, and get immediate confirmations through a secure infrastructure. In addition, the portal incorporates a solid entitlement and maker/checker process to maintain control over the investment process.

The future

As a number of trends combine to increase the demand for money market funds globally, cash managers have more opportunities than ever to invest with security and liquidity. At the same time, the growth of feature-rich portals, such as Citibank Online Investments, provides convenience and efficiency in managing a global short-term investment portfolio. With a renewed focus on transparency, the money market fund industry is poised to continue expanding globally, with significant benefits for institutional investors. ■

Selecting an online investment portal

Treasurers evaluating portals are focusing on five key criteria:

- **Choice:** does it encompass products in multiple currencies?
- **Convenience:** does it offer full automation, with no intervention required?
- **Integration:** does it centralize global investing and policy management?
- **Visibility:** does it provide a centralized view into global investment positions and full reporting capability?
- **Security:** does it offer solid process control?

Transparency trends

Enhanced regulations and the growing prominence of portals are symptoms of the demand for greater transparency. Treasurers are insisting on accurate, timely, and streamlined information on their investments.

Citi is committed to providing investors with the information they need, when and where they need it, to make informed decisions. This includes access to fund information (through Citibank Online Investments and Citi’s external website) for clients and fund managers. Clients can also access knowledgeable financial professionals – even in today’s wired world, there is often no substitute for a direct, candid conversation.

Our commitment goes beyond providing fund performance information. It includes access to web conferences, where experts from Citi and its partners lead focused discussions on the state of the short-term fixed income markets. It also means issuing alerts on new investment opportunities and instruments.