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"Read the Fine Print"

RETAIL FUNDS
You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. Beginning October 14, 2016, the Fund may impose a fee upon the sale of your shares or may temporarily suspend your ability to sell shares if the Fund's liquidity falls below required minimums because of market conditions or other factors.

GOVERNMENT FUNDS
You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so.

If a mutual fund family offers "money market funds", fine print identical or similar to this can be found somewhere in the literature of virtually every such mutual fund family. It is up to the investor to know whether he is invested in the kind of money market fund he prefers. Before making his decision, the investor needs to know some important facts.

While government funds may always be called "government funds" or something similar in a mutual fund's literature, the "retail funds" may go by a number of names, such as prime funds, etc. There is no rule governing the nomenclature. Thus, it is very important to read the fine print.

The investor should not be under the impression that there is no way to lose money in money market funds that are not government funds. That assumption could have been catastrophic in September-October 2008 had political conditions not been what they were.

September-October 2008

As the frightening events of September 2008 unfolded, money market funds were at the center of the storm. These events included the forced sale of Merrill Lynch to Bank of America over the September 13-14 weekend, the bankruptcy filing of Lehman Brothers on September 15th, the Federal Reserve bailout of American International Group ("AIG") on September 16th, and on September 18th Putnam Investments' announcement that its Prime Money Market Fund, holding $15 billion in investor's money, was liquidating. By the end of the week of September 15, 2008, a "run" on money market funds had developed. This obviously threatened to cause the credit panic, which had developed during the week of September 15th, to become much more severe. Therefore, on Friday, September 19, 2008, the United States Treasury announced a temporary guarantee program for money market funds. This program was designed to assure the $1 per share redeemability of money market funds.

Important Observation

In the summer of 2012, Eric Rosengren, President of the Federal Reserve Bank of Boston, pointed out:

> "Money market funds which invest in other than government securities are trying to do three things: a) promise to return $1 for every $1 invested; b) invest in securities with some risk; and c) hold no capital cushion to absorb losses."

Important Point

Subsequent to the end of the United States Treasury guarantee of money market funds, which was put in place in 2008, Congress declared that the United States Treasury was forbidden from rescuing money market funds. Thus, they have been operating "without a net" ever since.

Recent Developments

During the early part of 2012, the Securities and Exchange Commission attempted to impose regulations on the money market fund industry to deal with these risks, but political considerations defeated that effort.

Finally, on October 14, 2016, new rules went into effect which created two kinds of money market funds: government funds (those funds which invest solely in government securities) and all other money market funds. Those rules give rise to the "fine print" above.

Under the new rule, all money market funds (except government funds) must price their shares using the market values of the portfolio of securities they hold rather than the previously-permitted amortized cost or penny-rounding method. Thus, they must allow their net asset value to float, depending upon the true value of the underlying portfolio of securities in the fund. The investor could receive less than $1 for every $1 invested or could be subject to withdrawal penalties or even a freeze on withdrawals.

Government money market funds which invest at least 99.5% of their total assets in cash, government securities and repurchase agreements that are fully collateralized by government securities or cash are exempt from the floating net asset rule requirements. Thus, they continue to use amortized cost methodology or penny-rounding to value their portfolios. They are designed to, and are legally permitted to, maintain a constant value of $1 per share.

One commentator characterized the difference between government money market funds and all other money market funds as “stable value funds versus floating net asset value funds".*

Summary

The wisdom to be drawn from this chain of events is if another serious financial panic were to occur, the investor in anything other than a government money market fund might not get all of his money back because there could be a fee upon the sale of his shares or his ability to sell the shares could be suspended.

Not mentioned is the risk that if there is an actual default in the securities held by an ordinary money market fund (not a government money market fund), the investor could actually lose money by the time the fund was liquidated, which could be a number of years.

It is foreseeable that sometime in the future there will develop a meaningful yield differential between government funds and all other money market funds. The investor, or his advisor, will be inclined to invest in "plain" money market funds rather than government money market funds to attempt to benefit from this yield differential.

However, the investor and/or his advisor would do well to remember that the real purpose of investing is long-term gain and not the assumption of any risk for a small yield differential in cash balances held.

When a panic occurs, the investor wants 100% of his cash. He does not want his right to receive the cash suspended, nor does he want to pay a penalty and not receive all the cash he invested in what he erroneously thought was a cash equivalent.

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*Significantly, almost half of the money market funds in Europe now have variable share prices.