

U.S. Money Market Funds

PORTFOLIO STRESS TESTING

The U.S. Securities and Exchange Commission (SEC) Money Market Fund Reforms finalized in July, 2014 require an enhanced level of portfolio stress testing aimed at testing the liquidity levels of a money market fund (MMF). Money Market Funds (MMFs) will be required to be compliant with this enhanced stress testing on April 14, 2016.

In addition to the existing rules, the new rules require money market funds to periodically test their ability to maintain weekly liquid assets of at least 10 percent and to minimize principal volatility (and, for stable NAV money market funds, the fund's ability to maintain a stable price per share) in response to specified hypothetical events



ABOUT INVESTOR ANALYTICS

Investor Analytics has enabled financial professionals to make better decisions since 1999 and processes more than USD 380 billion of assets daily for global hedge funds, fund of funds, money market funds, financial institutions, pension funds and endowments. Investor Analytics employs proprietary methodologies to analyze financial investment portfolios and provides clients with a suite of risk and transparency tools. Powerful and extremely easy-to-use, the Investor Analytics risk analysis portfolio helps clients better identify, communicate, and mitigate risk. For more information visit www.investoranalytics.com

BNY Mellon and Investor Analytics (IA) are pleased to offer an enhanced portfolio stress testing capability tailored to assist clients in meeting certain of the SEC's 2014 requirements, building on current portfolio stress testing capabilities.

SERVICES OVERVIEW

Investor Analytics (IA) offers a comprehensive stress testing service in support of the 2010 money market fund reforms, including

- Floating NAV
- Identification of entity concentration
- Calculation of daily and weekly liquid assets and
- Combined stress tests of interest rate increases, redemption increases and credit spread widenings

2014 REFORMS: TESTING LIQUIDITY AND PRINCIPAL VOLATILITY

In addition to the 2010 rules, Money Market Funds (MMFs) will now also need to test their ability to maintain weekly liquid asset level at 10%, and to minimize volatility in response to specified hypothetical events including:

- Increases in the level of short term interest rates
- The downgrade or default of particular portfolio security positions, each representing various exposures in a fund's portfolio and
- The widening of spreads in various sectors to which the fund's portfolio is exposed, each in combination with various increases in shareholder redemptions.

The fund's adviser must report the results of the stress testing to the fund's board of directors.



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Investor Analytics (IA)'s Approach

Data Management

IA handles and stores all the security and pricing data for monthly and ad-hoc reporting needs

Liquidity and Principal Volatility

Calculation of daily and weekly liquid assets for each redemption stress by simulating the selling of securities to meet required redemptions.

IA performs bottom-up security valuation based stresses:

- IA does not use duration/convexity approximations, which are inappropriate for large stresses
- IA does not proxy with "Weighted Average Maturity (WAM) equivalent" proxy
- IA updates its yield curve every day

Comprehensive Suite of Stress Tests:

- IA covers interest rate, credit spread, default and redemption stresses
- IA covers credit stresses in two different ways: through spreads and through simulated defaults of groups of instruments
- IA's stresses go through the point of "breaking the buck"
- Simulates how both the portfolio's liquidity profile and NAV are affected

Combined Stresses:

- The most likely scenario is not that only one of these stresses occurs, but that they all occur (to some degree), at the same time
- IA shows exactly what combination of stresses will impact the portfolio to what degree
- IA shows the portfolio's ability to minimize principal volatility and maintain liquidity
- IA support groupings for enhanced stressing

Board-Quality Presentation of Results:

- IA's reports show summary and detail level
- IA presents data in numeric and graphical formats
- Color coded reports highlight areas of concern for quick identification of focus areas

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This material does not constitute legal, accounting, or financial advice.

Clients require a Global Risk Solutions subscription to access these services.

Reports prepared by Investor Analytics may contain benchmark and portfolio information calculated using Investor Analytics' pricing sources not BNY Mellon or client-directed prices. Details provided upon request.

Contact us and learn more: assetservicingmarketing@bnymellon.com

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