

Rated Money Fund Report TM

The Source for Rated Money Market Fund Information

◆ A TREASURY MANAGER'S VIEW ON MONEY FUNDS

While assets of all money funds have grown significantly in the past two years, institutional use of money market funds, in particular, has skyrocketed. In 1995, institutional fund assets rose \$47.5 billion, or 30.1 percent, easily outpacing the strong 23.9 percent growth seen among retail money funds. Institutional funds have continued to grow more rapidly than other funds in 1996 as well. They've added 17.6 percent more assets, versus retail money funds' 11.5 percent in new cash.

Rated money funds have been one of the most popular choices for institutional money this year. In fact, rated institutional fund assets have grown by \$29.9 billion since the end of 1995, an increase of 32.2 percent. Clearly, rated funds are gaining popularity with institutional investors such as corporate cash managers and municipalities. In order to get a clearer picture of these fast-growing rated funds' clientele, *RMFR* spoke to Pankaj Palvia, treasury operations project manager at Digital Equipment Corp., about DEC's cash management policies and its use of money funds.

Cash Management Issues at the Corporate Level

Like most, Palvia indicated that Digital's main cash management goals are safety and liquidity. "Providing safety of principal and maintaining adequate business liquidity is the basis of Digital's investment philosophy." He continues, "That is not to say that yield maximization is not important. It is important within the parameters of safety and liquidity." Digital is able to satisfy these goals through active internal cash management and the use of money market funds.

Digital staggers the maturities of its investments, based on expectations of their needed cash flows. "We plan our investment maturities around expected needs," says Palvia. "We look at our cash maturity patterns and compare them to expected cash needs from time to time and, based on that, make changes to our maturities."

Money Funds Add To Overall Performance

DEC recently added a rated money fund to its investment portfolio and, thus far, Palvia seems to be generally satisfied with its performance. "We found that [money fund] yields are pretty competitive, and some of the funds with the lower expense ratios have relatively good yields," he says.

Furthermore, having the backup liquidity of the money fund allows a bit more flexibility in the investments of the bulk of DEC's portfolio. "Having this safety stock of cash allows us to elongate our maturity for the remaining core portfolio, which is much bigger in size, because we know that we have the safety net available to us." Palvia continues, "If you look at the empirical evidence on maturities and yields, you'll find that if you roll over a portfolio with a longer maturity instead of rolling it overnight...the yields are a little bit better with respect to the ones with longer maturities. So, in some years, simply rolling overnight might do the trick in terms of yields, but if you look at longitudinal data, it's better to have longer maturities." Longer

maturities also reduce portfolio churns, thereby providing some savings in administrative and custody costs.

Both of these advantages have the potential to help the portfolio's performance. Palvia says that he sees little downside to using money market funds at the corporate cash management level. He says, "Really, it is hard to envision any drawbacks. The yields are quite comparable, and we have chosen rated funds so that we are not concerned about safety that much."

Strict Oversight Provides Safety For Portfolio

Palvia estimates that less than 3 percent of Digital's cash is held in a rated money fund; the remaining amount is actively managed by the treasury department. Major holdings in the actively managed portfolio are U.S. commercial paper and Euro time deposits for DEC's offshore investments. He adds, "We have firm guidelines from our corporate treasurer for short-term investments. They speak to the safety of principal and liquidity. The guidelines specify the instruments that we are allowed to invest in, the institutions, the minimum credit ratings we need, and also how much we can place in one issuer."

Similarly, Digital has firm criteria for the types of money funds in which it can invest. Palvia indicates that one of the most basic criteria for a money fund is that it be triple-'A' rated by both Standard & Poor's and Moody's Investors Services. "[A rating] was important to us, and we also looked at the fund size, name recognition, experience of the fund manager...customer and issuer concentration within the fund, any previous bailouts of the fund...references we got from the customers and how reputable the customers were in terms of their name recognition as well."

Palvia states that the fund's redemption cutoff times, as well as service issues, accessibility of the fund manager, expenses, historical performance and, of course, yield, were also very important in DEC's money fund decision.

Money Funds Gathering Corporate Assets

Other corporations like Digital are beginning to utilize money funds as another source of backup liquidity. Rated money funds, in particular, continue to gain popularity with institutional investors, primarily due to their added layer of safety. Their combination of safety and liquidity makes them an increasingly viable alternative for many corporate cash managers. ◆

CASH MANAGER PROFILE

Company:	Digital Equipment Corp.
Manager:	Pankaj Palvia
Goals:	Safety, Liquidity, Yield
Important Fund Attributes:	'AAA' Rating, Size, Name Recognition, Manager Experience, Customer and Issuer Concentration
Other Cash Investments:	Commercial Paper, Euro Time Deposits