

Money Fund ReportTM

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#1633

◆ NO CHANGE EXPECTED IN FED FUNDS RATE DURING 2007

Dr. Neal Soss, managing director and chief economist at Credit Suisse, delivering the keynote address at this year's Money Market Expo in Orlando, Fla. on March 20, compared the activity during Alan Greenspan's tenure as chairman of the Federal Open Market Committee with the current scenario under Ben Bernanke's leadership. He noted that during the Greenspan era, "any financial turmoil caused rates to be cut."

Dr. Soss told his audience that since Bernanke is more focused on inflation, it is unlikely that there will be any change in the federal funds rate during 2007. While Soss does not expect any damage to financial stability due to subprime mortgage market woes or an excess capacity of autos, technology and housing, he warned that if subprime does cause more problems, Bernanke would most likely "cut in huge amounts, not 25 basis points."

A show of hands by MMX attendees indicated that nearly everyone agreed that a rate change during 2007 was highly unlikely. ♦

◆ MMFs AMONG INVESTMENT TOOLS FOR CASH MANAGERS

Money-market funds are among the investments used by the three cash managers who participated in a "Treasury Roundtable on Short-Term Investing" at MMX. Mark Preston, director in investments at Humana Inc., served as moderator of the panel. Phillip B. Newman, manager, Dallas Treasury Center of Exxon Mobil Corp., and Jennifer Powers, treasury coordinator of the Americas Region for United Parcel Service, were the panelists. Newman told the attendees that he occasionally uses both taxable and tax-exempt money funds in addition to investing directly in time deposits, commercial paper and asset-backed commercial paper. He noted that he uses only money funds that carry at least one triple-A rating, and he prefers to use funds from banks with which Exxon Mobil has a long-term relationship.

Ms. Powers told the audience that at present she is investing out to 49 days and that she can invest out to one year. She concurred with Newman regarding the importance of using money funds from investment banks where UPS has a relationship.

While agreeing that electronic trading is the "wave of the future," both Newman and Powers said that they still use the phone to do their trading.

Preston said that Humana currently invests \$1 billion of \$7 billion in money funds. ♦

◆ THOMPSON PREDICTS SPECTACULAR MMF ASSET GROWTH

Money-market funds in the United Kingdom and Europe are poised for strong growth in the coming months and years, according to Kevin Thompson, managing director of money-market funds at Standard Life Investments Ltd.

Thompson, presenting at MMX on March 21, noted that there is a lack of regulation abroad, compared to the regulation of money-market funds in the United States. Thompson pointed out that bank deposits presently comprise 62 percent of investments in the U.K., direct investments comprise 10 percent and the remaining 28 percent is in pooled investments. In Europe, bank deposits comprise 68 percent of cash investments, 15 percent are in direct investments and 17 percent are in pooled investments. By contrast,

Thompson noted that pooled investments in the U.S. comprise 48 percent of cash investments, 37 percent are in direct investments and only 15 percent are in bank deposits.

Said Rafat, managing director at Fitch Ratings, told the audience that he expects an increase in the number of money funds seeking ratings as MMFs become more acceptable investments post-Basel II to banks and other cash investors.

Terry A. Prince, senior vice president of Short Term Investment Sales at Evergreen Investment Management Co., moderated the panel discussion. ♦

◆ LEGAL ROUNDTABLE – ASK THE EXPERTS

On Day Three, the final day of Money Market Expo, three legal experts – Stephen Keen, partner at Reed Smith LLP; Laura Merianos, associate counsel at The Vanguard Group; and Greg Dulski, associate counsel at Janus Capital Corp. – provided updates on legal and regulatory developments impacting money funds.

In a discussion about the Credit Rating Agency Reform Act of 2006, Keen pointed out that if many new agencies obtain the status of a nationally recognized statistical rating organization, research by money fund personnel could expand dramatically. It is possible that a security could someday have numerous ratings, possibly from new NRSROs that are unfamiliar to research personnel at a fund complex.

As noted in last week's *MFR*, revisions to Rule 2a-7 are likely to be necessary. The Act directs the SEC to issue its implementing rules no later than June 26, with the provisions to become effective on that date or earlier upon issuance of final rules.

Panel members also presented an overview of adoptions of new rules under the Investment Company Act of 1940, Section 12(d) (1), Fund of Funds Investments. New Rule 12d1-1 "allows funds to invest in share of money-market funds in excess of the limits of section 12(d) (1). The rule is designed to permit 'cash sweep' arrangements in which a fund invests all or a portion of its available cash in a money-market fund rather than directly in short-term instruments." The acquired fund may be a fund in the same fund complex, in a different fund complex, or in unregistered MMFs provided that the unregistered MMF operates like a registered MMF.

The panel noted that while most conditions that were included in the SEC's exemptive orders prior to the adoption of Rule 12d1-1 were eliminated, one condition was kept. This condition "precludes investors from paying a sales charge or service fee in connection with purchase, sale, or redemption of shares of the money-market fund. If any of these fees are paid, acquiring fund's investment adviser must waive its advisory fee in an amount necessary to offset the amounts paid." ♦

MFR COMMENTARY

Total net assets of 1,818 Taxable and Tax-Free money funds increased by \$5.61 billion during the week ended March 27, boosting the total to a record high \$2.396 trillion.

Net assets of 1,282 Taxable MMFs grew by \$4.50 billion, raising the total to \$2.004 trillion. The 7-Day Average Yield for All Taxable funds slipped to 4.75 percent from 4.76 percent; the 30-Day Average Yield inched up to 4.76 percent after holding at 4.75 percent for three consecutive weeks. The WAM held at 41 days for the second week in a row.

Total assets of the 536 Tax-Free and Municipal MMFs increased by \$1.11 billion to a record high \$392.20 billion. The 7-Day Average Yield for All Tax-Free funds rose to 3.08 percent from 3.03 percent; the 30-Day Average Yield held at 3.03 percent for a second week. The WAM shortened by one day to 22 days.

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SUMMARY OF MONEY FUND ACTIVITY

Period Ending: 3/27/07 — Taxable Funds • 3/26/07 — Tax-Free Funds

# of Money Funds	Net Assets (\$Mils)	1-Week Change		7-Day Yield (%)		Compound 30-Day Yield (%)		12-Month Yield (%) (2/07)	Average Maturity (Days)
				7-Day Yield (%)	30-Day Yield (%)	7-Day Yield (%)	30-Day Yield (%)		
Taxable Money Funds									
41	46,388.1	67.9	Treasury Retail	4.42	4.41	4.52	4.50	4.24	55
41	46,320.2			4.41	4.40	4.51	4.49		52
56	31,838.7	456.5	Treas & Repo Retail	4.49	4.49	4.59	4.59	4.37	4
56	31,382.2			4.50	4.49	4.60	4.59		4
119	94,464.3	63.6	Govt & Agency Retail	4.56	4.55	4.66	4.66	4.47	32
119	94,400.7			4.56	4.55	4.66	4.66		31
216	172,691.1	588.0	Government Retail	4.51	4.51	4.62	4.61	4.40	33
216	172,103.1			4.51	4.51	4.61	4.61		32
355	665,238.4	-2,408.2	First Tier Retail	4.54	4.55	4.64	4.65	4.46	48
355	667,646.6			4.54	4.55	4.65	4.65		48
5	494.7	-12.9	Second Tier Retail	4.21	4.24	4.30	4.33	4.42	52
5	507.6			4.26	4.25	4.35	4.34		48
360	665,733.1	-2,421.1	Prime Retail	4.53	4.54	4.64	4.65	4.46	48
360	668,154.2			4.54	4.54	4.64	4.65		48
576	838,424.2	-1,833.1	Taxable Retail	4.53	4.53	4.63	4.63	4.44	45
576	840,257.3			4.53	4.53	4.63	4.63		44
357	253,690.7	1,611.8	Government Institutional	4.88	4.88	5.00	5.00	4.78	23
358	252,078.9			4.88	4.88	5.00	5.00		23
349	911,658.2	4,724.7	First Tier Inst	5.00	5.00	5.13	5.13	4.94	42
349	906,933.5			5.00	5.00	5.13	5.13		42
349	911,658.2	4,724.7	Prime Institutional	5.00	5.00	5.13	5.13	4.94	42
349	906,933.5			5.00	5.00	5.13	5.13		42
706	1,165,348.9	6,336.5	Taxable Institutional	4.94	4.94	5.06	5.06	4.86	38
707	1,159,012.4			4.94	4.94	5.06	5.06		38
1282	2,003,773.1	4,503.4	Taxable (All)						
1283	1,999,269.7								
MONEY FUND REPORT AVERAGES^(TM)/Taxable (All)				4.75	4.76	4.87	4.87	4.66	41
Prior Week's Averages				4.76	4.75	4.87	4.87		41
Tax-Free Money Funds									
127	139,857.6	-348.0	Tax-Free National Retail	2.99	2.93	3.03	2.97	2.89	23
127	140,205.6			2.93	2.94	2.97	2.98		24
136	122,771.6	1,131.2	Tax-Free National Inst	3.29	3.24	3.34	3.29	3.20	22
135	121,640.4			3.24	3.24	3.29	3.29		22
188	112,702.0	491.3	Tax-Free State Retail	2.96	2.91	3.00	2.95	2.87	21
188	112,210.7			2.91	2.91	2.95	2.95		22
85	16,873.0	-166.2	Tax-Free State Inst	3.15	3.09	3.20	3.14	3.07	26
85	17,039.2			3.10	3.10	3.15	3.14		27
536	392,204.2	1,108.3	Tax-Free (All)						
535	391,095.9								
MONEY FUND REPORT AVERAGES(TM)/Tax-Free (All)				3.08	3.03	3.13	3.07	2.99	22
Prior Week's Averages				3.03	3.03	3.07	3.07		23
1818	2,395,977.3	5,611.7	Grand Total - MMFs (All)						
1818	2,390,365.6								

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7- and 30-day yields represent annualized results for the periods, net of management fees and expenses. 12-month yields assume reinvestment of dividends for up to one year. Money Fund ReportTM Compound Averages follow the calculation method approved by the SEC:

$$\text{compound average} = \left(\left\{ 1 + \frac{7\text{-day average yield}}{(100 \times 52.142857)} \right\}^{52.142857} - 1 \right) * 100$$