



Low interest rates and yields push money market funds to trim fees

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08:38 EDT Monday, Jul 13, 2009

FUNDS REPORTER

Manulife Mutual Funds this month cut the management fee on its Manulife Money Market Fund to 0.25 per cent from 0.50 per cent, and suspended trailer commissions paid to advisers.

AGF Funds Inc. has stopped paying upfront and trailer commissions on AGF Canadian Money Market Fund after cutting its management fee to 1 per cent from 1.25 per cent.

And Dynamic Funds in April slashed the management fee on its Dynamic Money Market Fund to 0.25 per cent from 1 per cent in addition to suspending trailer commissions.

Welcome to the new world of money market funds where low interest rates are forcing more firms to trim fees - at least temporarily - so investors don't lose money in what is perceived to be a safe parking vehicle for cash.

"If these companies have to invest in very short-term credit, there is a very good chance that their fees exceed what investors could make," said Morningstar Canada fund analyst Esko Mickels.

"Rates are very low right now, and we have indications from the Bank of Canada that rates will stay low for the foreseeable future ... The overnight target rate from the central bank is 0.25 per cent."

Investors may not be aware there is a risk of losses from money market funds because they are not insured by the Canada Deposit Insurance Corp., as traditional savings accounts are, Mr. Mickels added.

Independent analyst Dave Paterson said the choice for fund companies is to let the price of a money market fund "erode below \$10, which I think would be disastrous, or they have to absorb the fees. The reputational risk of letting it drop below 10 bucks is huge."

Fund companies are also cutting fees because "they want the assets to stay in their company," suggested independent analyst Peter Loach. "If the yield is next to nothing [after fees], and investors want to go to cash, they could leave the company, and buy [U.S.] Treasury bills or some product that will give them a higher yield."

Mr. Paterson has been receiving calls from advisers interested in high-interest saving accounts that can be held in client portfolios. "It's a bank account so there is no management fee. If you go into these savings accounts, you can get 0.75 per cent to maybe 1.00 or even 1.4 per cent in fee-based accounts."

Dundee Bank of Canada's Dundee Investment Savings Account, targeted to clients of financial advisers, is offering a rate of 0.90 per cent. Royal Bank of Canada a week ago launched the RBC Investment Savings Account targeted to the advisers with rates ranging from 0.75 per cent to 1.00 per cent.

ING Direct, an online bank accessible to anyone, has a 1.35-per-cent rate for its savings account. While higher rates are tempting, Mr. Loach is not sure that moving your money around is worthwhile if mutual funds are part of your core investment strategy.

"You could pull your money out and get 20 or 30 basis points somewhere, but for some, money market funds are more about having a safe haven than picking up yield," he said. "And you are positioned to move right back into a [stock or bond] fund."

Investors should determine which fund company has the strongest core offerings, and then look at their money market products, Mr. Loach said. "If they are relatively competitive, then [that] is who you should stick with ... Fees [charged by a money market fund] are very important in a low interest-rate environment."

Among the money market offerings, Messrs. Loach and Paterson like TD Canadian Money Market Fund because of its lower fee, and because they are fans of the fixed-income team at TD Asset Management Inc. Mr. Paterson also likes the PH&N Canadian Money Market and Mackenzie Sentinel Cash Management.

Analysts say investors might want to consider short- or longer-term bonds, although there is the risk of losing money if there is a sharp spike in interest rates, or corporate bond defaults.

Morningstar's Mr. Mickels recommends bond funds such as PH&N Total Return Bond (D series); TD Canadian Bond; Beutel Goodman Income; and PH&N Bond (D series).

"We look for low fees, high quality management and stewardship among companies ...," he said. "For those seeking the absolute level of safety, the savings accounts could possibly be the better solution. People could find a marginal pickup in yield in them."

Top 25 Performing Canadian Money Market Funds

Name	*Assets (\$millions)	Latest MER	*6 mos.	*1 yr	*3 yr	*5 yr
AIC Money Market	183.3	1.05	0.7%	2.0%	3.0%	2.6%
PH&N Canadian Money Market-D	628.6	0.52	0.5%	1.9%	3.3%	3.0%
Social Housing Cdn Money Market	107.4	0.75	0.6%	1.8%	3.1%	2.7%
MD Money	1153.9	0.56	0.5%	1.8%	3.2%	2.8%
RBC Canadian Money Market	6265.2	0.89	0.5%	1.8%	3.0%	2.6%
Manulife Money Fund	827.1	0.77	0.2%	1.8%	3.0%	2.6%
Mackenzie Sentinel Cash Management	500.5	0.53	0.5%	1.7%	3.1%	2.7%
Fidelity Canadian Money Market-A	400.4	1.00	0.3%	1.5%	2.8%	2.4%
Scotia Money Market	2523.7	1.13	0.3%	1.4%	2.7%	2.3%
Frk Tmp Money Market-A	237.4	1.05	0.3%	1.4%	2.7%	2.4%
National Bank Money Market	564.6	1.01	0.3%	1.4%	2.7%	2.4%
TD Canadian Money Market	4472.6	0.92	0.3%	1.4%	2.8%	2.4%
Frk Tmp Treasury Bill	244.1	0.79	0.3%	1.3%	2.7%	2.4%
Renaissance Money Market	801.0	1.08	0.3%	1.3%	2.6%	2.3%
Investors Premium Money Market	914.9	0.64	0.2%	1.3%	3.0%	2.7%
BMO Money Market	624.5	1.17	0.3%	1.2%	2.5%	2.2%
CIBC Money Market	3990.2	1.14	0.3%	1.2%	2.6%	2.3%
Quadrus Money Market	124.1	0.92	0.2%	1.2%	2.7%	2.4%
RBC Canadian T-Bill	1504.8	0.89	0.2%	1.2%	2.5%	2.3%
Desjardins Money Market	245.8	1.15	0.2%	1.1%	2.5%	2.2%
HSBC Canadian Money Market-I	803.2	0.96	0.1%	1.0%	2.5%	2.2%
Trimark Interest	303.0	0.97	0.1%	1.0%	2.6%	2.3%
Mackenzie Sentinel Money Market	515.1	1.23	0.1%	1.0%	2.4%	2.1%
BMO GDN Canadian MMkt Mutual	141.6	1.53	0.2%	1.0%	2.2%	1.9%
Investors Canadian Money Market	891.5	1.12	0.1%	1.0%	2.5%	2.2%
91 Day Treasury Bill Index			0.4%	1.7%	3.3%	3.1%

* as of June 30, 2009

Source: *Globe Investor*