On Capital Buffers

SIM MM funds are high quality Money Market funds, buying insurance from third parties or issuing a subordinated debt class for investors that will take first losses –

- We think this will compromise already relatively low rates we earn by the nature of the risk we take into our Funds. Taking into consideration that inflation in South Africa and in EM in general is relatively higher compared to developed market, this additional cost will eat into an already diminishing real yield/returns.

- Also, the credit exposure the SIM funds takes goes through a very robust Credit Committee process where appropriate ratings and limits are assigned and adhered to. We think this is a good enough protection against reckless lending.

- By adding/buying extra insurance and building additional capital buffers, we will be buying protection that we are unlikely to use and this will eat on the returns that should be benefitting our clients.

On Floating NAV, Swing Fees, and Redemption Gates

The nature of financial markets is largely driven by fear and greed. The theory that that investors would no longer panic-sell to avoid capital loss is hard to grapple with.

Take for an instance, the resent Money Market crisis experienced in the initial stages of COVID 19.

- The SARB was able to relax Liquidity /regulatory ratios on the banks and we soon witnessed liquidity coming back into the market (albeit at a slower pace than we desired).

- Corporates also liquidated more riskier assets into higher grade Money Market funds, Money Markets benefitted in terms of flows as investors became cautious and uncertain.

- There was plenty of cash in the system, the problem was with banks who were reluctant to lend it out despites guarantees that were put in place by NT.

- The panic selling out of good quality Money market Funds did not occur. (we did not see any evidence of it)

- Pricing discovery should be largely left on demand and supply forces in the Market. By introducing floating NAV's might exacerbate lack of transparency in terms of pricing of instruments.

- It is the nature of Financial Market that prices tend to over/undershoot in times of stress, However, over time they do correct and reflect the underlying valuations. Introducing floating NAV's will introduce more uncertainty.

Concluding comments.

We acknowledge the biggest risk could be a default of a prominent issuer, as stated in this paper. It is quite possible that the SA banking system with large volumes of NCDs is somewhat unique and vulnerable. Maybe, where the SA market can do better or becoming mature is in the repo Market. A better developed and more accessible repo market will enhance liquidity in the TB market.

At SIM we have sight of a large volume of our flows, the ability to “pay” for liquidity via reverse repos should be there. So far, in the past we have been doing it informally and a formal repo and reverse repo market should add tremendous value.

These proposed MMF reforms by the FSB are not addressing the critical structural issues in our Money Market. In our view, liquidity or lack of it, is rather concern which needs to be addressed. Much improved liquidity and transparent price discovery will go a long way in inspiring confidence and building resilience.

Also, in the past 20 years of Money Market in SA, SIM has never needed insurance or sub-debt in their funds.