

**Asset class: Money market instruments**  
**Educational material for clients**

Banque Bordier & Cie SCmA

# Asset class: Money market instruments

## Educational document for clients

*This educational sheet provides a simple explanation of what money market instruments are – short-term debt instruments issued by governments, financial institutions or companies – as well as the main risks associated with them. It is intended for clients without financial expertise and **does not, where applicable, replace a key information document (KID), a prospectus or any other official information documentation** relating to the instruments in question.*

### 1. Introduction

Money market instruments are a category of short-term financial investments, generally used for cash management. Issued mainly by **governments, financial institutions or large companies**, they are characterised by an investment term of less than one year, a modest return and generally limited risk.

*To better understand other asset classes, you may also wish to consult the educational factsheets on investment funds, shares, bonds, hedge funds, structured products and private equity, available on request from your adviser.*

### 2. What is a money market instrument?

Money market instruments comprise short-term investments (generally with a maturity of less than one year), such as Treasury bills issued by governments, certificates of deposit issued by banks, or certain short-term corporate debt securities. These instruments are mainly used for cash management. They generally offer a lower return than longer-term investments, but in principle carry a relatively limited level of risk.

### 3. Key features of money market instruments

Money market instruments are short-term debt instruments used primarily for cash management. They are generally issued by governments, banks or companies and have a short maturity, typically less than one year.

The main characteristics of these instruments are as follows:

- **Short investment horizon:** money market instruments generally have a maturity ranging from a few days to a maximum of one year. They are therefore mainly used for temporary investments or for cash management.
- **Generally limited returns:** due to their short duration and risk profile, which is generally lower than that of longer-term instruments, these investments typically offer more modest returns.
- **Generally low level of risk:** when these instruments are issued by borrowers with high credit quality (for example, certain governments or financial institutions), the risk of loss is generally limited. However, as with any investment, some risk remains, particularly if the issuer's financial situation deteriorates.

- **Generally high liquidity:** money market instruments are often traded on active markets, which in principle allows them to be bought or sold relatively easily before maturity, subject to market conditions.
- **Frequent use for cash management:** these instruments are commonly used by institutional investors and banks to manage cash surpluses over short investment horizons. They may also be accessible to private investors, either directly or through money market funds.

#### 4. Purpose of money market instruments

The issuance of money market instruments enables governments, banks and companies to **finance their short-term liquidity needs**, for example to cover day-to-day expenses, manage cash flow gaps or optimise the management of their cash flows.

For investors, these instruments primarily offer **a means of temporarily investing cash** for a short period, whilst earning a generally modest return in the form of interest. They are often used as **a cash management tool**, allowing investors to maintain a degree of liquidity whilst seeking a limited but generally higher return than that offered by a non-interest-bearing cash account.

Money market instruments can also play **a stabilising role within a portfolio**, as their short investment horizon and generally lower risk profile can help to limit the overall volatility of investments. They are therefore frequently used to **balance a diversified portfolio** or to hold cash while awaiting longer-term investment opportunities.

#### 5. What are the main types of money market instruments?

There are several types of money market products. They are mainly distinguished by their issuer, their short maturity and their yield, which depends on money market interest rates:

- **Treasury bills** Debt securities issued by governments to meet their short-term financing needs. They are considered very safe and often serve as a benchmark in the money market.
- **Certificates of deposit** Instruments issued by banks to refinance themselves. They offer a slightly higher yield than Treasury bills, but with a credit risk linked to the financial strength of the issuing bank.
- **Commercial paper** Short-term debt securities issued by large, highly rated companies to finance their cash flow requirements. They offer a higher yield than government bonds but carry a higher credit risk.
- **Repurchase agreements (Repos)** Transactions in which an investor lends money against securities as collateral, with a commitment to repurchase them in the short term. They offer enhanced security thanks to the collateral.
- **Interbank deposits** Interbank cash investments over very short periods (often ranging from 1 day to 3 months), with interest rates determined by interbank market conditions (e.g. SARON in Switzerland).

Within the framework of risk profiles and investment strategies, money market products are primarily used in the Income and Defensive profiles to secure liquidity and generate a minimal return with very low risk. In the Balanced and Growth profiles, they are used to a lesser extent, mainly as a temporary cash and liquidity management tool.

## 6. The main players in investment in money market instruments

Investments in money market instruments involve several players, each involved in the issuance, trading, custody or supervision of these financial instruments.

- **Issuers:** money market instruments are issued mainly by **governments, banks or companies**. They enable these entities to finance their short-term liquidity needs, for example to manage cash flow gaps, finance current expenditure or optimise their financial management.
- **Money markets:** money market instruments are traded on specialised markets, often between financial institutions. These markets bring together supply and demand, contribute to the formation of short-term interest rates and facilitate the flow of liquidity within the financial system.
- **Financial intermediaries (banks, brokers):** financial intermediaries enable investors to access these instruments. They execute transactions on behalf of their clients, maintain securities accounts and ensure the safekeeping of financial instruments. They play a central role in the proper execution and security of transactions.
- **Supervisory authorities:** financial markets are subject to a regulatory framework designed to ensure their proper functioning and the protection of investors. Supervisory authorities ensure, in particular, compliance with the rules applicable to financial institutions and markets. The level and methods of supervision depend on the country concerned.
- **Investors:** investors may be financial institutions, companies or private individuals. Through their investment decisions, they contribute to the short-term financing of issuers and help to ensure the liquidity and functioning of money markets.

## 7. Main risks associated with money market instruments

Although money market instruments are generally considered to be investments with relatively limited risk due to their short duration, they remain exposed to certain risks:

- **Credit risk:** this refers to the risk that the issuer (government, bank or company) will be unable to repay the principal or interest at maturity due to a deterioration in its financial situation.
- **Interest rate risk:** Changes in interest rates can affect the value of money market instruments when they are sold before maturity. In particular, a rise in interest rates can lead to a fall in their market value.
- **Liquidity risk:** Under certain market conditions, it may be more difficult to sell an instrument before maturity or to do so at a price close to its theoretical value.
- **Currency risk:** Where instruments are denominated in a currency other than that of the investor, fluctuations in exchange rates may affect the final return on the investment.
- **Other risks:** Depending on the nature of the instrument and the jurisdiction of the issuer, other risks may exist, including risks related to the economic, regulatory or tax environment.

These risks may be partially mitigated through rigorous selection of issuers, diversification of investments and appropriate management of investment duration.

## 8. Key advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>▪ Generally limited risk for instruments issued by high-quality borrowers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Generally lower returns than those of other longer-term asset classes</li> </ul>
<ul style="list-style-type: none"> <li>▪ Short investment horizon allowing for flexible cash management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Sensitivity to changes in short-term interest rates</li> </ul>
<ul style="list-style-type: none"> <li>▪ Generally high liquidity for certain instruments traded on active markets</li> </ul>	<ul style="list-style-type: none"> <li>▪ Credit risk linked to the issuer's financial position</li> </ul>
<ul style="list-style-type: none"> <li>▪ Instrument often used for cash management or to temporarily park cash</li> </ul>	<ul style="list-style-type: none"> <li>▪ Liquidity risk under certain market conditions</li> </ul>
<ul style="list-style-type: none"> <li>▪ May help to stabilise a diversified portfolio</li> </ul>	<ul style="list-style-type: none"> <li>▪ Currency risk where the instrument is denominated in a foreign currency</li> </ul>

*The above points provide a brief and non-exhaustive overview of the main advantages and disadvantages associated with money market instruments.*

## 9. How to invest in money market instruments

Investment in money market instruments can be made **directly or indirectly**, depending on the type of investor and the solutions offered by the financial institution.

Institutional investors (banks, companies, investment funds) generally access these instruments directly on the money markets, for example by purchasing Treasury bills, certificates of deposit or commercial paper.

For private investors, access is usually indirect, particularly through **money market funds** or management solutions that allow investment in a diversified portfolio of money market instruments.

As with any investment, **the investor's risk profile, investment horizon and liquidity needs** should **be taken into** account. Money market instruments are generally used for short-term investments or for liquidity management within a diversified portfolio.

Access to these instruments is normally **via a financial institution**, through a securities account or a suitable investment solution.

## 10. Exiting an investment in a money market instrument

Money market instruments are generally held **until maturity**, given their short duration, often less than one year.

At maturity, the issuer generally **repays the principal**, to which may be added the agreed return in the form of interest or the difference between the purchase price and the redemption value. The investment then automatically ends.

In some cases, the investor may also **sell the instrument before maturity** on the secondary market, where it is tradable. The sale price then depends on market conditions at the time of the transaction, in particular prevailing interest rates and the perception of the issuer's credit risk.

Depending on market conditions, selling before maturity may result in a **gain or a loss** compared to the purchase price.

In practice, transactions involving the purchase and sale of money market instruments are generally carried out through a financial institution, which handles the execution of the transactions and the safe-keeping of the instruments in the investor's securities account.

## 11. Bordier's range of money market instruments

The Bank offers its clients a range of money market instruments designed for short-term liquidity management. This range is based primarily on the following categories:

- Direct lines, including in particular:
  - Treasury bills issued by governments (sovereign bonds),
  - Commercial paper (corporate bonds) issued by companies and financial institutions;
- Certificates of deposit (fiduciary deposits), issued by financial institutions for short-term refinancing purposes.
- Money market funds and *money market notes*, providing indirect exposure to the money market through specialised collective investment vehicles.

These instruments are selected according to strict criteria of credit quality, liquidity and risk. They aim to optimise the portfolio's liquidity management whilst maintaining a high level of security. Their availability and characteristics may change depending on market conditions and the regulatory framework, without affecting the general principles described above.

## 12. Important information

This document is provided for informational and educational purposes only and does not constitute personalised financial advice. Nor should it be interpreted as an advertisement or an offer of financial instruments. The content presented is neither exhaustive nor intended to cover all the characteristics and risks associated with the relevant category of financial instruments.

This information is intended to provide a factual overview and should not be used as the sole basis for investment decisions. Past performance is not indicative of future results, and the value of investments may fall as well as rise.

For general information on financial instruments, please refer to the Swiss Bankers Association's brochure entitled 'Risks Involved in Trading Financial Instruments', available on our website under the heading Legal & Compliance, Switzerland, FINSA, Guidelines Risks Involved in Trading Financial Instruments (published by SBA): <https://www.bordier.com/legal-and-compliance/switzerland/finsa/>.

If, for the relevant type of financial instrument, a key information document (KID) or a prospectus has been drawn up in accordance with the applicable legal provisions, these documents can be viewed and downloaded from our website under the heading Legal & Compliance, Switzerland, FINSA, Key Information Document (KID), at the following address: <https://www.bordier.com/legal-and-compliance/key-information-documents-kids/>

Before making any investment decision, investors are advised to carry out their own checks and carefully assess the potential risks. It is strongly recommended that they seek the assistance of a qualified financial adviser. The relationship manager is available to provide, upon request, any further information and to supply the relevant documentation. The Bank accepts no liability for decisions made on the basis of the information provided in this document.

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