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Money Fund Report®

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♦ NEW ENHANCED-CASH FUND AIMS TO FILL REGULATORY REPO VACUUM

What is being described as an enhanced-cash repo fund will be launched in January by Austin Atlantic Asset Management Co. According to the firm, the AAAMCO Ultrashort Financing Fund's goal is to "provide short-term financing through repurchase agreements to a broad range of counterparties."

Sean Kelleher, president of the firm and leader of its fixed-income management team, and Bob McDonough, chairman of the credit committee, spoke with *Money Fund Report*® about the new offering.

AAAMCO has been "managing mutual funds for 25 years, and most of our shareholders have been depositories," Kelleher told *MFR*. One area where business was particularly hard hit as a result of the financial crisis was an equity mutual fund that catered mainly to banks. Started by banks in 1953, the fund was the subject of heavy redemptions post-Basel III and Dodd-Frank. It was "a business model that evaporated due to regulation with outflow of more than 75 percent of net assets, mainly from our bank shareholder base." With the new fund, Kelleher said, "We are fighting back, using regulation to source new opportunities."

Kelleher expects the fund's $10.00 per share net asset value to remain at that price because of the nature of how the fund is managed. "We file the final prospectus this week. We obviously can't say that we are a constant net-asset-value fund but the reality is all we are doing is repo and repo is a cost-base asset for a fund, so following that logic the NAV should not move, but we can't put that in a prospectus."

No "Credit Wrap"

According to Kelleher, the fund will be composed of a diversified pool of repo agreements with a yield higher than prime money funds through the use of repo counterparties that are not typically used by 2a-7 fund managers. Kelleher pointed to real-estate investment trusts as an example. The collateral in the fund will be government and investment-grade fixed-income securities, but with substantially larger haircuts than what is typically found in a 2a-7 fund's repo positions. In the current market environment, Kelleher said the fund has targeted a yield of 50 basis points over 2a-7-regulated money-market funds.

Kelleher referenced the structure of money-market funds that includes the reporting of "other repo" on SEC form N-MFP. He noted that the money funds are paying what he described as a "substantial, above-market premium for the highly-rated counterparty" that provides what he referred to as a "credit wrap" around the collateral that would otherwise be ineligible for the fund. His fund, he added, will engage in repo agreements where larger haircuts on the collateral seek to offset any incremental risk from the counterparty, which provides a higher yield for the fund.

How It Began

The genesis of the idea for the fund began with a hedge fund manager that was frozen out of money-center repo desks, said Kelleher. The hedge fund was deemed "nonstrategic" by the big banks and it turned to Austin Atlantic Capital, AAAMCO's broker/dealer, to help it source repo lenders. "It began with a one-off little product where we were serving as an adviser to a depository to craft a repo business that allowed them to finance this hedge fund. The collateral was less liquid government securities that were depository-eligible, and we were able to source anywhere from $200 to $300 million in repo for this hedge fund from multiple banks and credit unions."

Kelleher observed that "this bank deleveraging process has continued and accelerated over the past couple of years." This, along with money-market-fund reform, has crimped the "ability of capital markets to provide repo financing to a wide swath of borrowers that did not fit the regulatory guidelines of a money-market fund." Kelleher added that the new AAAMCO fund seeks to craft investment guidelines for a wide audience of shareholders: banks, corporate cash managers, pension funds; "basically any investor that does not need to be in a 2a-7 fund."

McDonough added that the fund will operate by "taking in investor money on the right side and lending it out on the left side." Kelleher elaborated that "along with our subadviser, Treesdale Partners, we are total-return money managers that are focused on analyzing the economic risks of repo collateral. Repo haircuts commensurate with collateral volatility, alongside a thorough counterparty credit analysis, are what drive any investment decisions made for our shareholders."

To be clear, Kelleher said, "We are a bond fund so if we are forced to take possession of the collateral, we are very comfortable with hedging the interest-rate risk, holding the collateral and waiting until markets recalibrate. Our appeal also lies in the fact that with rate hikes looking imminent, ultrashort bond-fund shareholders should be seeking floating-rate funds that don't take direct credit exposures."

The fund's minimum investment is $1 million with a second class that has a $25 million minimum. No distribution fee is assessed on the latter arrangement, noted Kelleher.

Secondary Liquidity

Asked how he would approach a corporate treasurer in presenting the fund, Kelleher said, "We call it 'secondary liquidity.' We're not a same-day-liquidity fund like money-market funds; we are not looking for people to use the fund as a checking account." Kelleher continued, "These days most institutional investors have excess cash, so structuring your cash to represent what you need for operating purposes versus the excess is something entirely logical to do."

Kelleher summed it up by saying that the fund is taking the "skill set of a sell-side repo desk and porting that into a mutual-fund structure with total-return-oriented management."♦

MFR COMMENTARY

Net assets of 866 Taxable MMFs increased by $4.58 billion to $2.572 trillion as of Dec. 6. Total Taxable Institutional fund assets were down by $194.5 million. Taxable Retail fund assets rose $4.78 billion.

The iMoneyNet Money Fund Average™/All Taxable 7-Day Yield remained at 0.15 percent. The All Taxable 30-Day Yield was also unchanged from the prior week at 0.15 percent. The WAM lengthened to 43 days from 42 days the week before.

Net assets of 237 Tax-Free and Municipal MMFs were up by $870.9 million, bringing their total to $130.96 billion as of Dec. 5.

The iMoneyNet Money Fund Average™/All Tax-Free 7-Day Yield remained at 0.16 percent. The All Tax-Free 30-Day Yield also held steady at 0.16 percent. The Tax-Free WAM lengthened by one day to 26 days.

A one-week increase of $5.45 billion brought total net assets of 1,103 Taxable and Tax-Free money funds to $2.703 trillion.

Money Fund Report

SUMMARY OF MONEY FUND ACTIVITY

Period Ending: 12/6/16 — Taxable Funds • 12/5/16 — Tax-Free Funds

# of Money Funds	Net Assets ($Mils)	1-Week Change		7-Day Yield (%)	30-Day Yield (%)	Compound 7-Day Yield (%)	Compound 30-Day Yield (%)	12-Month Yield (%) (10/16)	Average Maturity (Days)
			Taxable Money Funds						
31	55,695.7	185.3	Treasury Retail	0.06	0.06	0.06	0.06	0.04	51
31	55,510.4			0.06	0.05	0.06	0.05		47
22	26,063.4	130.0	Treas & Repo Retail	0.01	0.02	0.01	0.02	0.01	43
22	25,933.4			0.01	0.02	0.01	0.02		43
196	462,656.9	4,819.4	Govt & Agency Retail	0.02	0.02	0.02	0.02	0.02	46
196	457,837.5			0.02	0.02	0.02	0.02		46
249	***544,416.0***	***5,134.7***	***Government Retail***	***0.03***	***0.03***	***0.03***	***0.03***	***0.02***	***46***
249	539,281.3			0.03	0.03	0.03	0.03		46
113	250,659.5	-359.0	First Tier Retail	0.25	0.25	0.25	0.25	0.11	44
113	251,018.5			0.25	0.24	0.25	0.24		44
113	***250,659.5***	***-359.0***	***Prime Retail***	***0.25***	***0.25***	***0.25***	***0.25***	***0.11***	***44***
113	251,018.5			0.25	0.24	0.25	0.24		44
362	***795,075.5***	***4,775.7***	***Taxable Retail***	***0.10***	***0.10***	***0.10***	***0.10***	***0.05***	***45***
362	790,299.8			0.10	0.09	0.10	0.09		45
375	***1,651,999.5***	***-1,836.6***	***Government Institutional***	***0.14***	***0.13***	***0.14***	***0.13***	***0.09***	***44***
375	1,653,836.1			0.13	0.13	0.13	0.13		42
129	125,046.3	1,642.1	First Tier Inst	0.36	0.35	0.36	0.35	0.21	24
130	123,404.2			0.36	0.34	0.36	0.34		24
129	***125,046.3***	***1,642.1***	***Prime Institutional***	***0.36***	***0.35***	***0.36***	***0.35***	***0.21***	***24***
130	123,404.2			0.36	0.34	0.36	0.34		24
504	***1,777,045.8***	***-194.5***	***Taxable Institutional***	***0.20***	***0.19***	***0.20***	***0.19***	***0.12***	***42***
505	1,777,240.3			0.19	0.18	0.19	0.18		41
866	***2,572,121.3***	***4,581.2***	***Taxable (All)***						
867	2,567,540.1								
iMoneyNet MONEY FUND AVERAGE™/Taxable (All)				***0.15***	***0.15***	***0.15***	***0.15***	***0.09***	***43***
PriorWeek's Averages				0.15	0.15	0.15	0.15		42
			Tax-Free Money Funds						
106	84,419.5	841.3	Tax-Free National Retail	0.19	0.19	0.19	0.19	0.09	26
106	83,578.2			0.19	0.19	0.19	0.19		25
19	4,701.4	-49.4	Tax-Free National Inst	0.30	0.30	0.30	0.30	0.14	20
19	4,750.8			0.29	0.30	0.29	0.30		19
112	41,843.9	79.0	Tax-Free State Retail	0.11	0.11	0.11	0.11	0.06	27
112	41,764.9			0.11	0.11	0.11	0.11		26
237	***130,964.8***	***870.9***	***Tax-Free (All)***						
237	130,093.9								
iMoneyNet MONEY FUND AVERAGE™/Tax-Free (All)				***0.16***	***0.16***	***0.16***	***0.16***	***0.08***	***26***
PriorWeek's Averages				0.16	0.16	0.16	0.16		25
1103	***2,703,086.1***	***5,452.1***	***Grand Total - MMFs (All)***						
1104	2,697,634.0								

7- and 30-day yields represent annualized results for the periods, net of management fees and expenses. 12-month yields assume reinvestment of dividends for up to one year. Money Fund Report® Compound Averages follow the calculation method approved by the SEC:

$$\text{compound average} = \left(\left\{ 1 + \frac{\text{7-day average yield}}{(100 \times 52.142857)} \right\}^{52.142857} - 1 \right) * 100$$