



The Benefits of Money Market Funds

By: Toby Goold, New Business Director, Morgan Stanley Investment Management

The benefits of Money Market Funds (MMFs) to local authority treasury departments are manifold. They have the potential to alleviate the pressure and time of managing the short-term end of your cash. Other significant attractions are the level of security offered by AAA rated funds and the diversification of the underlying issuers.

The MMF marketplace is well developed. This sector has seen significant growth in the UK in the last five years, having been established in the US since 1972. In the UK there are currently 20 AAA rated UCITS funds to choose from, holding over £15 billion under management. It is these top rated funds that are now accessible to UK local authorities.

The coveted AAA rating can be awarded by Standard & Poor's Ltd, Fitch, IBCA or Moody's Investor Services Ltd. These funds typically display a yield advantage over many competing shorter term investments, and offer their investors instant liquidity.

For example, the Morgan Stanley SICAV Sterling Liquidity Fund, AAA rated by Standard & Poor's, is actively managed within very specific guidelines to offer safety of principal, liquidity and competitive returns. In line with all of our investment products, our Money Market Fund is managed on your behalf in a measured, discerning, way by conservative investors who are experts in this field. Morgan Stanley's AAA-rated SICAV Sterling Liquidity Fund is managed from London, drawing on the resources of over 130 fixed income investment professionals. Morgan Stanley has been managing money market funds since 1975, and currently managing over £67* billion in fixed income assets, of which £44* billion is in money market funds.

To achieve a AAA rating any such fund must have a weighted average maturity of no more than 60 days. All short term securities must have maturities of less than 13 months.

Possible core investments would include;

- Obligations of banks and other financial institutions. These include deposits, CDs, bankers' acceptances, medium term notes and time deposits.
- Short term corporate debt such as commercial paper, notes and bonds.
- Securities issued or guaranteed by governments.

Shares in the funds are offered, typically, through two different structures. Stable Net Asset Value or Accumulating Net Asset Value.

Stable NAV is where the value of the individual shares remains at a constant price of one unit. This could be £1, €1 or \$1. The 'dividends' on these shares are the return, or yield, on that investment. At the end of each month the dividends are either paid out to the investor or reinvested.



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The second structure, Accumulating NAV shares, increase in value rather than earning a dividend. Thus all earnings are reflected in the increasing share price. The two share classes earn identical returns, and many providers offer both structures.

We believe that by building relationships with fund management houses that offer Money Market Funds, your local authority treasury team will gain access to a wide range of ancillary benefits too. For instance, at Morgan Stanley this would include a web based tool that would open the door to the research published by our award winning economists, strategists and sell side research teams around the world. This analysis can be customised to deliver your treasury team what they want, when they want it, so that they can be kept abreast of market developments as they happen.

Money Market Funds typically aim for a stated target return. This is often one month LIBID, but could vary. The Morgan Stanley SICAV Sterling Liquidity Fund is managed to one month LIBID. In line with market practice, our returns are paid net of fees and charges. To facilitate ease of access, deposits and withdrawals into our funds can be implemented simply by fax or a 'phone call, once an account has been opened.

Account minimums for Money Market Funds do vary, as do the minimum transaction size. For treasury teams who experience a changeable movement in their cash flow this can prove prohibitively difficult. For this reason we have waived our account minimum for local authority clients in our SICAV Sterling Liquidity Fund. We understand that once a treasury team approves a Money Market Fund provider such as ourselves they will view the fund as another investment option and will correspondingly not always have high levels of cash in their account.

The recent change in legislation enabling local authorities to invest in Money Market Funds presents a new and exciting opportunity for the treasury departments of these authorities. Whilst Money Market Funds will not be appropriate for all, they do present a useful additional investment tool. Their benefits can be seen both in terms of time saving for treasury teams, and diversification of the investment base, thus increasing security as well as offering a competitive yield. We at Morgan Stanley look forward to helping your treasury team realise those gains.

Should you have any questions about the above article, or the Morgan Stanley SICAV Sterling Liquidity Fund please contact:

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** Data as of 30th June, 2002 For business and professional investors only.*

Issued by Morgan Stanley Investment Management Limited, 25 Cabot Square, Canary Wharf, London E14 4QA.

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