MEETING THE CHALLENGES

Six Strategies for the New World of Cash

STATE STREET GLOBAL ADVISORS®

THE "NEW REGULATORY ENVIRONMENT" IS FINALLY GETTING REAL

The environment for cash investors changed dramatically after the Global Financial Crisis (GFC), when the federal government stepped in with new regulations to keep future liquidity dislocations at bay.

The new rules fell into two main categories. One was a series of changes to regulations governing banks (spelled out in our series "**Yielding to a New Regulatory Reality**"), aimed at keeping the financial system operable during future crises and preventing the need for government bailouts. The second category involved amendments to money market fund rules laid out in Securities and Exchange Commission (SEC) Rule 2a-7 under the Investment Company Act of 1940 (explained in our paper "**The New World of Cash**"). New 2a-7 rules were enacted to increase the liquidity of money market funds and improve the credit quality of underlying securities in those funds. Another hallmark of the 2a-7 amendments – the introduction of a floating net asset value (NAV) for institutional money market funds that hold anything other than government securities — was approved in July 2014 and will be implemented in October 2016. As before, any funds operating outside the 2a-7 requirements may not be considered "money market funds."

It's hard to overstate the repercussions these various changes will have on the cash markets. The new banking rules will, among other things, heighten demand for short-term government debt and reduce issuance of short-term corporate debt. For their part, managers of prime money market funds have already lowered their risk tolerance and moved into shorter-maturity, higher-quality bonds, both government and corporate.

The potential for supply-demand imbalances and lessened liquidity in certain areas of the market is obvious. As regulations come into effect in 2016, the floating NAV rule in particular is likely to lead institutional investors to shift assets out of prime and tax-exempt funds. Much of those assets are likely to flow into government money funds. Those flows, along with new banking regulations, will cause a leap in demand for short-term government securities, weighing down yields on these investments and funds that hold them.

But fortunately, today's challenges also present opportunities, particularly for those able to move beyond the traditional stable NAV marker for a portion of their cash needs. To provide a solution to the investment limitations now vexing some cash investors, the State Street Global Advisors cash team scribbled up its whiteboard with fund ideas. We're now bringing these six new funds to market, each designed to answer a different combination of challenges created by the post-GFC amendments, while maintaining a sharp focus on its investment strategy.

NEW RULES & CHALLENGES

These are the regulations that in coming months will most affect life for cash investors. See the next page for our new strategies built to help address them.

Key	New Rule		Challenge
	Maturity and Daily/Monthly Liquidity Requirements	Money market funds now have a maximum fund weighted average maturity (WAM) of 60 days, a maximum fund weighted average life (WAL) of 120 days and a maximum per-security maturity limit of 397 days*. Money market funds also must hold at least 10 percent of assets under management (AUM) in securities maturing within one business day (BD), and at least 30 percent of assets in securities maturing within seven business days.	Investors are no longer able to purchase certain securities with strong credit quality, low default risk and higher yield, but further out the maturity curve.
	Liquidity Coverage Ratio (LCR)	Banks must hold at least enough unencumbered, high quality liquid assets (HQLA) sufficient to meet modeled cumulative net cash outflows over a 30-day stress scenario.	Heightened demand from banks will depress yields on the highest-quality, most liquid assets and short-term government securities. As a result, government money funds are likely to offer even lower yields relative to other cash management options.
	Floating NAV	Prime institutional money market funds will have to maintain a "floating" NAV based on the current market value of fund holdings. Previously, fund accounting rules supported a fixed NAV of $1.00.	Investors may flee to fixed NAV funds to avoid the pricing risk in variable NAV funds. This will present a tradeoff, though, as fixed NAV funds wind up on the short end of a potential increase in yield spread between fixed and floating NAV funds.
	Commercial Paper (CP) Credit Quality Requirements	Maximum A2/P2 allocation of 3 percent of AUM; maximum A2/P2 issue limit of 0.5 percent of AUM; Maximum A2/P2 security maturity limit of 45 days.	Investors miss out on investment opportunities in short-term, high-quality investment grade commercial paper.
	Illiquid Security Restrictions	No more than 5 percent of AUM may include "illiquid securities," defined as any security that cannot be sold or disposed of within seven days at carrying value to more than one counterparty.	Repurchase agreements longer than seven days are contracted with a single counterparty, and thus fall under the illiquid security restriction, causing investors to miss out on another potential source of yield.
	Net Stable Funding Ratio (NSFR)	NSFR forces banks to balance the maturities of their assets and liabilities. The goal of this rule is to prevent the possibility that banks will have too much tied up in long-dated assets to meet redemptions from short-dated liabilities.	One consequence of the NSFR rule is to restrict banks' ability to lend long and use the collateral from those loans to secure reverse repurchase agreement funding. This regulation and others have resulted in a drop-off in supply of repurchase agreements in the market. Limited supply drives down yields on other securities with very short maturities, making it more difficult for money market funds to generate yield while complying with new liquidity mandates.
AAA	**Additional Rating Agency Rules for Funds to Maintain AAA Ratings**	Rated money market funds have restrictions in addition to 2a-7 rules. For example, to receive a AAA rating from Standard & Poor's (S&P), 50 percent of a fund must be invested in A-1+ securities, and the fund may not hold any A2/P2 securities. Mitigating this somewhat is the SEC's recent announcement that come October 2016 it will no longer require prime money funds to invest in assets with specific credit-agency-supplied ratings. Funds will apply their own credit analysis to determine minimal credit risk per investment.	This is one case where the regulators may be more liberal than some investment policies. Sticking a fund with 100 percent agency-rated holdings could spell a further sacrifice in yield.

* Government variable rate securities may have longer final maturities.

SIX STRATEGIES FOR THE NEW WORLD OF CASH

CCDXX 60-Day Money Market Fund

Rule 2a-7 Followed

While this fund is a prime fund under Rule 2a-7 with a variable NAV, it will take advantage of an SEC position allowing assets maturing in 60 days or fewer to be priced at amortized cost, so long as the amortized cost value is approximately the same as the fair value of the security without the use of amortized cost. Holding securities maturing in 60 or fewer days will ensure this fund maintains high levels of liquidity. Meanwhile, the use of amortized cost accounting should provide a potentially steadier NAV than floating NAV funds valuing their portfolios using market pricing.

This is a credit fund able to purchase commercial paper, certificates of deposit and time deposits. As prime funds potentially become less attractive, due to the complexity of a floating NAV, yield spreads between government securities and CP, CDs and time deposits could increase. That dynamic could present an opportunity for this fund to pick up yield while maintaining a high level of liquidity.

Primary Goal	Preservation of capital
Secondary Goal	Generate current income
Key Feature	No security with a maturity greater than 60 days.
Potential Client	For an investor seeking a bridge fund between government and prime options.
NAV	Floating
Initial Fund Price	$1.0000
Allowed Investments	TRY, AGY, CP, CD, TD, BA, BN, VRDN, REPO, CRP, MTN
WAL Limit	60 days
WAM	60 days
Per Asset Maturity Limit	60 days
Settlement Date	T+0
Liquidity Limits	10% of AUM maturing in 1 BD, 30% maturing in 7 BD
Rating	TBD. Anticipated to be AAA

CCQXX Cash Reserves Fund

Rule 2a-7 Followed

This fund will invest in commercial paper and other securities consistent with prime funds. These securities are likely to offer considerably higher yield than government issues, helping generate more yield than government-only funds.

The fund will serve retail investors. As such, it will seek to maintain a stable $1.00 NAV while investing in prime securities. Retail prime funds are allowed to seek to maintain a constant NAV in the new regulatory environment because regulators observed that during the financial crisis retail investors did not redeem out of prime funds to the extent institutional investors did. Like institutional prime funds, this fund will nevertheless be required to adhere to new 2a-7 rules requiring the use of gates and liquidity fees.

Primary Goal	Preservation of capital and liquidity
Secondary Goal	Maximize current income to the extent consistent with maintenance of a stable $1.00 NAV
Key Feature	Seeks to maintain a stable NAV on a prime money market fund
Potential Client	Retail investor seeking stable NAV with higher yield than available from government-only funds
NAV	Seeks to maintain a stable NAV
Initial Fund Price	$1.0000
Allowed Investments	TRY, AGY, CP, CD, TD, BA, BN, VRDN, REPO, CRP, MTN
WAL Limit	120 days
WAM	60 days
Per Asset Maturity Limit	397 days*
Settlement Date	T+0
Illiquid Investment Limits	5% of AUM, per rule 2a-7
Liquidity Limits	10% of AUM maturing in 1 BD, 30% maturing in 7 BD

* Government variable rate securities may have longer final maturities.

SSYDX Current Yield Fund

Rule 2a-7 Not Followed

This fund purchases investment grade commercial paper with maturities no longer than 90 days.

Rating requirements for this fund are less strict than those dictated by 2a-7 rules, allowing the fund to choose from an entire universe of investment grade securities. This fund can purchase A2/P2 securities, as well as A/3, P/3 and F/3 securities that mature in less than 30 days.

A Moody's report* found default rates of only 0.03 percent for A1/P1 commercial paper over a 40-year period, and only 0.04 percent for A2/P2 securities. Even when a CP issuer experiences a credit event, the risk of default in the short term is very low. This fund seeks to enable investors to benefit from securities issued by quality firms lower on the credit curve, while mitigating default risk by limiting the maturity range.

Primary Goal	Provide current yield
Key Feature	The fund can invest in the broader investment grade universe.
Potential Client	Investors not sensitive to specific ratings on investments, but want to limit term exposure.
NAV	Floating
Initial Fund Price	$10.00
Allowed Investments	TRY, AGY, CP, CD, TD, BA, BN, VRDN, REPO, CRP, MTN
WAL Limit	60 days
WAM	45 days
Per Asset Maturity Limit	90 days
Settlement Date	T+1
Illiquid Investment Limits	5% of AUM, per rule 2a-7
Liquidity	Maintained to meet shareholder activity
Rating	No

* Moody's Investor Services, Credit Policy, Default and Recovery Rates of Corporate Commercial Paper Issuers 1972-H1 2013, October 9, 2013.

SSKGX Conservative Income Fund

Rule 2a-7 Not Followed

With this strategy, the fund can extend WAM and WAL limits beyond what is dictated by Rule 2a-7. The fund therefore is designed to provide additional current yield, while maintaining sharp focus on preservation of principal and liquidity to meet shareholder activity. This fund's WAM can stretch to 90 days; its WAL can go out to 250 days; and the per-asset maturity limit can be up to 760 days. By investing in longer-maturity securities, the fund may present an attractive yield for investors looking to invest "rainy day cash" that can be put aside for nine to 12 months.

The fund has the flexibility to invest up to 20 percent of AUM in A2/P2 securities, limited to A2/P2 securities maturing in less than one year. This way, the fund can benefit from -quality, higher-yielding names further down the credit curve.

The fund has the flexibility to purchase up to 10 percent of AUM in illiquid assets. This allows the fund to enter a greater proportion of repo agreements, one of the higher-yielding fully-collateralized investments for cash investors.

Repo Agreements Offer Attractive Spreads, with Significant Yield Pick-Up for Longer Funding Terms in Non-Government Collateral. For example, a repo trade maturing in 90 days and collateralized by equity securities could provide 35 to 45 more basis points of yield versus similar collateral with a seven-day maturity.

Primary Goal	Provide current income
Key Feature	Portfolio will own bonds just beyond the credit and maturity limits of money market funds.
Potential Client	Investors with a 9-12 month investment horizon
NAV	Floating
Initial Fund Price	$10.00
Allowed Investments	TRY, AGY, CP, CD, TD, BA, BN, VRDN, REPO, CRP, MTN
WAL Limit	250 days
WAM	90 days
Per Asset Maturity Limit	760 days
Settlement Date	T+1
Illiquid Investment Limits	10% of AUM
Liquidity	To meet shareholder activity

MMFXX Institutional Liquid Assets (ILA) Fund

Rule 2a-7 Followed

While this fund does follow 2a-7 rules on liquidity and credit quality of underlying securities, it is not subject to additional restrictions from the major rating agencies. Funds not rated could have yield advantages while not posing significant additional risk. For example, this fund would allow the purchase of A2/P2-rated securities while the ratings agencies allow no A2/P2 rated securities.

This fund may be ideal for investors who use ratings agencies as one input in their evaluation of money market funds but not as the determining factor. The fund will still purchase securities that meet top-tier ratings criteria, but will not have additional constraints that impede proper relative value evaluation.

Primary Goal	Maximize current income, to the extent consistent with the preservation of capital and liquidity by investing in U.S. dollar-denominated money market securities.
Key Feature	Follows SEC Rule 2a-7, without the additional restrictions from major ratings agencies' guidelines.
Potential Client	Institutional investors who are not restricted to AAA-rated money market fund ratings.
NAV	Floating
Initial Fund Price	$1.0000
Allowed Investments	TRY, AGY, CP, CD, TD, BA, BN, VRDN, REPO, CRP, MTN
WAL Limit	120 days
WAM	60 days
Per Asset Maturity Limit	397 days*
Settlement Date	T+0
Illiquid Investment Limits	5% of AUM
Liquidity Limits	10% of AUM maturing in 1 BD, 30% maturing in 7 BD
Rating	No

* Government variable rate securities may have longer final maturities.

SSTUX Ultra Short-Term Bond Fund

Rule 2a-7 Not Followed

This bond fund carries a duration of one year, allowing the fund to purchase fixed rate assets further out the yield curve to potentially generate a higher current yield. Additionally, the fund will include floating rate assets to hedge against a future upward move in interest rates.

Fund managers will purchase a wide range of investment grade credits to capitalize on relative value analysis that reveals names that typically provide higher yield without a significant increase in default risk. The stipulations include an average credit quality of single A for the overall fund, and no more than 30 percent of AUM in BBB and BBB+ rated names.*

The fund has the ability to purchase ABS investments (such as credit cards and automobile trusts) up to three years WAL for a broader choice of high quality assets. All ABS securities purchased will be rated AAA. The fund also has a greater AUM allowance for illiquid securities (up to 20 percent), offering a greater opportunity for term repo agreements.

Investors in this fund seek to reduce interest rate risk while not giving up too-much yield. The ultra-short-term bond strategy is for investors willing to venture well outside of traditional cash guidelines and have at least a 12- to 24-month time horizon.

Primary Goal	Provide current income and total return
Key Feature	Diversified portfolio of investment grade securities only.
Potential Client	Investors seeking additional yield over money market funds and capable of withstanding higher NAV volatility.
NAV	Floating
Initial Fund Price	$10.00
Allowed Investments	TRY, AGY, CP, CD, TD, BA, BN, VRDN, REPO, CRP, MTN, ABS
WAL Limit	2 years
WAM	1 year
Per Asset Maturity Limit	5 years
Settlement Date	T+1
Illiquid Investment Limits	20% of AUM
Liquidity Limits	To meet shareholder activity

*Source: Ratings S&P, Fitch

The new cash investing landscape presents challenges, but may also offer opportunities to investors who define their cash needs, distinguish among them and invest accordingly. The six new offerings described here bring our lineup of cash management funds to a total of 14. Together these funds provide investors with the necessary tools to navigate today's more-complex cash environment.

Funds Seeking to Maintain a Constant NAV (CNAV)	VNAV Funds
State Street Institutional Treasury Fund	**State Street 60-Day Fund**
SSGA US Treasury Fund	State Street Institutional Liquid Reserves (ILR) Fund
State Street Institutional Treasury Plus Fund	SSGA Prime Fund
SSGA US Government Fund	SSGA Money Market Fund
State Street Institutional US Government Fund	**State Street Institutional Liquid Assets (ILA) Fund**
State Street Cash Reserves Fund	
	State Street Current Yield Fund
	State Street Conservative Income Fund (90-day fund)
	State Street Ultra Short-Term Bond Fund

Bold font indicates new funds incepted after 10/1/2015.

Prospectuses for new funds available at:
http://www.sec.gov/Archives/edgar/data/1107414/000119312515334169/d34347d485bpos.htm
http://www.sec.gov/Archives/edgar/data/1107414/000119312515334159/d35242d485bpos.htm
http://www.sec.gov/Archives/edgar/data/1107414/000119312515334149/d28416d485bpos.htm
http://www.sec.gov/Archives/edgar/data/1107414/000119312515334144/d30731d485bpos.htm
http://www.sec.gov/Archives/edgar/data/1107414/000119312515334139/d22758d485bpos.htm
http://www.sec.gov/Archives/edgar/data/1107414/000119312515334128/d12959d485bpos.htm
Existing fund prospectuses available at ssga.com/cash

Meeting the Challenges

About Us

For nearly four decades, State Street Global Advisors has been committed to helping our clients, and the millions who rely on them, achieve financial security. We partner with many of the world's largest, most sophisticated investors and financial intermediaries to help them reach their goals through a rigorous, research-driven investment process spanning both indexing and active disciplines. With trillions* in assets, our scale and global reach offer clients unrivaled access to markets, geographies and asset classes, and allow us to deliver thoughtful insights and innovative solutions.

State Street Global Advisors is the investment management arm of State Street Corporation.

* Assets under management were $2.37 trillion as of June 30, 2015. This AUM total reflects approximately $26.8 billion in GLD assets (as of 6/30/15) with respect to which State Street Global Markets, LLC (SSGM) serves as marketing agent; SSGM and State Street Global Advisors are affiliated

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These investments may have difficulty in liquidating an investment position without taking a significant discount from current market value, which can be a significant problem with certain lightly traded securities.

The views expressed in this material are the views of the Global Cash Credit Team through the period ended October 5, 2015 and are subject to change based on market and other conditions