



Canadian Foundation for  
Advancement of Investor Rights

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For immediate release

## FAIR Canada Issues Report on Money Market Funds: CANADIANS LOSING OUT ON \$300 - \$500 MILLION

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FAIR Canada today issued a 21-page report today entitled “**Canadian Money Market Funds – Zero Returns**” (the Report).

**Most Money Market Funds (MMFs) not making money.** The Report found that Canadians hold \$56 billion in money market funds earning almost nothing. In the six months to year end 2009, the average Canadian MMF earned just 0.02% after costs, before the impact of inflation and taxes. The average return for the most recent 30 and 60 day periods was 0%. Even worse, fully one quarter of all Canadian money market funds (mostly smaller segregated funds) lost money in the three or six months to December 31, 2009, and continue to lose money.

**\$300 - \$500 million opportunity cost.** “Few individual investors are aware that MMFs are now producing zero or even negative returns or that many bank savings accounts can produce better returns,” said Ermanno Pascutto, FAIR Canada Executive Director. “Canadians are missing out on potential interest income of \$300 - \$500 million by not shifting their funds into higher-yielding premium savings accounts.” (See the calculation in the appendix to this release).

FAIR Canada - Zero Returns Report calls for improved disclosure of returns and fees. “Investors have a right to know when returns on a safe “savings account” type investment like a MMF fall to zero or (in the case of some segregated fund MMFs) turn negative. Investment advisors should act in their clients’ best interest and consider recommending to their clients that they switch from MMFs to alternatives like CDIC-insured premium savings accounts, if there are no other compelling reasons to keep them in MMFs,” said Mr. Pascutto.

**Fund economics don’t work in this low interest rate environment.** The Report notes that since interest rates declined to almost zero in March 2009, most Canadian MMFs would be losing money had they not reduced their fees. The average fee (Management Expense Ratio or MER) for all Canadian money market funds is 0.99%. The largest funds charge an average MER of 0.62%. Yet, the current wholesale rate available to the MMFs on Government Treasury bills is only 0.57%. The result for individual investors is zero returns even with reduced MERs.

"Premium savings accounts at the major banks pay 0.75% to 1.0% and are CDIC-insured, compared to 0% for most MMFs. Investors should stay current and well-informed about their accounts and financial alternatives, and not rely solely on their advisors. However, financial firms and advisors should be informing clients of current returns on MMFs and alternatives to the current zero returns. Monthly statements should disclose the current interest paid on MMFs," said Mr. Pascutto.

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**About FAIR Canada**

FAIR Canada is a non-profit, independent national organization dedicated to representing the interests of Canadian investors. The mission of FAIR Canada is to be a voice for investors in securities regulation and a catalyst for enhancement of the rights of Canadian shareholders and retail investors. Visit [www.faircanada.ca](http://www.faircanada.ca) for more information.

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**See Appendix attached**

## Appendix to Press Release

### PERFORMANCE OF CANADIAN MONEY MARKET FUNDS - SUMMARY

	Average (Total)	Top 10 Funds Average	Benchmark: 91-Day Treasury Bill
<b>3 MONTHS</b>	0.00	0.06	0.06
<b>6 MONTHS</b>	0.02	0.13	0.13
<b>1 YEAR</b>	0.22	0.55	0.49
<b>3 YEARS</b>	2.00	2.42	2.64
<b>10 YEARS</b>	2.42	2.77	3.26
<b>CURRENT YIELD</b>		0.18	0.18
<b>MER</b>	0.99	0.62	

Source: Globefund.com. Performance for the period ending December 31, 2009. Top 10 funds ranked by assets under management. Yields as of January 19, 2010.

**Calculations of potential lost interest income.** Canadians held \$55.8 billion in Canadian dollar Money Market Funds as of Jan. 31, 2010. An interest rate differential of 0.57% (average top 10 MMF yield 0.18%, premium savings accounts yield 0.75%) produce potential additional interest income of \$317 million. An interest rate differential of 0.9% (average MMF yield of 0.1%, premium savings account rate of 1.0% is available at some banks) = \$502 million.

**Why are Canadians not switching out of MMFs?** Canadians are switching, but slowly: About \$2 to \$2.5 billion a month is being transferred from MMFs both to deposit accounts and to longer-term stock and bond funds.

Many Canadians invest in MMFs for short-term liquidity needs and are not seeking to maximize their returns. Some are locked in by high “exit fees” on funds with back-end loads. Some insurance funds provide principal and other guarantees. Other reasons include: insufficiently clear disclosure of current fees and close to zero returns; safety and an implied guarantee; habit, convenience and inertia; and lack of financial advisor incentive.