

## AAA Rated Money Market Funds

Money Market Funds (MMFs) are pooled investments consisting of short-term money market instruments such as Certificates of Deposits (CDs), Treasury Bills, Gilts, etc.

MMFs started in the US in the 1970's and developed in Europe in the 1980's. In the EU, these funds are governed by UCITS (Undertakings of Collective Investments in Transferable Securities). Local Authorities were allowed to use MMFs from April 2002 under the Local Authorities (Capital Finance and Approved Investments) Regulations 2002, subsequently replaced by the Local Government Act 2003.

MMFs are rated by the Credit Rating agencies. The highest ratings being:

- |                     |          |   |
|---------------------|----------|---|
| • Standard & Poor's | AAAm     | Credit quality rating                       |
| • Moody's           | Aaa MR1+ | Credit quality rating and volatility rating |
| • Fitch             | AAA V1+  | Credit quality rating and volatility rating |

Since their inception in the 1970's, no sterling AAA MMF has been downgraded by the rating agencies.

The benefits of using MMFs

- Active management of cash balances for short periods
- Daily access
- AAA rated – higher rating than bank call accounts
- Enhanced returns due to 'pooled' sums, experienced investment managers.
- Diversification of risk
- Easy management of short-term cash.

The risks of using MMFs

- Capital fluctuations – underlying assets e.g. CDs are subject to capital fluctuations as a result of interest rate and credit risk. This structure of the fund minimises the movement of capital value due to the restrictions laid down by the credit rating agencies.

Principles of MMFs

- Security – AAA rated
- Liquidity – daily access to funds
- Yield – overnight investment but with returns between 7 day and 1 month LIBID

Currently, funds used by a neighbouring authority are returning yields in the region of 0.39% to 0.71%, an average of 0.4857%, well above the return available from the DMADF.

However, to place these figures in context, if we decided to invest £25m in a selection of funds, the additional interest achievable at the average rate, assuming the balance remained in the fund for a full year, would be in the region of £59k.