ICD Commentary

APRIL 2020

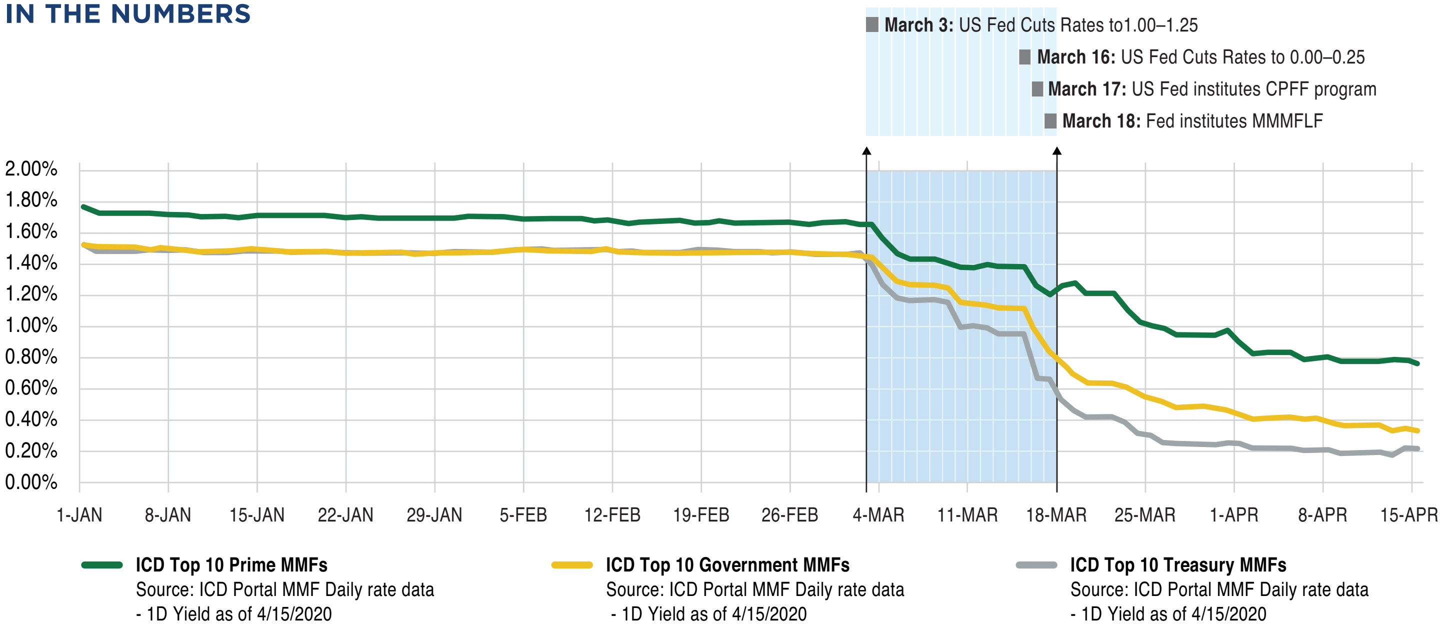
Finding Balance in a Global Pandemic

Money Market Funds (MMFs) have long been a favorite of treasury organizations because of their low risk, high liquidity and competitive yield. Their strength was visible at the peak of the 2008 crisis when MMFs, along with government securities, were among the few major liquidity-related asset classes left standing.

MMFs proved their fundamental strength and critical function in the aftermath of the 2008 crisis as the asset class increased in the six months after Lehman collapsed. In the most recent shock to the global financial system, brought on by the COVID-19 pandemic, we saw the same resilience as we did during the great recession.

Despite the broad market volatility, the standard convention for balanced risk-adjusted short-term investing still applies. Layering in a blend of Prime, Government and Treasury MMFs offers access to liquidity, mitigates risk and maximizes return.

IN THE NUMBERS



In the first few months of 2020, prior to the COVID-19 market impact, yields on MMFs remained stable with Prime Funds on average out-performing by 21bps over those of Government and Treasury MMFs. As depicted on the accompanying chart, the U.S. Federal Reserve initiated its first action on March 3rd to combat the impacts of COVID-19 with a 50bps reduction in the Fed Funds Rate, followed by a second 100bps reduction on March 16th. Yields on all three MMF categories adjusted downward on the Fed moves, with Treasury MMFs moving most aggressively. As market and government agencies collected information on the impacts to the economy and money markets, the Fed acted further to inject liquidity into the market by restarting the Commercial Paper Funding Facility on March 17th and by launching the Money Market Mutual Fund Lending Facility on March 18th. Additionally, the Fed further bolstered market confidence by increasing overnight lending through the repo market from $100 billion to $150 billion.

What we are seeing in the market is not a rush to liquidate from financially risky counterparties as occurred in 2008, when investors saw upward price movement in less risky assets. Rather it is a global liquidation across all asset classes in favor of cash as investors in the market look to add more liquidity into their portfolios to ride out a temporary shock to global demand. As markets continued to digest the impacts of COVID-19 and government responses, Money Market Funds performed flawlessly.

In the U.S. & Europe institutional investors aggressively moved assets, seeking the liquidity and safety of MMFs. Since March 2nd in the U.S., ICD Portal saw inflows to Treasury funds increase 299%, Government funds increase 124%, and an outflow of 62% on Prime MMFs. In Europe, ICD Portal saw inflows of 93% into Short-Term Public Debt MMFs, with other Standard MMFs remaining stable.

PRIME VS. GOV VS. TREASURY

Prime and Government funds on average have outperformed Treasury MMFs by 36bps and 7bps YTD, respectively. Since the recent market turmoil on March 3rd, Prime MMFs on average have outperformed Treasury MMFs by 56bps, and yields on Government funds have surpassed Treasury MMFs by 18bps, with minimal downside risk. Given the historical performance of MMFs over the past two market shocks, institutional investors seeking liquidity and security can keep yield in mind as well. In a balanced portfolio, these fund types are not mutually exclusive.

TOP 10 LEADING INDUSTRIES IN MMF ASSET INCREASES ON ICD PORTAL	
Food & Beverage	398%
Finance/Financial Services	277%
Energy/Utilities/Oil & Gas	231%
Retail	202%
Logistics & Transportation	194%
Hospitals & Healthcare	187%
Insurance	165%
Automotive	156%
Services	133%
Medical Devices	115%

All data from March 2 - April 15, 2020

INDUSTRY VIEW

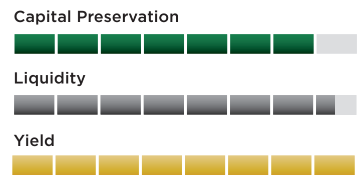
While on the whole corporate investors aggressively shifted assets into MMFs, the increase was more heavily weighted in select industries with Food & Beverage, Finance/Financial Services, Energy, Utilities, Oil & Gas and Retail all increasing MMF investments by over 200%.

> *"We've invested in prime money funds through ICD for over 15 years. To us, it's the sensible balance of yield, liquidity and capital preservation that makes it an attractive investment vehicle."*
>
> **– Roger Biscay**
>
> Senior Vice President, Treasurer & Global Risk Management, Cisco

TREASURY INVESTMENT OPTIONS

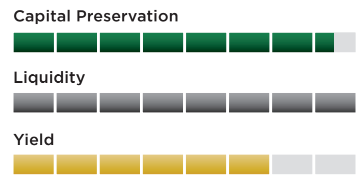
Once a corporate treasury department has an understanding of its company's investment objectives and risk tolerance, it can design a balanced portfolio from a selection of money market fund types.

PRIME INSTITUTIONAL MMFS



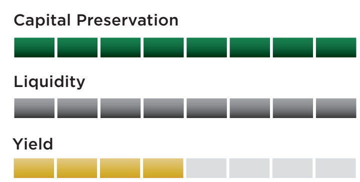
Prime MMFs provide the highest yield. Because of its very short-term structure and mandated liquidity buffers, Prime provides investors daily liquidity. Its well diversified portfolio of high quality corporate, bank and government credit instruments provide excellent capital preservation. Because the NAV can float, it misses the top capital preservation score.

GOVERNMENT INSTITUTIONAL MMFS



Government MMFs provide excellent capital preservation as securities are backed by the United States Government and/or Government Agencies. These are highly liquid funds with a stable NAV. Liquidity is high. Because of their very high capital preservation and liquidity features, the yield on these funds is moderate.

TREASURY INSTITUTIONAL MMFS



Treasury MMFs offers the most in capital preservation. The underlying treasury securities are backed by the full faith and credit of the U.S. government, and the repurchase agreements are collateralized in excess of 100%. These are also the most liquid securities in the entire capital markets universe. Because of these features, these are the lowest yielding MMFs.

Source: The Carfang Group

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