

European And Offshore 'AAAm' Fund Risk Metrics

April 25, 2019

Index name	7-day net yield (%)	30-day net yield (%)	WAM (R) (days)	Total net assets (bil.)	Credit quality (%) (A-1+/A-1)
S&P Global Ratings 'AAAm' euro principal stability funds	(0.47)	(0.49)	45	€71.7	65/35
S&P Global Ratings 'AAAm' sterling principal stability funds	0.68	0.69	37	£202.9	67/33
S&P Global Ratings 'AAAm' U.S. dollar principal stability funds	2.44	2.41	31	\$379.4	69/31

The S&P Global Ratings' 'AAAm' fund risk metrics are risk indicators of European-domiciled and offshore managed funds. These risk metrics provide a benchmarking tool of the credit quality, portfolio composition, maturity distribution, net assets, and performance of 'AAAm' funds.

The risk metrics provide users with an illustration that is reflective of the investment practices of their rated funds, each of which conforms to S&P Global Ratings' criteria for a 'AAAm' principal stability fund rating. The S&P Global Ratings' 'AAAm' principal stability fund risk metrics allow investors and managers to gauge the safety and liquidity of their 'AAAm' rated funds. A fund's risk metrics below those of the S&P Global Ratings' 'AAAm' principal stability fund risk metrics may indicate a more conservative approach to investment while a fund's risk metrics well above the average may signal a more aggressive approach taken within the constraints of a 'AAAm' principal stability fund rating.

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Offshore money market funds (MMFs) have recently faced a number of hurdles, including the discontinuance of share cancellation mechanisms under European MMF reform, the U.K.'s planned departure from the EU, and downward revisions to interest rate hike expectations in the U.S. The impact we expect these factors could have includes:

- **European MMF reform:** Although we've seen some product consolidation, we view the increased liquidity, diversification, and transparency outlined in the reform as a positive development for the industry.
- **Brexit:** We expect portfolio managers will continue to closely monitor U.K. bank exposures amid continued uncertainty around Brexit.
- **U.S. interest rates:** In 2019, we may see portfolio managers of USD funds reexamine their current positioning as optimistic expectations around Fed rate hikes have cooled off considerably.

Euro-denominated MMF assets rated by S&P Global Ratings steadily decreased throughout 2018 but eventually rebounded, to €72 billion at the end of first-quarter 2019. Euro-denominated MMFs experienced little change in average seven- and 30-day net yields, ending the first quarter at -0.47% and -0.49%, respectively. The deposit facility rate remained unchanged at -0.40, and the European Central Bank (ECB) closed out 2018 by ending net new purchases under its Corporate Sector Purchasing Program. We anticipate the ECB will look to change the direction of interest rates in 2020. However, given uncertainties about the economic and inflation outlook, normalization will be very gradual.

Fund sponsors spent much of 2018 preparing to adopt European MMF reform, which went into effect on March 21, 2019. Many fund sponsors cited a lack of clarity on share cancellation mechanisms--which are not permitted under the new regulations--as a contributing factor to delays in the implementation of new product lineups. The reform has driven considerable changes in the product landscape, with a majority of funds converting to the low volatility net asset value (LVNAV) structure plus launching variable NAV to attract a wider client base.

Sterling-denominated MMFs' average seven-day and 30-day net yields have increased to 0.68% and 0.69%, following the Bank of England raising the bank rate from 0.5% to 0.75% in August 2018. Despite increased yields, the EU's recent agreement to delay Brexit means investors will face continued uncertainty. If the U.K. had not decided to leave the EU in the 2016 referendum, we estimate its economy might have been about 3% larger by the end of 2018. Sterling fund assets under management have remained relatively stable over the last 12 months, ending first-quarter 2019 at £202.9 billion, compared with £208.8 billion at the same time last year. In the event of a disorderly Brexit, the Bank of England could reduce interest rates if it saw an increased likelihood of the banking system coming under stress from a disorderly Brexit.

U.S. dollar-denominated (USD) MMFs saw assets grow by \$54.4 billion since last March, ending first-quarter 2019 at \$379.4 billion. Increased investor interest comes as no surprise, given the relatively attractive yields offered by USD funds following four rate hikes in the U.S. in 2018. Average seven-day and 30-day net yields of offshore USD funds were 2.44% and 2.41%, respectively, at the close of the first quarter. Fund managers altered their portfolio exposures to take advantage of the rising interest rate, increasing average floating rate note exposure from 2.10% to 9.19% over the past 12 months and decreasing average WAL from 55 days to 51 days.

European And Offshore 'AAAm' Fund Risk Metrics

Chart 1

'AAAm' Funds Average WAM (R)

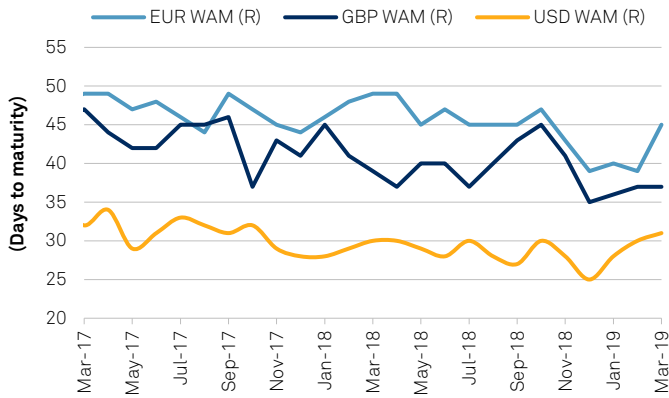


Chart 2

'AAAm' Funds A-1+ Credit Quality Trend

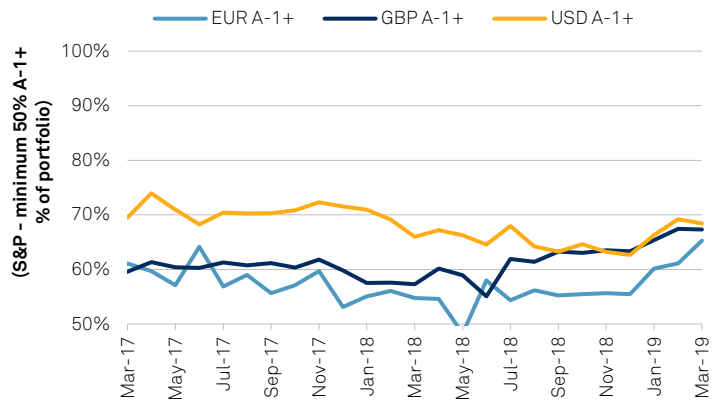


Chart 3

'AAAm' EUR Funds Net Assets

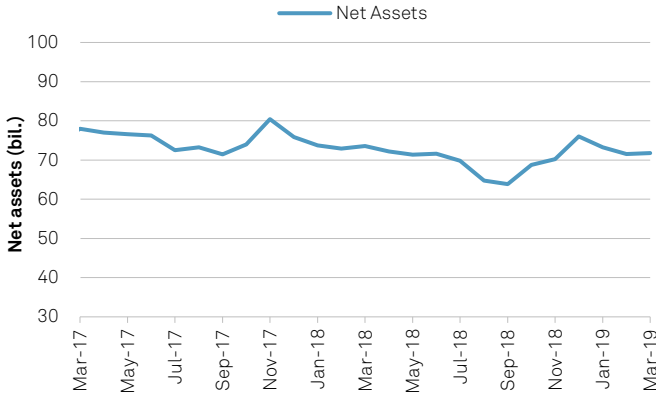


Chart 4

'AAAm' EUR Portfolio Composition

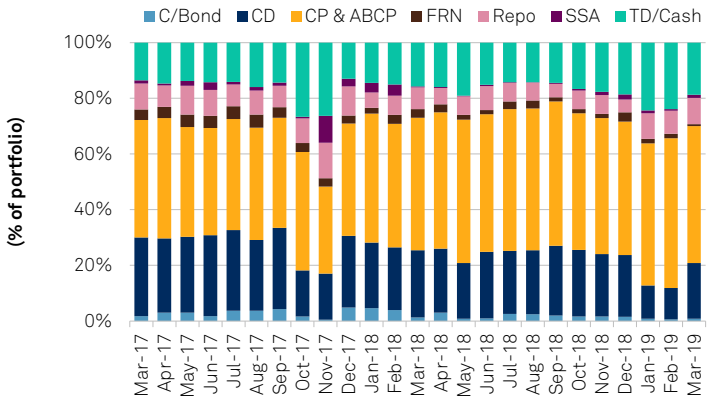


Chart 5

'AAAm' GBP Funds Net Assets

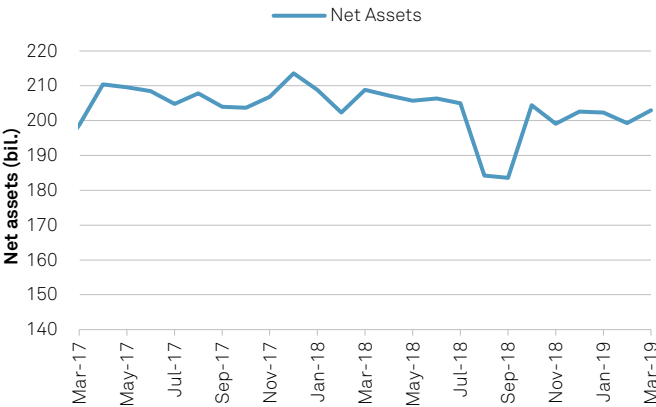
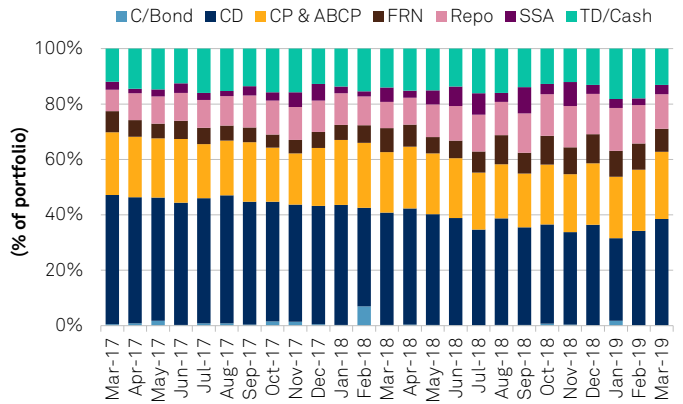


Chart 6

'AAAm' GBP Portfolio Composition



European And Offshore 'AAAm' Fund Risk Metrics

Chart 7

'AAAm' USD Funds Net Assets

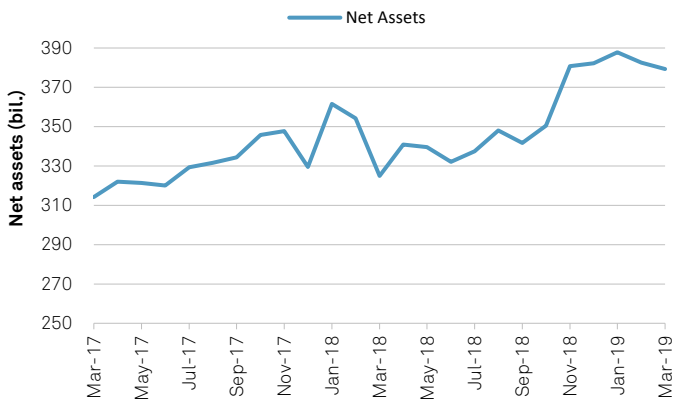
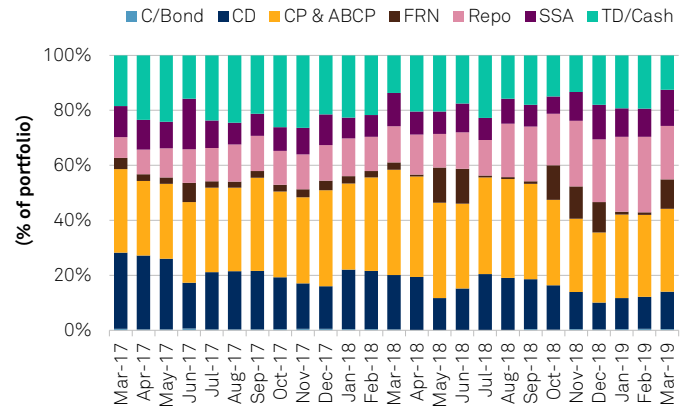


Chart 8

'AAAm' USD Portfolio Composition



Top 10 'AAAm' European, Sterling, And Offshore U.S. Dollar -- By Assets -- Key Statistics

'AAAm' euro principal stability funds

Rating	Fund name	Net assets (€)	Portfolio maturity (days)		Credit quality (%)	
			WAM (R)	WAM (F)	A-1+	A-1
AAAm	Institutional Cash Series plc - BlackRock ICS Euro Liquidity Fund	30,031.81	50	50	69.29	31.21
AAAm	Goldman Sachs Funds, plc - Goldman Sachs Euro Liquid Reserves Fund0.68	8,724.49	44	48	61.26	38.74
AAAm	BNP Paribas Insticash EUR 1D Short Term VNAV	6,001.77	45	74	59.93	40.07
AAAm	HSBC Global Liquidity Funds PLC - HSBC Euro Liquidity Fund	4,178.51	46	57	53.99	46.01
AAAm	State Street Liquidity plc - State Street EUR Liquidity LVNAV Fund	4,170.56	38	42	71.53	28.47
AAAm	Deutsche Global Liquidity Series PLC - Deutsche Managed Euro Fund	3,961.67	49	50	62.76	37.24
AAAm	MS Liquidity Funds - Euro Liquidity Fund	3,811.70	45	46	63.18	36.82
AAAm	Aberdeen Standard Liquidity Fund (Lux) - Euro Fund	2,877.12	40	45	64.11	35.89
AAAm	Institutional Cash Series plc - BlackRock ICS Euro Assets Liquidity Fund	2,488.92	50	50	55.19	44.81
AAAm	Short-Term Investments Co. (Global Series) PLC - Euro Liquidity Portfolio	1,448.83	47	48	68.19	31.81

'AAAm' sterling principal stability funds

Rating	Fund name	Net assets (£)	Portfolio maturity (days)		Credit quality (%)	
			WAM (R)	WAM (F)	A-1+	A-1
AAAm	Institutional Cash Series plc - BlackRock ICS Sterling Liquidity Fund	37,467.16	37	61	65.12	34.88
AAAm	LGIM Liquidity Funds PLC - LGIM Sterling Liquidity Fund	30,769.51	47	66	72.16	27.84
AAAm	Aberdeen Standard Liquidity Fund (Lux) - Sterling Fund	28,512.07	55	67	65.48	34.52
AAAm	Insight Liquidity Funds PLC - ILF GBP Liquidity Fund	23,505.32	30	43	70.91	29.09
AAAm	Aviva Investors Liquidity Funds PLC - Aviva Investors Sterling Liquidity Fund	19,451.56	49	64	62.34	37.66
AAAm	Goldman Sachs Funds, plc - Goldman Sachs Sterling Liquid Reserves Fund	12,800.27	31	50	66.06	33.94
AAAm	JPMorgan Liquidity Funds - GBP Liquidity LVNAV Fund	12,115.71	54	84	64.51	35.49
AAAm	HSBC Global Liquidity Funds PLC - HSBC Sterling Liquidity Fund	6,535.61	40	52	58.66	41.34
AAAm	Deutsche Global Liquidity Series PLC - Deutsche Managed Sterling Fund	5,452.45	41	69	63.88	36.12
AAAm	State Street Liquidity plc - State Street GBP Liquidity LVNAV Fund	4,841.37	36	56	60.54	39.46

'AAAm' U.S. dollar principal stability funds - offshore

Rating	Fund name	Net assets (\$)	Portfolio maturity (days)		Credit quality (%)	
			WAM (R)	WAM (F)	A-1+	A-1
AAAm	JPMorgan Liquidity Funds - USD Liquidity LVNAV Fund	75,051.68	28	64	54.5	45.5
AAAm	Goldman Sachs Funds, plc - Goldman Sachs US\$ Liquid Reserves Fund	46,000.86	50	78	56.11	43.89
AAAm	Institutional Cash Series plc - BlackRock ICS US Dollar Liquidity Fund	43,663.02	40	77	54.44	45.56
AAAm	Goldman Sachs Funds, plc - Goldman Sachs US\$ Treasury Liquid Reserves Fund	33,154.32	22	34	94.43	5.57
AAAm	JPMorgan Liquidity Funds - USD Treasury CNAV Fund	32,814.11	40	68	100	
AAAm	HSBC Global Liquidity Funds PLC - HSBC US Dollar Liquidity Fund	28,374.42	40	77	58.48	41.52
AAAm	MS Liquidity Funds - US Dollar Liquidity Fund	19,732.41	57	84	66.81	33.19
AAAm	State Street Liquidity plc - State Street USD Liquidity LVNAV Fund	14,343.71	30	74	70.28	29.72
AAAm	BNY Mellon Liquidity Funds, PLC - BNY Mellon U.S. Treasury Fund	12,242.55	18	38	100	
AAAm	Deutsche Global Liquidity Series PLC - Deutsche Managed Dollar Fund	11,406.15	34	70	64.59	35.41

Principal Stability Fund Rating Definitions

An S&P Global Ratings' principal stability fund rating (PSFR), also known as a "money market fund rating," is a forward-looking opinion about a fixed-income fund's capacity to maintain stable principal (net asset value). When assigning a PSFR to a fund, our analysis focuses primarily on the creditworthiness of the fund's investments and counterparties, as well as its investments' maturity structure and management's ability and policies to maintain the fund's stable net asset value. PSFRs are assigned to funds that seek to maintain a stable or an accumulating net asset value.

Generally, when faced with an unanticipated level of redemption requests during periods of high market stress, the manager of any fund may suspend redemptions for up to five business days or meet redemption requests with payments in-kind in lieu of cash. A temporary suspension of redemptions or meeting redemption requests with distributions in-kind does not constitute a failure to maintain stable net asset values. However, higher-rated funds are expected to have stronger capacities to pay investor redemptions in cash during times of high market stress because they generally comprise shorter-maturity and higher-quality investments.

PSFRs are identified by the 'm' suffix (e.g., 'AAAm') to distinguish the principal stability rating from an S&P Global Ratings' traditional issue or issuer credit rating. A traditional issue or issuer credit rating reflects our view of a borrower's ability to meet its financial obligations. PSFRs are not commentaries on yield levels.

Principal Stability Fund Rating Scale

- AAAm** A fund rated 'AAAm' demonstrates extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. 'AAAm' is the highest principal stability fund rating assigned by S&P Global Ratings.
- AAm** A fund rated 'AAm' demonstrates very strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. It differs from the highest-rated funds only to a small degree.
- Am** A fund rated 'Am' demonstrates strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk, but it's somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than funds in higher-rated categories.
- BBBm** A fund rated 'BBBm' demonstrates adequate capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. However, adverse economic conditions or changing circumstances are more likely to lead to a reduced capacity to maintain principal stability.
- BBm** A fund rated 'BBm' demonstrates speculative characteristics and uncertain capacity to maintain principal stability. It is vulnerable to principal losses due to credit risk. While such funds will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
- Dm** A fund rated 'Dm' has failed to maintain principal stability resulting in a realized or unrealized loss of principal.

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