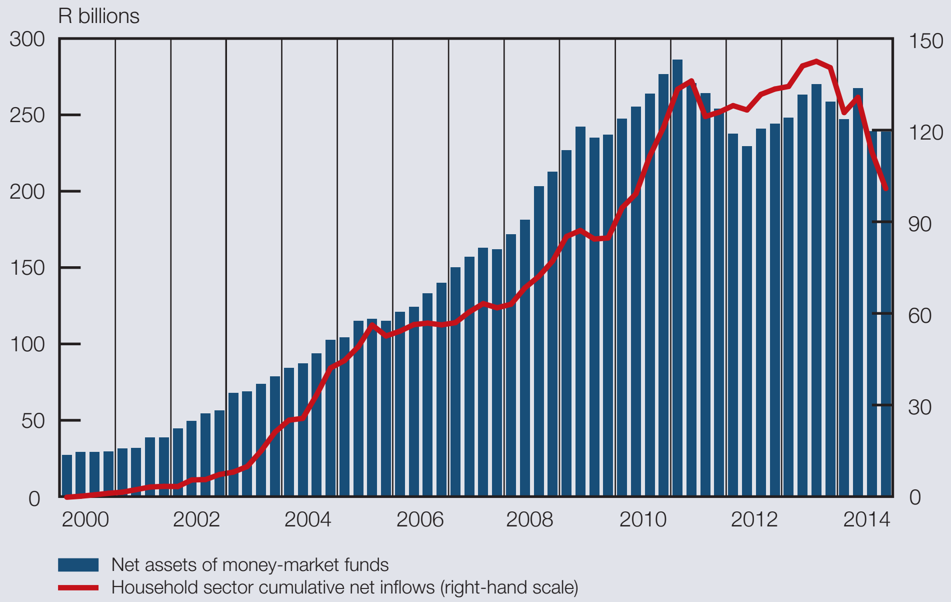
Box 5 Money-market funds

Although relatively small compared with other non-bank financial institutions, money-market funds play an important intermediation role in the economy, especially by providing wholesale funding to the banking sector. Money-market funds are collective investment schemes that invest in short-term fixed income instruments such as bank deposits. These portfolios are often used by investors as a proxy for bank-based savings and they seek to maximise interest income, while preserving capital. The net assets[1] of money-market funds increased from R30 billion in 2000 to R277 billion in 2010, before declining to R239 billion in 2014. The unprecedented growth in the balances of these funds was largely driven by investment from the household sector, which recorded cumulative net inflows of R101 billion from 2000 to 2014.

The moderation in net assets of money-market funds in the second half of 2014 was due to African Bank Investments Limited (ABIL) being placed under curatorship. The net outflows were partly exacerbated by the regulatory notice released by the Financial Services Board, which required money-market funds to create a side-pocket portfolio for ABIL debt instruments. The market value of the side-pocket portfolio as approved in August 2014 amounted to R4,6 billion. The impact of ABIL on money-market funds was probably lessened by the collective investment scheme regulation that restricts the funds' investment in debt instruments of listed banks to less than 30 per cent for issuers with market capitalisation of more than R20 billion.

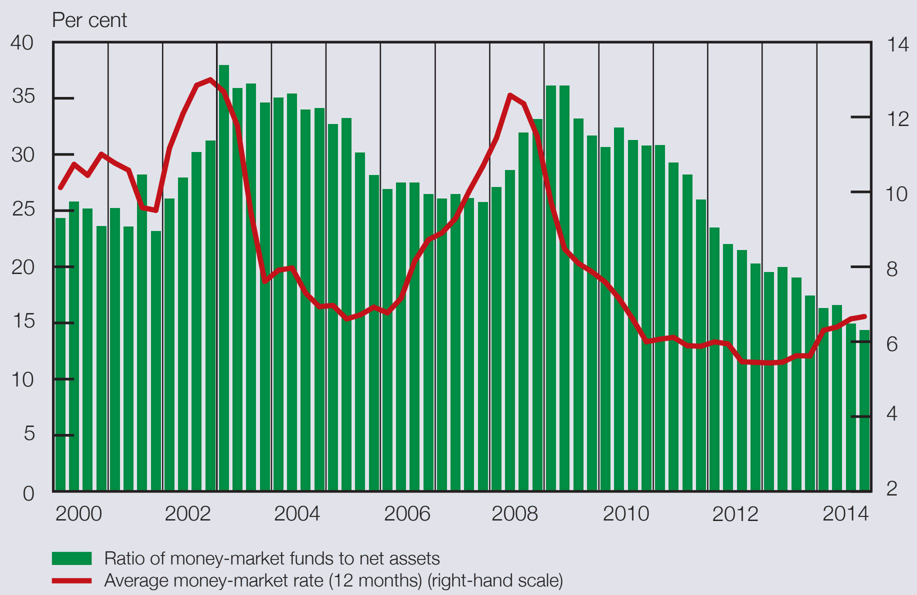
1 Measured as fair market value of all assets less fair value of liabilities

Figure B5.1: Money-market funds



The share of unit trust saving has gradually gravitated away from money-market funds towards non-money-market funds between 2008 and 2014, as investors seek higher returns offered by alternative portfolios such as equity and balanced funds. The ratio of money-market funds to the total net assets of unit trusts declined markedly from 36 per cent in the first quarter of 2009 to 14 per cent in the final quarter 2014, alongside a general moderation in risk aversion in financial markets and an improvement in investors' sentiment. The protracted decline in interest rates from 2009 and an increase in equity prices have contributed to a shift to non-money-market portfolios.

Figure B5.2: Ratio of money-market funds to net assets of unit trusts



The growth in net assets of money-market funds is likely to be negatively influenced by the deterioration in the financial position of households, the performance of competing asset classes and the introduction of Basel III – which might force banks to reduce short-term wholesale funding. Similarly, other regulatory changes, such as the adoption of a twin peaks model of financial regulation and the introduction of tax-free saving and investment products, will affect these funds.