CASH ACADEMY

BlackRock

Short-term investing 101

Introduction to money market funds and ultra-short duration solutions

A money market fund (MMF) is a type of mutual fund that invests in cash, cash equivalents and short-term debt securities. Think of MMFs as a cash management investment solution intended to offer portfolio diversification[1], liquidity and operational ease.

Key takeaways

1. The objective

Balance Stability, Liquidity and Yield

Short-term investing focuses on preserving capital while ensuring access to cash when needed. Strategies are designed to:

- Protect principal by investing in high-quality, short-term instruments
- Maintain liquidity with daily or near-term access to funds
- Enhance yield through active management within a low-risk framework

These three objectives underpin disciplined cash management and remain critical across market cycles.

2. The approach

Segment Cash by Time Horizon

Efficient cash management starts with aligning investments to specific liquidity needs.
Operating Cash (Daily needs (e.g. payroll, collateral)), Reserve Cash (Near-term obligations (< 12 months))
Strategic Cash (Medium-term commitments).
Segmenting cash in this way helps investors optimize returns while maintaining appropriate liquidity and risk controls.

3. The foundation

Diversification and Credit Quality

Risk management is central to short-term investing.

High credit quality
Investments are typically in highly rated issuers to reduce default risk

Diversification
Exposure is spread across sectors and counterparties to avoid concentration risk

Liquidity buffers
Portfolios maintain regulatory liquidity thresholds to meet redemption needs

[1] Diversification does not assure a profit and may not protect against loss of principle.

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Types of money market funds and ultra-short duration strategies

Government

- Investment horizon of 1-day+
- Designed for daily liquidity, such as operational cash balances
- Investments can be in cash, government securities or repurchase agreements that are collateralised by government securities

Ultra-short duration funds

- Investment horizon of 3-months+
- Low volatility of capital and liquidity are still objectives, but yield enhancement is an added objective
- Core/strategic cash balances that are not required on a daily basis
- Offer the opportunity of potential yield uplift by holding less liquidity, longer duration and slightly lower credit quality while remaining well within investment grade

Short-term credit / Prime

- Investment horizon of 1-day+
- Designed for daily liquidity, ideal for operational cash balances
- Investments can be in government securities as described above but also securities issued by highly rated banks, corporations and other non-government entities

Separate accounts

- Customized for client needs across all strategies

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European domiciled

Regional regulation drives the different types of MMF structures available.

	Short-Term Money Market Funds			Standard Money Market Funds
Criteria	Public Debt Constant NAV (PDCNAV)	Low-Volatility NAV (LVNAV)	Variable NAV (VNAV)	Ultra-Short Bond Funds Variable NAV (VNAV)
Weighted average maturity (WAM) (max)	60 days	60 days	60 days	0.5 years
Weighted average life (WAL) (max)	120 days	120 days	120 days	1 year
Daily minimum liquidity requirements	10%	10%	7.50%	7.50%
Weekly minimum liquidity requirements	30%	30%	15%	15%
Liquidity fees and redemption gate	If the weekly maturing assets of the fund fall below 30% and there is 10% daily outflow the manager will inform the board who has the discretion but no obligation to implement fees and/or gates as deemed appropriate. If the weekly maturing assets of the fund fall below 10%, the board must decide which fees and/or gates they deem appropriate to implement.		Although fees and or gates are not prescribed for VNAV funds as part of the European [1]Money Market Fund Reform text, they are required to be included within the funds prospectus under UCITS and AIFMD rules.	

[1] Money Market Fund Reform was implemented in January 2019.

Criteria	Short-Term Money Market Funds: Public Debt Constant NAV (PDCNAV)	Short-Term Money Market Funds: Low-Volatility NAV (LVNAV)	Short-Term Money Market Funds: Variable NAV (VNAV)	Standard Money Market Funds: Ultra-Short Bond Funds Variable NAV (VNAV)
Pricing (dealing NAV)	Constant NAV (rounded to 2 decimal places i.e. nearest penny/cent)	Constant NAV (rounded to 2 decimal places i.e. nearest penny/cent), provided dealing NAV does not deviate from mark-to-market NAV by >20 basis points	Variable (rounded to 4 decimal places)	Variable (rounded to 4 decimal places)
CASS qualifying*	✓	✓	X	X
Cash & cash equivalent status	✓	✓	✓	X

*CASS refers to the Client Asset Sourcebook which are a set of rules set out by the Financial Conduct Authority (FCA) for firms who manage client money and assets. Source: Fitch, Standard & Poor's and Moody's as of 30 November 2023. Investments in the MMFs quoted above have the possibility to considered 'Cash & Cash Equivalent' under International Accounting Standards (IAS) 7. However, the final classification of these MMFs is the decision of each underlying client and their auditors or other external parties that may be used for review.

How does a money market fund work?

Like other mutual funds, money market funds sell shares to investors who can then earn income from the portfolios. MMFs blend highly-rated, short-term securities with longer-dated securities (up to 397 days for most funds). Some MMFs seek to offer a constant net asset value (NAV) of 1.00 in the respective currency, while other types of MMFs float their NAV to the fourth decimal place. While yield is not a primary objective, funds seek to offer investors the potential for income that approximates the rate on other overnight or short-term investments.

Money market funds are required by the respective regional regulations to maintain sufficient liquidity to meet reasonably foreseeable redemptions. Generally, they must invest at least 10% of their portfolios in assets that can provide daily liquidity, and at least 30% of their portfolios in assets that can provide weekly liquidity, although there are exceptions.

To comply with these liquidity requirements, BlackRock must consider factors that could affect the strategy's liquidity needs, including market opportunities and shareholder flows. Depending upon the volatility of its cash flows (particularly shareholder redemptions), this may require a fund to maintain greater liquidity than would be required by the daily and weekly minimum liquidity requirements under the respective regulations.

How are money market funds and mutual funds different?

MMFs are a type of mutual fund, governed by regional regulations that stipulate guidelines that the funds must adhere to, including credit exposure requirements, liquidity requirements and duration constraints.

Certain MMFs are permitted to use accounting methods to transact at 1.00 in the respective currency per share.

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Potential advantages of a money market fund

MMF investments may be ideal to investors with short-term investment horizons seeking to maintain liquidity and their principal. Advantages of MMFs may include:

Liquidity

Investors may benefit from the pooled liquidity provided by a MMF which generally offers same or next day access to invested funds.

Preservation of capital

A combination of regional regulations plus other thresholds and best practices ensure MMFs only invest in short-dated, highly-rated securities with the aim of minimizing volatility.

Operational efficiency

There are multiple ways of accessing MMFs, making it easy to manage subscriptions and redemptions. Shares remain invested until redeemed so investors do not have to continually trade to maintain the exposure, as they would with some traditional banking options such as deposits.

Diversification

Stringent regulatory and rating agency rules demand maximum counterparty thresholds within MMFs. This ensures diverse exposure across a wide range of short-term debt issuers as opposed highly concentrated balances with a sole counterparty.

Yield

The active management of MMFs allow them to be dynamic and react to changes in markets. This can lead to the potential for enhanced yield.

How does a money market fund compare to a bank deposit?

Bank deposits typically aim to provide clients with a location to store their cash for a specified length of time with a specified rate of interest. MMFs traditionally seek to prioritize maintenance of capital and liquidity by investing in a broad range of high-credit quality assets across a wide range of issuers:

	Bank deposit	Money market fund
Counterparty diversification	Exposure to a single bank counterparty.	Investment in multiple counterparties resulting in diversification.
Liquidity	Potential penalties for accessing cash prior to maturity of term deposit	Most MMFs offer same or next-day liquidity with no lock up period.
Operational ease	Multiple bi-lateral agreements with banks typically required to achieve laddered and diversified investment. Multiple individual instructions may be required to execute.	Single transaction which can be executed in various ways. Instructions needed for subsequent redemptions and subscriptions.
Yield	Rates driven by bank funding needs, which can be volatile.	Active management of diversified money market securities allows for nimble positioning in changing market conditions. A MMF is not a guaranteed investment. Investment in MMFs can fluctuate and investors' capital is at risk.
Fees	Agreed between client and bank (often costs to break term agreements).	Costs and fees embedded in product so potential yields are received net. Liquidity fees and redemption gates remain mechanisms that may be incorporated in times of uncertainty.

The table above is intended to provide a general summary and is not exhaustive. A Money Market Fund (MMF) is not a guaranteed investment vehicle. An investment in MMFs is different from an investment in deposits; the principal invested in an MMF is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. The MMF does not rely on external support for guaranteeing the liquidity of the MMF or stabilizing the NAV per share.

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Do money market funds ever lose money?

MMFs are investments and not bank deposits or savings accounts - there are no guarantees of principal or insurance from any of the regional governments.

Certain MMFs aim to maintain a constant net asset value (NAV) and trade at 1.00 per share in the respective currency, allowing all return to be received through income. Other types of funds have a floating NAV, meaning they transact at the market-based value of the securities in the portfolio, rounded to the fourth decimal place and allow return to be received through both capital and income.

You could lose money by investing in the fund. 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 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 any 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.

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How should I consider using MMFs?

MMFs are an efficient cash management solution but there are some important factors to consider including how to use them and which MMF to choose.

Some of the key considerations are:

- What are your specific liquidity requirements?
- Is it possible to segment these requirements into different 'buckets' to allow for optimized strategies for each?
- What is the investment horizon for the overall strategy or each of the 'buckets'?
- Are there sensitivities to market pricing volatility?
- Are there thresholds around return expectations or loss tolerance?
- Are there operational requirements, e.g. trading and reporting?

How can I trade MMFs?

Money market funds can be accessed directly or via intermediaries:

- **MMF trading portals** including [1]BlackRock® Cachematrix™ Direct which offers money market fund trading, reporting and analytics for direct investors
- **Transfer agent** through SWIFT or phone/fax
- Your **bank or custodian** may be able to offer direct access to BlackRock funds and/or sweep capabilities

[1]BlackRock® Cachematrix™ Direct is not available in all jurisdictions.

Why consider BlackRock?

BlackRock's strategy seeks to deliver results for our clients throughout market volatility, interest cycles, and credit events – with a specific focus on preservation of principal, liquidity, and yield. We evaluate actual and projected economic and financial conditions in the marketplace, while reviewing our daily stress test outputs to craft the duration, liquidity targets, and credit exposures for our strategies.

BlackRock manages $1,069 bn[1] in cash assets globally, supported by more than 17 years[2] of experience in cash management and a dedicated team of investment professionals.

We focus on liquidity while making investment decisions based on:

- **Security selection and credit analysis**
- **Duration and yield curve positioning**
- **Sector positioning**

This approach has been used during periods of high market volatility, uncertainty, and low interest rates – which have included challenges related to the banking sector, geopolitical issues, and debt ceiling events, among others. Of course, past performance is not indicative of future results.

There is no guarantee that a positive investment outcome will be achieved.

1 Source: BlackRock. Assets under management as of June 30, 2026. All figures are represented in USD. Alternatives AUM may include committed capital, in addition to invested capital, which remains subject to drawdown.
2 Source, BlackRock. As of June 30, 2026.

Want to know more?

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