

Effectively Managing Money Market Fund Assets



Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value.

Dreyfus’ Money Market Investment Philosophy

Dreyfus’ approach to managing money market funds is to seek high current yields consistent with the preservation of principal and the maintenance of liquidity. Dreyfus money market portfolios are actively managed and continuously monitored by a tenured team of investment professionals who have the investment expertise and the necessary resources to extensively evaluate credit in an evolving global marketplace.

Executive Summary

Money market mutual funds may be classified as retail money market funds (“Retail Funds”), government and Treasury money market funds (“Government Funds”) or institutional money market funds (“Institutional Funds”).

Rule 2a-7 under the Investment Company Act of 1940 (“Rule 2a-7”) permits Retail and Government Funds to utilize the amortized cost method of valuation to calculate the fund’s net asset value (“NAV”), which provides the means for daily pricing at \$1.00 per share. Institutional Funds generally must utilize a mark-to-market method of valuation, resulting in a floating NAV or share price that fluctuates in value.

Retail and Institutional Funds generally may also impose Liquidity Fees or Redemption Gates (as defined below) under certain circumstances if the fund’s governing board determines that it would be in the fund’s best interests.

To be able to hold itself out as a money market fund, the fund must meet specific credit quality, diversification, maturity and liquidity requirements (among other conditions) under Rule 2a-7. This brochure is designed to summarize the regulatory requirements of Rule 2a-7 and discuss the investment/risk management infrastructure that Dreyfus employs to ensure fiduciary and statutory compliance in managing assets in this highly regulated and valued asset class.

The Rule 2a-7 requirements are grouped into the following topics:

- Money Market Fund Classifications
- Credit Quality
- Portfolio Diversification
- Portfolio Maturity
- Portfolio Liquidity
- Liquidity Fees and Redemption Gates
- Transparency of Money Market Fund Holdings

DEFINITION OF TERMS

Amortized Cost Method: A valuation method where securities are valued at acquisition cost, as adjusted for amortization of premium or accretion of discount, rather than based on current market factors.

Mark-to-Market Method: A market-based valuation where securities are valued at their current market value when market quotations are readily available, and are otherwise valued at their fair value based on current market factors.

Summary of Rule 2a-7 Requirements

MONEY MARKET FUND CLASSIFICATIONS

In connection with the U.S. money market reforms that became effective on October 14, 2016, the Securities and Exchange Commission (“SEC”) created the following classifications for money market mutual funds:

- Retail money market funds (Retail Funds)
- Government/Treasury money market funds (Government Funds)
- Institutional money market funds (Institutional Funds)

Retail and Government Funds are permitted to utilize the amortized cost method of valuation to calculate the fund’s net asset value or NAV, which enables these funds to maintain a stable NAV or share price of \$1.00 per share. Institutional Funds generally must utilize a mark-to-market method of valuation, resulting in a floating NAV or share price that fluctuates in value.

Money market fund classifications are also important for purposes of determining whether a fund is subject to the Liquidity Fee and Redemption Gate requirements under Rule 2a-7 as discussed further below.

CREDIT QUALITY

A money market fund must limit its portfolio investments to U.S. dollar denominated securities that are “Eligible Securities” as defined by Rule 2a-7.

Eligible Securities generally include securities that have a remaining maturity of 397 days, and which also present “minimal credit risks” to the fund. This credit risk determination generally must include an analysis of the issuer (or guarantor) of the security and its ability to meet its financial obligations, as well as other applicable factors.

DEFINITION OF TERMS

Retail Money Market Fund: A money market fund with policies and procedures that are reasonably designed to limit fund ownership to natural persons only. Retail Funds may include retail prime or retail municipal money market funds.

Government/Treasury Money Market Fund: A money market fund that invests at least 99.5% of its total assets in cash, government securities or repurchase agreements that are collateralized fully. Government Funds may be owned by natural persons, institutional investors or a combination of both.

Institutional Money Market Fund: A money market fund that is neither a Retail Fund nor a Government Fund. Institutional Funds may include institutional prime or institutional municipal money market funds. They are typically owned by institutional investors or a combination of natural persons and institutional investors.

Summary of Rule 2a-7 Requirements (Continued)

PORTFOLIO DIVERSIFICATION

A money market fund must meet issuer diversification requirements, including the following:

- In the case of a taxable money market fund or a national tax-exempt money market fund, the fund generally may not invest more than 5% of its total assets in the securities of any one issuer. (Government securities* are excluded from issuer diversification requirements.)
- A state tax-exempt money market fund may not invest more than 5% of its total assets in the securities of any one issuer with respect to 75% of its total assets. (The other 25% of a state-specific fund's assets are not subject to issuer diversification requirements.)

With regard to repurchase agreements, Rule 2a-7 permits a money market fund to “look through” to the collateral for diversification purposes if the repurchase agreement is “collateralized fully,” meaning that the underlying collateral consists of cash and/or U.S. government securities.

PORTFOLIO MATURITY

Money market funds must:

- Maintain a weighted average portfolio maturity (“WAM”) of 60 days or less.
- Maintain a weighted average portfolio life to maturity (“WAL”) of 120 days or less.
- Invest in securities that have a remaining maturity of 397 days or less.

DEFINITION OF TERMS

WAM: A measure of the average maturity of all of the underlying money market instruments in the fund, weighted to reflect the relative percentage ownership of each instrument, and taking into account applicable “maturity shortening” provisions provided by the Rule.

Generally, for money market funds, WAM can be used primarily as a measure of relative sensitivity to interest rate changes.

WAL: WAL is the WAM of the money market fund calculated without reference to the “maturity shortening” provisions of Rule 2a-7 permitted for purposes of calculating WAM. Because WAL does not reflect the rule’s “maturity shortening” provisions, WAL will generally be higher than WAM.

Repo Collateral: Refers generally to securities (or cash) that the fund would receive if the underlying counterparty defaults on a repurchase agreement transaction. In “tri-party” repos, collateral is maintained by a third party custodian.

* “Government security” means any security issued or guaranteed as to principal and interest by the United States, or by any person controlled or supervised by and acting on behalf of the government of the United States pursuant to the authority granted by the Congress of the United States. Diversification cannot ensure a profit or protect against loss.

PORTFOLIO LIQUIDITY

Rule 2a-7 requires that the fund must be managed to provide sufficient liquidity to meet reasonably foreseeable client needs. The Rule also provides for more specific liquidity requirements:

- Taxable money market funds must maintain at least 10% of their total assets in “Daily Liquid Assets” such as cash, U.S. Treasuries, and securities for which the fund has a legal right to receive cash in one business day.
- All money market funds must maintain at least 30% of their total assets in “Weekly Liquid Assets” such as cash, U.S. Treasuries, government securities issued at a discount and with a remaining maturity of 60 days or less, and securities for which the fund has a legal right to receive cash in 5 business days.
- There is a 5% maximum limit for investments in “illiquid” securities.

If a fund falls below its applicable percentage minimum for Daily or Weekly Liquid Assets, the fund can only invest in the relevant category of Liquid Assets until the fund meets its applicable percentage minimum as described above.

LIQUIDITY FEES AND REDEMPTION GATES

In the case of a Retail or Institutional Fund, if Weekly Liquid Assets drop below 30% of total assets, certain restrictions may be imposed on investors seeking to sell or redeem shares. These restrictions, which are imposed if the fund’s governing board determines that they would be in the fund’s best interests, are as follows:

- A “Liquidity Fee” of up to 2% may be imposed on investors for redeeming fund shares. This restriction gives investors continued access to liquidity at a cost, while reducing the incentives for shareholders to redeem shares.
- A “Redemption Gate” that temporarily stops investors from redeeming fund shares may be imposed. A gate can be in place for no more than 10 business days during any 90-day period.

If Weekly Liquid Assets drop below 10%, a 1% Liquidity Fee must be imposed by the fund, unless the board affirmatively determines that imposing the fee is not in the best interests of the fund or determines that a lower or higher fee is appropriate (not to exceed 2%).

Government Funds are not subject to these requirements under Rule 2a-7. However, in theory, they may elect to have the ability to impose a Liquidity Fee or Redemption Gate.

TRANSPARENCY OF MONEY MARKET FUND HOLDINGS

Rule 2a-7 requires money market funds to post their portfolio holdings each month on their website and retain this information for at least six months.

The fund’s current NAV per share (as calculated based on current market factors), rounded to the fourth decimal place, must also be posted.

Money market funds are also required to file detailed portfolio information, including the fund’s current NAV per share, with the SEC on Form N-MFP (the “Form”) after the end of each month. The Form is made publicly available by the SEC 60 days after the respective month-end and is accessible via a link on the respective Dreyfus money market fund monthly holdings report on Dreyfus.com.

By having access to this information, the SEC and the public have greater transparency to money market fund activities. In the case of Retail and Government Funds, which generally feature a stable NAV, this information also gives investors the ability to compare the fund’s stable share price (\$1.00 per share) and the fund’s “shadow price” (current NAV per share).

Summary of Rule 2a-7 Requirements (Continued)

ROLES AND RESPONSIBILITIES OF INVESTMENT AND SUPPORT GROUPS

While Rule 2a-7 provides a strong, rules-based regulatory framework to protect money market fund shareholders, Dreyfus has developed its own best practice standards and risk management procedures to further enhance and monitor liquidity and credit risks within our money market funds. The responsibility of managing Dreyfus money market funds, with compliance oversight and legal advice and guidance, resides within our experienced team of portfolio managers, credit research analysts, investment accounting, risk management, legal, chief compliance officer, and the fund's board of directors.

PORTFOLIO MANAGERS/TRADERS

- Review and determine investment strategy/duration for the portfolios based on market conditions, potential interest rate movements and economic outlook
- Monitor liquidity, diversification and credit profile of the fund to ensure compliance with the applicable Rule 2a-7 requirements

CREDIT RESEARCH

- Conduct initial and ongoing credit risk analysis of issuers and guarantors for Eligible Securities, including “minimal credit risk” assessments
- Maintain thorough documentation of the credit risk analyses, incorporating issuer-specific, as well as industry, sector and peer analyses using publicly available statements, discussions with management and third party research

OPERATIONS AND INVESTMENT ACCOUNTING

- Responsible for the fund's periodic financial reporting requirements
- Provide daily reconciliation of all trades and calculate fund's NAV
- Monitor holdings and communicate issues with Portfolio Management for continuous compliance with Rule 2a-7
- Prepare periodic stress testing reports for fund portfolios

RISK MANAGEMENT

- Review and oversee periodic stress test process, which generally measures a fund's ability to maintain liquid assets and minimize principal volatility during hypothetical test events
- Provide risk oversight and reporting of operations to management using a series of qualitative and quantitative evaluation assessments

THE ROLE OF THE BOARD OF DIRECTORS

The fund boards oversee the investment management and operation of the money market funds. The governing boards meet regularly, at which time they receive updates from Portfolio Management on investment activities, the current market environment, stress testing and other Rule 2a-7 compliance matters.

SAFEKEEPING PRACTICES OF MONEY MARKET FUND ASSETS

In addition to the various investment practices outlined in the previous sections, below describes additional safeguarding measures relating to money market funds.

- Money market funds are open-end registered investment companies that are separate, independent corporations or business trusts. They are not subsidiaries of their investment advisor or their parent company.
- Fund assets are separate and apart from those of any contractual service provider, and insulated from any failure by such party to fulfill its contractual obligations to the fund.
- A fund's board of directors maintains the general oversight responsibility and authority to take whatever action it deems advisable and in the best interests of fund shareholders in order to remedy a situation in which a service provider cannot fulfill its contractual obligations to a fund.
- A fund's custodian bank is responsible for the safekeeping of securities on behalf of the funds. Since the securities are registered in the name of each fund, they are not assets or liabilities of the custodian.

Summary of SEC Rule 2a-7

Money Market Fund Classifications	Money market mutual funds may be classified as retail money market funds (Retail Funds), government/Treasury money market funds (Government Funds) or institutional money market funds (Institutional Funds). Retail and Government Funds are permitted to maintain a stable NAV, while Institutional Funds generally must maintain a floating NAV.
Credit Quality	Money market funds must limit their portfolio investments to U.S. dollar denominated securities that are “Eligible Securities,” defined as securities that have a remaining maturity of 397 days, and which also present minimal credit risks to the fund.
Portfolio Diversification Limits	5% issuer limit for all securities. (25% of state-specific fund assets are not subject to issuer diversification requirements.) Government securities are excluded from issuer diversification requirements.
Minimum Liquidity Standards	A taxable money market fund must maintain at least 10% of its assets in “Daily Liquid Assets,” defined as cash, U.S. Treasuries, or securities for which the fund has a legal right to receive cash in one business day. All money market funds must maintain at least 30% of their assets in “Weekly Liquid Assets,” defined as cash, U.S. Treasuries, government securities issued at a discount and with a remaining maturity of 60 days or less, or securities for which the fund has a legal right to receive cash in 5 business days. A fund may not purchase illiquid securities if, after the purchase, more than 5% of the fund’s portfolio would be in such illiquid securities.
Liquidity Fees and Redemption Gates	If the Weekly Liquid Assets of a Retail or Institutional Fund drop below 30% of total assets, a “Liquidity Fee” or “Redemption Gate” may be imposed if the fund’s governing board determines that it would be in the fund’s best interests. A Liquidity Fee is a fee of up to 2% imposed on investors for redeeming fund shares. A Redemption Gate is a restriction that temporarily stops investors from redeeming fund shares for no more than 10 business days during any 90-day period. Government Funds are not subject to these requirements under Rule 2a-7 but, in theory, they may elect to have the ability to impose a Liquidity Fee or Redemption Gate.
Portfolio Maturity	1) Weighted Average Maturity (WAM): 60-day maximum. 2) Weighted Average Life to Maturity (WAL): 120-day maximum.
Stress Testing of Money Market Fund Portfolios	Money market funds must perform periodic stress tests, which generally measure a fund’s ability to maintain liquid assets and minimize principal volatility during hypothetical test events.
Disclosure of Portfolio Information	1) Website Disclosure: Must post the fund’s portfolio holdings each month on its website and retain this information for at least six months. The fund’s current NAV per share, rounded to the fourth decimal place, must also be posted. 2) Regulatory Filing: Form N-MFP must be filed with the SEC on a monthly basis. The Form is made available on www.sec.gov 60 days after the month to which the information pertains.

Dreyfus is recognized as one of the largest and most experienced money market managers in the industry. We offer money market funds in all major asset categories, including general purpose (prime), treasury, U.S. government, national and state-specific municipals, and AMT-free municipals. This breadth of product and strength of this business has positioned us to deliver customized and comprehensive investment solutions to meet the needs of the institutional marketplace.

Learn More

Call your Dreyfus Cash Solutions Representative or visit our website at www.dreyfus.com.

Investors should consider the investment objectives, risks, charges and expenses of any mutual fund carefully before investing. Visit www.dreyfus.com to download a money market fund prospectus, or a summary prospectus, if available, that contains this and other information about a fund. Read it carefully before investing.

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

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