

Impact of SEC Rule Changes for Money Market Funds Regulatory Update

ZACH HOUSTON-READ, RESEARCH ASSOCIATE, AND FRANK VALLE, CFA, CAIA, SENIOR RESEARCH ANALYST

RECOMMENDATION: The Security Exchange Commission (SEC) is implementing rule changes for money market funds with the goal of improving transparency, efficiency, and stability. These changes could lead to consolidation within the non-government money market segment. Some managers have announced they will close their institutional prime funds before the October 2, 2024, change takes effect.

Institutional prime and tax-exempt money market funds will be impacted by these rule changes. In particular, the extra yield offered by prime funds — 10–20 bps over government money market funds — could come at the cost of the potential liquidity fee (described on page 2). If investors choose to remain in prime money market funds, it is important to choose funds with large assets under management that are diversified across a significant number of investors to minimize the odds of reaching the 5% withdrawal threshold. However, many investors — especially those with small cash allocations — will be better off utilizing a government money market fund to remove the risk of a mandatory liquidity fee. Allocating to a government money market fund will also ensure a rapid settlement of funds. Clients with a significant percentage of assets held in cash should be strategic with cash and implement a cash tiering strategy.

BACKGROUND: Over the past year, the SEC has been phasing in regulatory changes for money market funds resulting from adopted amendments to Rule 2a-7. These amendments were passed on July 12, 2023, in response to the stress that money market funds faced at the start of the pandemic in March 2020 when investors rapidly pulled more than \$130 billion dollars from money market funds. As a result, the Treasury and Federal Reserve had to step in to provide emergency liquidity facilities to shore up the short-term funding market. The changes primarily focus on institutional prime and tax-exempt money market funds, which have historically been more susceptible to investor runs.

Below is a timeline of these changes as well as which fund types are impacted:

Rule Reform	Money Market Fund Type Affected			Date
	Government	Prime	Muni/Tax-Exempt	
Removal of redemption gates	N/A	Yes	Yes	10/2/23
Permission to use reverse distributions in negative interest rate environment	Yes	Retail Only	Retail Only	10/2/23
Discretionary liquidity fees	N/A	Yes	Yes	4/2/24
Increased portfolio liquidity requirements	Yes	Yes	Yes	4/2/24
WAM and WAL calculation specification	Yes	Yes	Yes	4/2/24

CONTINUED >

Rule Reform	Money Market Fund Type Affected			Date
	Government	Prime	Muni/Tax-Exempt	
Enhanced reporting requirements	Yes	Yes	Yes	6/11/24
Mandatory liquidity fees	N/A	Institutional Only	Institutional Only	10/2/24

RULE REFORM SUMMARIES:

Removal of redemption gates: This prevents funds from suspending/gating redemptions in the event of market turmoil and will improve investor confidence in fund liquidity.

Permission to use reverse distributions in negative interest rate environments (RDM): In the event of a negative interest rate environment where government securities have negative yields, funds are permitted to offset the negative interest income by cancelling shares in shareholder accounts. This allows the fund to maintain a stable NAV of \$1.00.

Discretionary liquidity fees: Allows non-government funds to impose a discretionary liquidity fee for redeeming shareholders if the fund board decides it is in the fund's best interest. Government money market funds may opt in.

Increased portfolio liquidity requirements: Increases the minimum daily liquid assets from 10% to 25% and the minimum weekly liquid assets from 30% to 50%. These increases are meant to ensure that money market funds have an adequate amount of short-term assets available in the event of elevated liquidity needs.

WAM and WAL calculation specification: Mandates that funds calculate the weighted-average maturity and weighted-average life of their portfolios based on each security's market value, rather than amortized cost. The SEC limits overall WAM to 60 days or less and WAL to 120 days or less. Previously, there were differences in how funds calculated these metrics. This change standardizes these metrics and improves comparability and transparency across funds.

Enhanced reporting requirements: Improves the record keeping and documentation requirements for funds to provide more transparency on fund operations.

Mandatory liquidity fees: This is the most significant of the above changes. It requires non-government funds to impose a mandatory liquidity fee if net redemptions exceed 5% of net assets on a single day. Once the 5% threshold is reached, the fund must apply the liquidity fee to all the shares redeemed on that day. The fee is based on transaction costs and is not subject to a hard limit. No liquidity fee is required if liquidity costs are de minimis, which is defined as less than 1 basis point of net assets. The purpose of this rule is to transfer the liquidation costs from shareholders who remain in the fund to shareholders who redeem from the fund, thus incentivizing investors to remain in the fund during times of market turmoil. This change will take effect starting October 2, 2024. ▀

PREPARED BY MARQUETTE ASSOCIATES

180 North LaSalle St, Ste 3500, Chicago, Illinois 60601 PHONE 312-527-5500
CHICAGO BALTIMORE MILWAUKEE PHILADELPHIA ST. LOUIS WEB marquetteassociates.com

CONFIDENTIALITY NOTICE: *This communication, including attachments, is for the exclusive use of the addressee and contains proprietary, confidential and/or privileged information; any use, copying, disclosure, dissemination or distribution is strictly prohibited. Marquette Associates, Inc. retains all proprietary rights they may have in the information.*

Marquette Associates, Inc. ("Marquette") has prepared this document for the exclusive use by the client or third party for which it was prepared. The information herein was obtained from various sources, including but not limited to third party investment managers, the client's custodian(s) accounting statements, commercially available databases, and other economic and financial market data sources.

The sources of information used in this document are believed to be reliable. Marquette has not independently verified all of the information in this document and its accuracy cannot be guaranteed. Marquette accepts no liability for any direct or consequential losses arising from its use. The information provided herein is as of the date appearing in this material only and is subject to change without prior notice. Thus, all such information is subject to independent verification and we urge clients to compare the information set forth in this statement with the statements you receive directly from the custodian in order to ensure accuracy of all account information. Past performance does not guarantee future results and investing involves risk of loss. No graph, chart, or formula can, in and of itself, be used to determine which securities or investments to buy or sell.

Forward-looking statements, including without limitation any statement or prediction about a future event contained in this presentation, are based on a variety of estimates and assumptions by Marquette, including, but not limited to, estimates of future operating results, the value of assets, and market conditions. These estimates and assumptions, including the risk assessments and projections referenced, are inherently uncertain and are subject to numerous business, industry, market, regulatory, geopolitical, competitive, and financial risks that are outside of Marquette's control. There can be no assurance that the assumptions made in connection with any forward looking statement will prove accurate, and actual results may differ materially.

The inclusion of any forward-looking statement herein should not be regarded as an indication that Marquette considers forward-looking statements to be a reliable prediction of future events. The views contained herein are those of Marquette and should not be taken as financial advice or a recommendation to buy or sell any security. Any forecasts, figures, opinions or investment techniques and strategies described are intended for informational purposes only. They are based on certain assumptions and current market conditions, and although accurate at the time of writing, are subject to change without prior notice. Opinions, estimates, projections, and comments on financial market trends constitute our judgment and are subject to change without notice. Marquette expressly disclaims all liability in respect to actions taken based on any or all of the information included or referenced in this document. **The information is being provided based on the understanding that each recipient has sufficient knowledge and experience to evaluate the merits and risks of investing.**

This presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any interest in any investment vehicle, and should not be relied on as such. Targets, ranges, and expectations set forth in this presentation are approximations; actual results may differ. The information and opinions expressed herein are as of the date appearing in this material only, are subject to change without prior notice, and do not contain material information regarding the Marquette Model Portfolio, including specific information relating to portfolio investments and related important risk disclosures. The descriptions herein of Marquette's investment objectives or criteria, the characteristics of its investments, investment process, or investment strategies and styles may not be fully indicative of any present or future investments, are not intended to reflect performance and may be changed in the discretion of Marquette. While the data contained herein has been prepared from information that Marquette believes to be reliable, Marquette does not warrant the accuracy or completeness of such information. Client account holdings may differ significantly from the securities in the indices and the volatility of the index may be materially different from client account performance. You cannot invest directly in an index.

About Marquette Associates

Marquette was founded in 1986 with the sole objective of providing investment consulting at the highest caliber of service. Our expertise is grounded in our commitment to client service — our team aims to be a trusted partner and as fiduciaries, our clients' interests and objectives are at the center of everything we do. Our approach brings together the real-world experience of our people and our dedication to creativity and critical thinking in order to empower our clients to meet their goals. Marquette is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Marquette including our investment strategies, fees and objectives can be found in our ADV Part 2, which is available upon request and on our website. For more information, please visit www.MarquetteAssociates.com.