

Cash in Motion

Money Market Strategies for Operational Resilience



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In today's higher rate, more volatile trading environment, treasurers need practical, actionable strategies for managing corporate cash. Amundi's Stéphanie Akhal, Head of Sales Liquidity - Europe, and Patrick Siméon, Head of Money Market, explain the increasingly significant role of MMFs in stabilising liquidity and capturing attractive short term yields while avoiding undue credit or duration risk.

The steady growth of MMFs in Europe in recent years is a mark of the industry's enduring strength in challenging circumstances. The persistence of low interest rates, once the fallout from the 2008 financial crisis had levelled out, felt like it might never end. That bubble was burst by one catastrophic global event after another, heralding a sudden return to positive-rate territory, and then the threat of significant increases.

Rising rates seemingly peaked around 2024, with central banks making slow but sure reductions. And then, at the hands of new geopolitical challenges, once more the economic peace was shattered, and mounting rate uncertainty has returned.

With investors clearly remaining enthused by MMFs throughout the market turmoil of recent years, Akhal suggests that their appeal is not driven by a single yield approach but by a range of core benefits delivered by this industry and its products.

More to MMFs than meets the eye

"The first, and perhaps overriding benefit, whatever the economic environment, is MMF safety and stability. This is due to their exposure, in the main, to very high-quality short-term debt," explains Akhal. Amundi, for example, has always applied a particularly precise and rigorous credit risk selection process. But she adds that many investors are also making MMFs a core component of their cash allocation because funds are controlled by a strict regulatory framework, which, in uncertain times, offers a great deal of comfort.

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Indeed, as the only asset class benefiting from dedicated EU regulation, MMFs have 47 different articles aimed at capital preservation and strong liquidity. The core of this framework today regulates portfolio composition and imposes a requirement for minimum holdings of daily and weekly liquid assets.

For investors, Siméon says quality composition leads to consistency of fund performance, with the ensuing predictability seemingly a rare cash management treat in the current environment. At the same time, he says proven fund liquidity enables investors to access their cash on a same-day (T+0) basis.

Another plus point for investors, noted by Akhal, is the portfolio diversification that MMF investment provides. In fund terms, she explains that this is delivered through diversification across issuer, sector, geography, and tenor. But, she adds, MMF investment also offers divergence as part of an individual investor's broader short-term investment strategy that may also include bank deposits. It therefore has a strong appeal for those seeking to manage counterparty risk.

A well-balanced portfolio, bound by a strong regulatory framework, and offering all of the above practicalities for short-term investors can provide the levels of predictability and flexibility that treasurers seek. And the capacity to invest and redeem without notice nor penalty places MMFs in a similar space to bank short-term deposits. Indeed, Siméon regards MMFs as a complementary tool to banking, with clients making extensive use of both.

However, he observes that MMFs require a much lower level of commitment compared with typical bank short-term products, which typically lock-in cash (or limit access) for between three to 12 months if a fixed rate of return is required.

But Siméon reveals an additional advantage to MMFs. "In terms of counterparty risk management, investors may have exposure limits with their core banking partners that can constrain activities beyond cash management with that bank," he says. "Because MMFs give investors a safe

alternative to bank term deposits, they can be a means of reducing bank exposure levels, and therefore unlocking other banking activities."

A proper tool for treasurers

The appeal of a complementary home for short-term cash has seen an increasing number of clients rebalancing their approach, notes Akhal. There are observable geographic trends at work here. In Germany, for example – a territory she has covered for many years – a few years back, MMFs had not been favoured by corporates other than the largest entities, and only then traditional constant net asset value (CNAV) funds were used.

One of the first tasks for Akhal on joining Amundi (in 2011) was to build awareness among the corporate community of the full range of MMF capabilities and use cases. "Once they were convinced by MMF flexibility and its use as a source of investment diversification with same day settlement, they understood it was a proper tool for them. This realisation saw many more shifting some of their short-term cash towards MMFs."

It's a position that is still evolving, Akhal notes. "We still find some corporates, across different markets, that do not or will not invest in MMFs. But of those that are open to conversation, as soon as they understand all the advantages MMFs offer as a complementary solution, many are willing to shift strategies."



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MMF best-practice

In 2017, as part of the EU Money Market Fund Regulation, CNAV became Public Debt CNAV (PDCNAV), requiring exposure only to high-quality government assets, and imposing stringent liquidity constraints. It was joined by low volatility net asset value (LVNAV) funds in the short-term product set, being similarly stable but also enabling investment in a broader range of instruments.

The 2017 EU regulation also introduced 'standard' MMFs – which can only be managed on a variable net asset value (VNAV) format. These typically carry a slightly longer recommended investment horizon, for which a yield uplift is offered. As such, they tend to target investors' operating cash, as opposed to the daily cash that finds its way to short-term PDCNAV and LVNAV MMFs.

With these options, there are a number of best-practice approaches within MMFs that investors can use to derive the most appropriate value. These include segmentation (assessing and dividing needs between operational, reserve, and strategic cash), active cash weighting and diversifying investments across fund types, and cash laddering (balancing a range of maturities).

For Akhal, cash segmentation has become "an essential part of the liquidity optimisation process". Matching liquidity needs with the right product can, she says, "offer compelling results". Here, the balance between short-terms funds (PDCNAV and LVNAV) and the standard (VNAV) funds should precisely match the daily or operational, reserve and strategic cash needs of the business.

Cash for operational or day-to-day business, covering needs such as salary and supplier payments, may suit overnight investment. Reserve 'rainy day' cash may be part of a policy to cover unexpected costs, slow periods, or fund growth. Strategic cash may be held for longer-term goals such as acquisitions or major planned investment. In each case,

matching each cash segment to its appropriate investment tenor not only helps provide the correct liquidity window but also generates a fitting level of yield – even overnight.

Cash in action

As a practical example of how this approach works, Akhal explains that following bond issuance, a large sum of cash income will be generated. This cash will be deployed across a range of projects and timescales. To ensure none of the cash is sitting idle, the most efficient approach will be to segment and invest it according to these planned use cases, mindful that it needs to be both accessible as required – and safe.

One use case for that cash may be for an M&A action, suggests Siméon. Amundi offers clients a couple of key differentiators in this respect. While already noted above that it targets assets of high quality, it has established a permanent team of independent credit risk assessors, which gives it the ability to incorporate BBB-rated assets after a strict selection. These are still investment grade, but their higher risk profile offers a yield uplift that adds value to investors' credit selection, often outperforming the money market indexes being tracked.

A further advantageous option for Amundi investors is the possibility to hedge interest rate risk using plain vanilla derivatives. By using SOFR for USD, and €STR for EUR, fixed-rate risk is hedged mainly through overnight index swaps (OIS), where parties exchange a fixed interest rate for a floating SOFR/€STR-based rate.

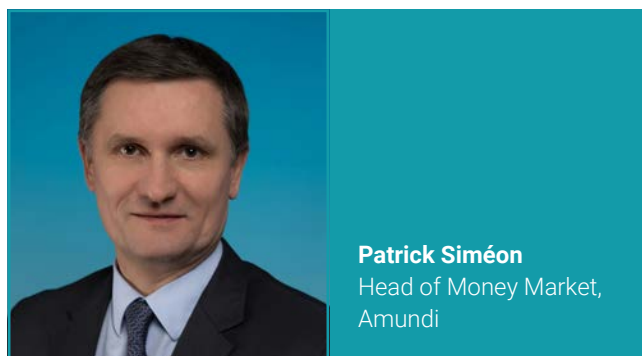
"We can hedge our portfolios against interest rate risk while continuing to extend credit duration and capture the credit premium from the issuer," explains Siméon. "This is particularly interesting in times of monetary policy reassessment and the inflationary pressures stemming from the current complex geographical context."

Indeed, for corporate clients expecting to make an acquisition, a high level of uncertainty often arises because a precise closing date is hard to determine (for example, unexpected legal matters may surface). Leaving a high-value

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cash sum on a zero-interest deposit is wasteful. However, if the cash for that transaction is on a term deposit with a bank to try to accrue some yield, Siméon says it can be an issue when seeking to unwind that deposit at the right time. “Not only is an MMF more flexible, but also when the interest rate risk is hedged and mitigated, as it might be in this period of high volatility, there is considerable added value.”

Offering another use case for MMFs, Siméon suggests that the same degree of timing uncertainty might also extend to corporate dividend payments. “When a business moves closer to the date of a dividend payment, it’s a more flexible option to use an MMF than it is to keep arranging shorter and shorter bank term deposits.”

Asset manager scrutiny

Of course, the main risk to address when building an MMF is that of capital preservation within the credit selection. Controlled by the strict regulatory framework handed down to the industry by European and US authorities, individual asset managers will set out their stall according to fund types (VNAV, LVNAV or PDCNAV) being offered. Options will reflect a range of asset and risk characteristics and maturities, from which investors will select according to their own risk profile, sensitivity to volatility, and credit selection preferences (which may, for instance, call for certain ESG matters to be addressed).

Siméon notes that investors are increasingly alert to the industry’s ability to manage a portfolio actively within the context of rapid, and often unpredictable, geopolitical and monetary policy evolution. “At Amundi, we’re quick to adapt the risk parameters of our funds as the present complex geopolitical and market environment plays out. It means we can provide a desirable consistence of performance for our investors.”

While that strong regulatory framework ensures a robust approach across the industry, Akhal says potential investors should explore a number of factors before committing to a provider. “Scale is important to consider when selecting an asset manager,” she states. “The bigger the fund is, the better its access to the markets. And the broader its diversification,

the better its liquidity and performance is likely to be.” Amundi, she reveals, is the largest asset manager in Europe, with around €2.38tr. AUM.

In addition to fund size, Akhal also advises on the importance of assessing a fund manager’s track record during periods of market stress. To help protect its investors, and frankly its own well-regarded position in the market, a dedicated 50-strong credit risk and credit analysis team was established some 15 years ago within Amundi.

This approach is not about offering investors guaranteed capital preservation, Siméon explains. In fact, it is not permissible under EU MMF regulation. However, Amundi’s credit risk team is intended as a vital source of specialised information. It has been created to support, but remain fully independent from the firm’s portfolio management teams, and set limits in amount and maturity prior to any investments in a money market fund.

An open door

The fact that MMF failure was extremely rare even before regulation was significantly overhauled post-2008 financial crisis, and no fund has since failed to provide clients with daily liquidity, whatever the economic environment, suggests that while it is not risk-free, that risk remains low. Indeed, Siméon reports that Amundi has never, even under severe redemption pressure, resorted to a ‘soft close’.

Perhaps because MMFs have been able to demonstrate robust performance even under testing conditions, more institutional investors are exploring this opportunity, notes Akhal. Traditionally conservative in their approach to investment, she reveals that it is often the treasurers of these organisations that are advising on and opening the door to increased MMF investment, seeing it as “flight to quality in turbulent times”.

For the corporate treasurer, moving towards the proven resilience of an MMF, when economic and geopolitical tensions seem to be taking the world further up a blind alley, seems like operational foresight that surely won’t go unnoticed.

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