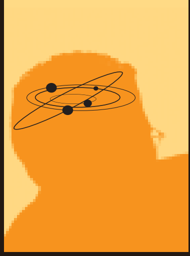
SEPTEMBER 2004 ISSUE 23

PWM
PROFESSIONAL WEALTH MANAGEMENT
SOLUTIONS FOR EUROPEAN DISTRIBUTORS



INTRODUCTION

SUDDENLY, CASH IS A PRIORITY

European distributors know the benefits of enhanced cash products. Now it is the alternative investment community which is turning to money market funds

Since money market funds made their way to Europe from the US in the late 1990s, their use has almost exclusively been confined to large multi-national corporates, who were quick to recognise the benefits of ease of liquidity and the diversified range of instruments a money market fund could offer.

‘Cash invested in a money market fund should never be under-employed... The usage of funds therefore simplifies both accessibility to and liquidity of surplus cash’
Alex Fletcher, Goldman Sachs Asset Management

But recently the alternative investment community (private equity and hedge funds in particular – both of which have large liquidity needs) is starting to use money market funds as a means of managing pools of cash.

At the same time, the demand for enhanced cash products – which swept through European distributors and fund of fund assemblers in the last two years – has been followed by a growing awareness and use of money market funds in portfolios. So what has driven this upsurge in interest?

CASH MATTERS

Increasingly, due largely to the market instabilities of the previous few years, institutions find themselves more exposed to cash than hitherto. Suddenly, how cash gets invested and in which instruments are priorities.

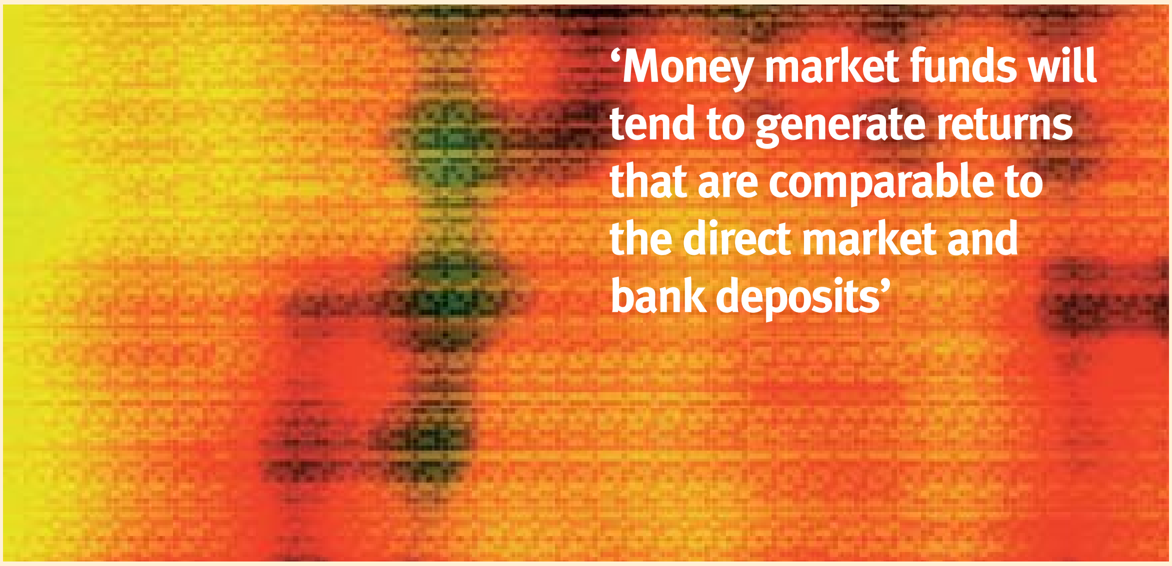
Our view is that the growth in acceptance of the AAA-rated, stable net asset value money market fund as a full-blown alternative to traditional cash management devices (eg. bank deposits) will only continue. No one wants to lose money. Equally, no one wants to be associated with decisions that lead to unforeseen losses.

Cash invested in a money market fund should never be under-employed; within explicit guidelines and a framework designed to protect capital, investors' money is put to work. The use of funds therefore simplifies both accessibility to and liquidity of surplus cash.

SAFETY

Money market funds based on US-style SEC rule 2a7 structures and rated, in the non-US environment, by the likes of Moody's and S&P are managed with the primary objective of preserving investors' capital. Failure to do so would negate their purpose.

Therefore, there are strict guidelines in place both on



credit and interest rate exposure and vigorously enforced investment guidelines.

Some managers of AAA money market funds overlay the restrictions applied by the ratings agencies with their own in-house rules to provide additional security and scrutiny. For example, at Goldman Sachs Asset Management we have run a system for many years which splits portfolio management and construction from credit research: our specialist money market fund portfolio management team can only invest in credits which have themselves been pre-screened and pre-cleared by our independent credit research department. Thus the fund investment process benefits greatly from a team of more than 120 specialists around the world, which analyses the creditworthiness of actual and potential issuers of debt on a daily basis.

FLEXIBILITY

Cash invested in a money market fund should never be redundant. Funds can be invested in on a daily basis and proceeds from redemptions can be wired back to investors' bank accounts within the day.

The use of money market funds therefore simplifies both accessibility to and liquidity of surplus cash. As a further boost to efficiency, some providers (including Goldman Sachs Asset Management's proprietary Global Cash ServicesSM Portal) are now making their money market funds available for trading in a secure web-based environment.

RETURN

Due to their investment profile and flexibility, money market funds will tend to generate returns (after expenses) that are comparable to the direct market and bank deposits.

Although a fund's weighted average maturity will not usually exceed 60 days (a requirement for AAA status), individual investments in money market funds are usually allowed in securities with a final maturity of 13 months. Investors would therefore able to gain some of the benefits of exposure to the yield curve without giving up any flexibility in terms of liquidity.

Diversification. As a money market fund is usually a mixed portfolio of highly-rated money market securities (typically CP, CD, repo and MTNs), an investor's exposure to individual counterparties can be significantly reduced. In addition, restrictions apply as to how much of the fund can be invested in the paper of a single issuer.

Costs. Since fees are generally incorporated into the funds' yields, the only costs usually associated with investing are typically those charged by an investor's bank for wiring money to and from the funds. These days, such charges should be negotiable.

With a money market fund, what you see is what you get. Over the past few years, the institutional money market fund market has grown immensely. If you have not already done so, try one out for yourself.

Alex Fletcher, managing director, Europe,
Goldman Sachs Asset Management

Contact:
- Alex Fletcher, managing director, head of third party distribution, Europe, Goldman Sachs Asset Management
  Tel: +44 (0) 20 7774 6285
  E-mail: alex.fletcher@gs.com