Money market fund disclosure rules mitigate concerns on gates and fees

Federated Hermes

The role of gates and fees in money fund reform

When the Securities and Exchange Commission (SEC) initially adopted its money market fund reform, much of the conversation centered on which types of funds would be required to float share net asset value (NAV). Regulators touted the stability the changes would bring to these widely used instruments and the transparency that would allow investors to make informed decisions and understand the risks involved.

Less attention has been paid to another crucial element of the reforms: liquidity fees and redemption gates. These are two tools the SEC granted money funds to help navigate periods of financial stress, and they may be used in tandem or on their own. They are also enhancements of an earlier wave of regulations implemented in 2010 that had allowed money funds to suspend redemptions in order to liquidate a fund.

At their core, fees and gates are designed to better manage money market funds in times of market stress. A money fund's board is now authorized to temporarily halt redemptions (not to exceed 10 business days) if it is under extreme duress. It also is allowed to impose a fee on withdraws to dissuade investors from redeeming shares and increase liquidity levels during periods of market stress. As part of the requirement, money market funds must post daily and weekly portfolio liquidity figures on their website for investors to monitor. Investors can easily access this information on FederatedInvestors.com by selecting the Characteristics tab on the fund specific page.

While the SEC has stated that it expects fees and gates will be used only rarely and only in extreme circumstances, it established them to further protect fund shareholders, funds and the financial system in general.

Government money market funds are not obligated to implement the fees and gates provisions, although they can chose to do so. At this time, Federated Hermes has not elected to impose them on its government money funds.

How liquidity fees and redemption gates work

The use of gates and fees is tied to a fund's level of weekly liquid assets in proportion to its total assets and at the discretion of a fund's board. Fund boards may impose either a liquidity fee of up to 2% or a temporary suspension of redemptions (a gate) if a fund's level of weekly liquid assets falls below 30% of its total assets. If that level falls below 10%, fund boards will be required to impose a liquidity fee of 1%, though the board can choose to make the fee higher or lower. Neither action will be forced if the board determines a fee or gate is not in the best interest of the fund's shareholders. Other guidelines include:

- A money market fund must hold at least 10% of total assets in securities that are convertible into cash within 1 business day (daily liquid assets) and 30% of total assets in securities that are convertible into cash within 5 business days (weekly liquid assets). Tax-exempt money market funds are not subject to the daily liquid assets requirement.
- If imposed, gates are limited to no more than 10 consecutive business days, or 10 days in total, over the course of a 90-day period, and the fund's board may lift the gate sooner.

Other than empowering fund shareholders through enhanced access to information, Federated Hermes does not expect gates and fees to change the normal day-to-day operations of its money market funds.

Views are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Institutional

You could lose money by investing in the funds. 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 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. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Retail

You could lose money by investing in the funds. 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 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. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Government/Treasury

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For more complete information, visit FederatedInvestors.com or call 1-800-341-7400 for summary prospectuses or prospectuses. You should consider the fund's investment objectives, risks, charges and expenses carefully before you invest. Information about these and other important subjects is in the fund's summary prospectus or prospectus which you should read carefully before investing.

Not FDIC Insured • May Lose Value • No Bank Guarantee

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