

Asset Flows and Net Asset Value

While the mass exodus from prime institutional money market funds has slowed in the week following the reform implementation date of Oct.14, asset outflows continue, with prime institutional assets under management declining \$3 billion in the week between Oct. 14 and Oct. 21, 2016. Government institutional funds' assets increased by \$21 billion in the same period, reaching a total of approximately \$1.6 trillion. Since Oct. 27, 2015, prime institutional money funds have lost approximately \$861 billion in assets, and all prime money funds have lost \$1.1 trillion (due to a combination of fund conversions and investor outflows).

Of 30 prime institutional funds reviewed as of Oct. 21, 2016, one fund reported a shadow net asset value (NAV) below \$1.00, compared with no funds as of Oct. 7, 2016.

Some of the cash that left may return to prime funds, but this will be a function of the relative yield differential between prime and government funds as well as investors adapting to the new features of prime funds. Alternative liquidity products are also expected to garner inflows.

Liquidity

Facing uncertain flows as managers and investors adjust to the new fees and gates paradigm, fund managers have built substantial weekly liquidity buffers. As of Oct. 21, 2016, prime institutional funds' weekly liquidity averaged 80%, up from 52% on June 30. None of the 28 funds reviewed showed liquidity below 50%. However, as asset flows have stabilized, fund managers are beginning to revert back to more normal portfolio management by extending maturities. This has caused prime institutional funds' average weekly liquidity to fall 7% from a peak of 87% on Oct. 7, 2016, a week ahead of reform.

Liquidity will likely remain a long-term focus, and Fitch expects prime funds to maintain a buffer above the 30% weekly liquidity threshold in order to assuage investor concerns with the liquidity fees and gates features that kicked in Oct. 14.

Yields

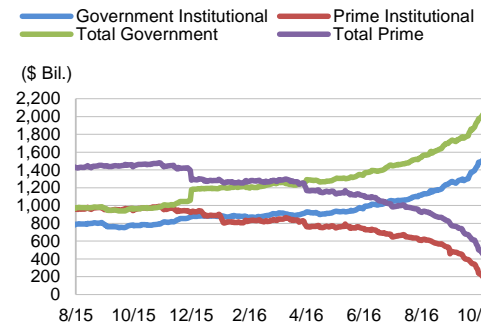
The spread between net yields on prime institutional funds and government institutional funds declined for several months following a peak of 0.17% in May, as outflows and liquid asset requirements forced prime fund managers to maintain short maturities. Following reform, as market dynamics have stabilized and investors grow more comfortable with the new operating environment, prime fund managers have begun to extend maturities in their portfolios in order to take advantage of wider credit spreads offered by borrowers. Consequently, the spread between institutional prime and government funds increased to 0.18% as of Oct 21, 2016.

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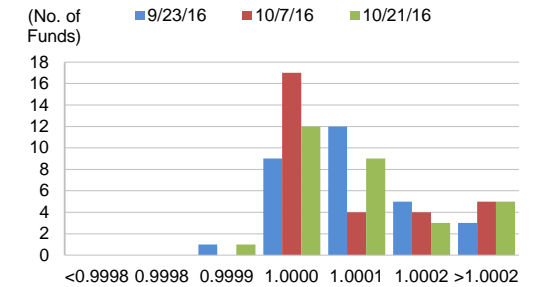
Fund & Asset Managers Ratings Group

Institutional Money Market Fund Flows



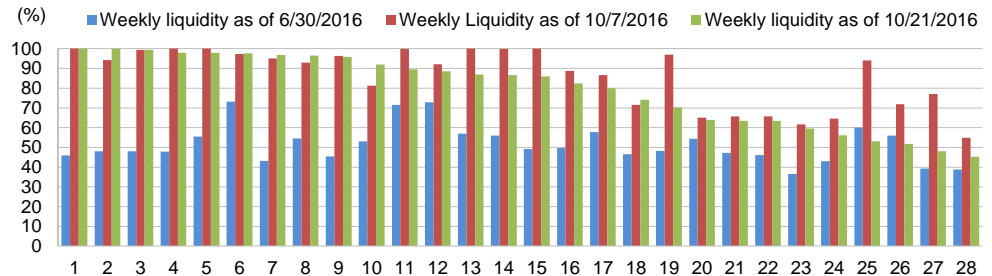
Source: iMoneyNet.

Prime Institutional Money Market Funds Shadow Net Asset Value



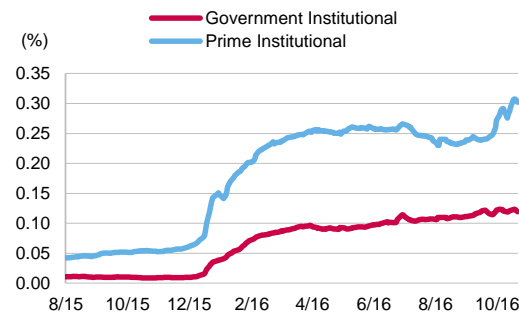
Source: Fitch, Crane Data and Form N-MFP.

Distribution of Weekly Liquidity Across 28 Prime Institutional Funds



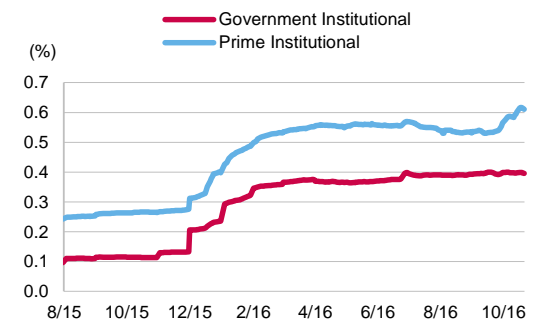
Source: Fitch and Crane Data.

Money Market Funds 7-Day Net Yields



Source: iMoneyNet.

Money Market Funds 7-Day Gross Yields



Source: iMoneyNet.

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