

Credit Considerations - Money Market Funds

In light of this week's failed vote on the Troubled Asset Relief Program (TARP), we wanted to share some credit considerations with you.

Companies may want to evaluate **non-2a-7 bank money market deposit accounts (MMDA's) with balances greater than \$100,000, the FDIC coverage limit per bank** (the FDIC insurance limit may increase to \$250,000 if the current rescue bill before Congress is passed). MMDA's are not money market funds and are not covered by the U.S. Treasury Department's Temporary Guarantee Program for Money Market Funds. We believe that Treasury and government agency 2a-7 money market funds may be an attractive alternative for MMDA balances above \$100,000 per bank.

Note: It is important to understand the differences between a 2a-7 money market fund and a MMDA account. While they share similar names they work quite differently as financial instruments. 2a-7 money funds are regulated by the SEC and pool client cash to invest in diversified, highly-rated securities. 2a-7 money market funds target a constant dollar share price. On the other hand, the bank MMDA's, often linked to corporate operating accounts, have FDIC oversight, are insured up to a \$100,000 limit and provide a return set by the banks and backed by the banks' loan portfolios and other financial assets. Therefore, a bank's credit rating may be important if you place cash assets into an MMDA. A BBB-rated bank provides you the lowest rung of what is considered "investment grade," while a AAA-rated bank provides greater credit worthiness.

Investors may also want to be cautious of 2a-7 money market funds not affiliated with banks. Money market funds affiliated with banks can facilitate redemptions without triggering losses (and potentially breaking the buck) by transferring money market fund assets to their affiliated banks, which assets the banks can in turn use to borrow from the Federal Reserve. Money market funds not affiliated with banks do not have this option. Please note that the money market fund family recommended by Capital Advisors Group is affiliated with a (AA2/AA-) rated bank.

For the reasons stated below, this consideration is intended primarily for those seeking to invest new money in 2a-7 funds now that the 9/19/08 deadline for the Temporary Guarantee Program has passed.

The U.S. Treasury Department's Temporary Guarantee Program for Money Funds has important implications for investors. Investors contemplating switching from one 2a-7 money market fund to another should understand that the guarantee only applies to balances invested in participating 2a-7 funds as of 9/19/08. **Assets that are transferred to a new money market fund after 9/19/08 are not eligible for the protections of the Program. The Guarantee Program also does not ensure immediate liquidity if a participating fund breaks the buck.** According to the Treasury, "In the event that a participating fund breaks the buck and liquidates, a guarantee payment should be made to investors through their fund within approximately 30 days, subject to possible extensions at the discretion of the Treasury." Finally, the Program is initially in effect for only 3 months, but may be extended to 9/18/09.

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