Money Market Funds 101

Federated Hermes

A money market fund (each a MMF, collectively MMFs) is a professionally managed, diversified investment vehicle which investors can use to meet short-term cash-management needs or as a lower risk investment alternative to the volatility seen in stock or longer-term bond investments. MMFs are highly liquid, high-quality, low risk mutual funds with the primary investment objective of current income, consistent with liquidity and stability of principal. They offer investors easy access to their cash and the potential for a market rate of income through investments in high-quality short-term debt securities. Learn the basics of these funds and how MMFs might fit into your overall portfolio.

Types of MMFs and what they buy

Money market funds are generally grouped into three categories: Government, Prime and Municipal. Each invests in debt securities, that are low risk and relatively liquid, and that have maximum maturities of 397 days.

Government

- Invest at least 99.5% of total assets in U.S. Treasury and government securities, cash, and fully-collateralized repurchase agreements
- Examples of possible investments include Treasury Bills (T-bills), Repurchase Agreements (Repo), U.S. Treasury Notes, and U.S. Government Agency Debt
- Treasury MMFs are a subset of Government MMFs that invest solely in U.S. Treasury securities

Prime

- Invest primarily in high-quality, short-term corporate and bank debt securities
- Examples of possible investments include Certificates of Deposit (CDs), Commercial Paper (CP), Repo, U.S. Treasury and other government securities, and Variable Rate Demand Notes (VRDNs)

Municipal

- Invest primarily in debt obligations issued by states, municipalities, or entities whose interest is federally tax-exempt
- Examples of possible investments include Municipal VRDNs, Municipal Bonds/Notes, and Municipal CP

Retail versus Institutional MMFs: NAVs

Prime and Municipal MMFs are further classified as either retail or institutional based on the type of investors who may invest in the fund. Institutional investors are prohibited from retails funds, while retail investors may invest in all MMFs. Importantly, both types of investors may invest in Government MMFs, which are not further classified as either institutional or retail.

The main difference between retail and institutional MMFs is in the Net Asset Value (NAV) of the fund. The NAV is the fund's per share value at a specific date and time and the price at which shares may be purchased or redeemed. Retail funds generally seek to maintain a stable NAV of $1.00 by using amortized cost to value their portfolio of investments. Conversely, institutional funds must use market prices to value their portfolios, which may cause their NAVs to "float" or move slightly above or below their initial four decimal $1.0000 NAV (i.e., to $1.0003 or $.9998). Additionally, institutional funds may be subject to higher minimum investment amounts.

Historically, institutional prime and municipal MMF NAVs have remained substantially stable since the 10/14/16 implementation of the SEC requirement to float their NAVs, remaining in a $.9990 to $1.0010 range 97% of the time.

Source: iMoneyNet, as of 9/30/23.

How are money market funds used?

By investors: to manage short-term cash needs or as a lower risk investment during times of volatility in the stock or longer-term bond markets

Individual and institutional investors may use MMFs to keep some cash liquid for emergencies or near-term purchases. MMFs are also often used as part of an asset allocation strategy to add some stability to an overall investment portfolio. Money market funds are often used by individuals and institutions who:

- Have a short investment horizon
- Have a low tolerance for volatility, or want to offset volatility in other portions of their investment portfolio
- Need a highly liquid investment option

Money market funds are not just investments for the short term. They can also provide liquidity or a lower-risk option within a diverse investment portfolio.

By portfolio managers: as the "cash" allocation within a longer duration portfolio

Portfolio managers may use money market funds in longer-term stock or bond portfolios for several reasons.

- **Liquidity**
  A stock or bond portfolio may invest in money market funds to provide liquidity for redemptions. Owning these short-term vehicles keeps the portfolio managers of longer-term strategies from selling stocks or bonds to cover those redemptions.
- **Stability**
  Portfolio managers may use money market funds in their portfolios to help protect against volatility and losses in the market.
- **Current income**
  In a rising interest rate environment longer-term funds may invest in money market funds to benefit from the new higher rates available in the market to increase current income potential for a portfolio.

Potential risks and rewards of money market funds

Risks	Rewards
Loss of principal MMFs are investments and are not guaranteed or backed by the FDIC.	**Safety** MMFs are generally considered the lowest risk asset class for investors because they are short-term, high quality investments.
Credit risk Credit risk refers to the creditworthiness of a bond issuer and its expected ability to repay its debt.	**Liquidity** Due to liquidity requirements, and their short-term nature, MMFs can provide daily access to an investor's cash when they want to redeem shares.
Interest rate risk MMFs, while considered low risk investments, are sensitive to moves in market rates and therefore have interest rate risk. Interest rate risk is the potential for losses in investment value caused by upward moves in market rates.	**Income** Dividends and yields on MMFs are correlated to current market rates (minus fund expenses) and are accrued daily, paid monthly.
	Stability of principal Stability of principal is a key goal of MMFs. Because of the strict requirements for investment quality, short investment maturities within a highly diversified portfolio, MMFs have historically provided strong preservation of principal to investors.

Rule 2a-7

Money market funds are bound by rules promulgated by the U.S. Securities and Exchange Commission (SEC), specifically Rule 2a-7, under the Investment Company Act of 1940. Rule 2a-7's requirements ensure that investment managers follow certain practices and processes to maintain stability of principal. Moreover, Rule 2a-7 lists the requirements for a mutual fund to be considered a money market mutual fund.

An overview of some topics covered by Rule 2a-7 can be found on the following page.

Overview of MMF requirements

Maturity	**Individual securities** Each security held in a MMF must have a maturity no greater than 397 days (13 months).	**Weighted Average Maturity (WAM)** is the average time to maturity of all the debt securities within a fund. WAM must be 60 days or less.	**Weighted Average Life (WAL)** is the period of time remaining until the securities held in the fund's portfolio (a) are scheduled to be repaid or (b) would be repaid upon a demand by the fund without reference to when interest rates of securities within the fund are scheduled to be readjusted. WAL must be 120 days or less.
Quality	SEC rules require that MMF portfolio securities be high-quality "eligible" money market instruments. Under Rule 2a-7, an "Eligible Security" is (i) a security issued by a registered MMF; (ii) a government security; or (iii) a security with a remaining maturity of 397 calendar days or less that the fund's Board (or its delegate) determines presents minimal credit risks to the fund. This minimal credit risk requirement focuses the portfolio on issuers with the strongest abilities to meet their short-term debt obligations.		
Liquidity	One of the most attractive characteristics of MMFs is that they hold short-term investments and are required to hold securities that are sufficiently liquid to meet reasonably foreseeable shareholder redemptions. Most MMF purchase and redemption orders are completed (i.e., "settled") the same or next day, compared to stocks, Exchange-Traded Funds and other mutual funds which typically have longer settlement windows.		
	Minimum daily liquidity requirements* A MMF must have at least 25% of its assets invested in "daily liquid assets," generally meaning the securities that can be turned into cash in one day. Municipal MMFs are not required to maintain daily liquid assets.	**Minimum weekly liquidity requirements*** A MMF must have at least 50% of its total assets invested in "weekly liquid assets," generally meaning the securities that can be turned into cash within one business week or five days. Weekly liquid assets include daily liquid assets.	
Diversification**	A MMF's diversification requirements are designed to mitigate portfolio risk by spreading that risk among many issuers, ensuring that no single issuer poses a significant risk to the overall portfolio.		
	Government, Prime and National Municipal MMFs are generally required to invest 100% of their assets in a manner such that no more than 5% is invested in any one issuer.	State Specific Municipal MMFs are generally required to invest 75% of their assets in a manner such that no more than 5% is invested in any one issuer.	
Net Asset Value	The net asset value represents the per share value of a MMF at a specific date and time.		
	Government, Retail Prime and Retail Municipal MMFs generally seek to maintain stable NAVs of $1.00.	Institutional Prime and Institutional Municipal MMFs are required to "float" their NAVs and calculate them out to four decimals (i.e., initially $1.0000)	
Discretionary Liquidity Fees	"Discretionary Liquidity Fees" are temporary fees on redemptions in non-government MMFs. Such a fee may only be imposed if the board (or its delegate) determines that a fee is in the best interests of the fund and cannot exceed 2% of the value of the shares redeemed. It is expected that if such a fee were to be imposed, it would be during periods of extraordinary market stress. The fee remains in effect until the fund's board determines that such a fee is no longer in the fund's best interests. Government MMFs are not required to adopt a liquidity fee framework.		

*Daily and weekly liquid asset requirements are "point of purchase" requirements. Thus, it is possible that MMFs may, at any given time, have liquidity percentages reflecting less than the 25% and 50% respectively. In such circumstances, the portfolio manager will be required to purchase securities to meet the requisite liquidity thresholds prior to purchasing longer-dated securities. Municipal MMFs are not required to maintain daily liquid assets.

**Diversification requirements exclude cash, cash items, securities issued or guaranteed by the government of the United States or its agencies and repurchase agreements collateralized by such U.S. government securities. Investments in private activity bonds will be classified according to the non-governmental entity from which the bond's principal and interest payments are principally derived. In addition, investments in certain industrial development bonds funded by activities in a single industry will be deemed to constitute investment in an industry, except when held for temporary defensive purposes.

Money Market Funds 101

Put your cash to work in a money market fund

Whether you use your cash daily or invest it for the long term, money market funds can be a useful tool in your investment portfolio. MMFs can offer a competitive yield while simultaneously providing a liquid, diversified, and high-quality investment. Investors in MMFs have easy access to their cash whenever they need it, with withdrawals available the same or next business day, and can benefit from the low levels of risk. Money market funds are managed by investment professionals who can navigate a changing market environment and help you put your cash to work.

Repurchase agreements consist of a financial institution selling securities to a fund and agreeing to repurchase them at a mutually agreed upon price and time.

Variable rate demand notes are tax-exempt securities that require the issuer or a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. The securities also pay interest at a variable rate intended to cause the securities to trade at their face value.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus containing this and other information, contact us or visit FederatedHermes.com/us. Please carefully read the summary prospectus or the prospectus before investing.

Institutional money market funds

You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares, they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon sale of your shares. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Company or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.

Retail money market 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. The Fund may impose a fee upon sale of your shares. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Company or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.

Government/Treasury money market 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. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Company or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.

G85035-13 (4/24)
Federated Securities Corp.