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## Fixed term deposit or money market fund?

- What is a money market fund?
- How risky is a money market fund?
- Comparing to platform cash and fixed-term deposits

Money market funds, and their exchange-traded equivalents “ultra-short duration bond funds”, are an important, if unglamorous, tool in portfolio manager’s toolkit.

They can be used in place of a cash holding for additional yield, without compromising on risk, liquidity or cost.

Money market funds are intended to preserve capital and provide returns similar to those available on the wholesale money markets (e.g. the SONIA rate that replace LIBOR).

### How risky is a money market fund?

Money market-type funds hold near-to maturity investment grade paper. Their weighted average term to maturity is <1 year. They therefore have very low effective duration (the sensitivity to changes in interest rates).

Compare gilts which are seen as a low-risk asset relative to equities. The 10-11 year duration on UK gilts (all maturities) means they carry a higher level volatility compared to cash (which has nil volatility). On the flip side, their longer term also means they have higher risk-return potential relative to cash and ultra-short bonds.

By contrast, money market type funds have some investment risk as they hold non-cash assets, but given their holdings’ investment grade status, short term to maturity and ultra-short effective duration, they exhibit near-nil volatility.

### Platform cash, fixed term deposit or money market fund

From a flexibility perspective and a value for money perspective, there's a clear rationale to hold money market funds, rather than platform cash or a fixed term deposit.

Our [Money Markets fund research paper](#) that looks at 4 low cost money market funds sets out why.

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Our Research & CPD focuses on multi-asset strategies, index funds and ETFs.

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