### Federal Reserve – Atlanta Conference

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Impact and Role of MMFs in the Economy

- Despite low yields, MMFs remain a desired investment option as evidenced by stability of assets at $2.7 trillion compared to pre-crisis levels.
- For the 56 million shareholders, MMFs offer access to credit expertise, daily liquidity and secure and efficient operational processes with lower costs.
- For retail investors, MMFs have paid $242 billion more in returns than competing bank products since 1990.

Money Market Fund Yields and Total Net Assets

Source: Investment Company Institute and iMoneyNet, Inc.
Economy Without MMFs – Devastating Impact on Corporations, Government and Municipalities

- MMFs **taxable** instruments holdings totaled $2.2 trillion, or 21%, of all taxable instruments outstandings at year-end 2011.
  - MMFs held nearly 40% of all commercial paper issued by businesses, which if lost would remove financing used for payrolls, inventories and operations.
  - MMFs represented $865 billion, or 23%, of short-term U.S. Treasury and Agency financing.
  - MMFs held $432 billion, or 14%, of bank CDs and Eurodollar deposits, providing much needed financing to banks.

<table>
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<tr>
<th>Data as of 12/31/2011</th>
<th>Total ($ billions)</th>
<th>MMF Holdings ($ billions)</th>
<th>% of Total</th>
</tr>
</thead>
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<tr>
<td><strong>Treasury &amp; Agency secs.</strong></td>
<td>3,760</td>
<td>865</td>
<td>23</td>
</tr>
<tr>
<td><strong>Commercial paper</strong></td>
<td>969</td>
<td>362</td>
<td>37</td>
</tr>
<tr>
<td><strong>Repurchase agreements</strong></td>
<td>2,622</td>
<td>494</td>
<td>19</td>
</tr>
<tr>
<td><strong>CDs &amp; Eurodollar deposits</strong></td>
<td>3,050</td>
<td>432</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total Taxable Instruments</strong></td>
<td>10,402</td>
<td>2,153</td>
<td>21</td>
</tr>
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</table>

- MMFs **tax-exempt** holdings totaled $343 billion, or over 2/3rds, of short-term debt that finances state and local governments for public projects such as roads, bridges, airports, water and sewage treatment facilities, hospitals, and low-income housing.

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<td><strong>Tax-exempt instruments</strong></td>
<td>510</td>
<td>343</td>
<td>67</td>
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</table>
2a-7 Reforms From 2010 Are Working

Transformational improvement in governance, portfolio structure, liquidity, and transparency reduces the likelihood and mitigates potential impact of runs.

- GOVERNANCE
- TRANSPARENCY
- PORTFOLIO LIQUIDITY AND STRUCTURE
- STABILITY IN NAVS
Governance

• Greater governance required from fund boards with more oversight & responsibilities including a mechanism (pre-ordained orderly liquidation mechanism) to minimize or stop runs at an individual fund through its orderly wind-down.

• Rules around this pre-ordained orderly liquidation mechanism ensure that objectives of shareholders, regulators, and advisors are aligned more than ever before.

Reform

Irrevocable Board approval, to suspend redemptions and liquidate the fund. Putting into place a pre-ordained orderly liquidation mechanism for MMFs

Benefits

+ Fund Boards can halt redemptions and liquidate if MMF is in jeopardy of “breaking the buck”

+ Fund advisors highly incentivized to manage portfolio structure and stability to avoid this possibility

+ Procedures and systems required to facilitate an orderly liquidation

Source: Invesco
Transparency

- More frequent & detailed portfolio disclosures providing greater evidence of the stability and resiliency of MMFs.

Reform

- Detailed portfolio holdings data reporting to SEC
- Public disclosure of Shadow NAVs
- Public and consistent monthly disclosure of portfolio holdings

Benefits

- A public interactive database allows for easy access to detailed information
- NAVs provide statistical confirmation of the stability of a $1.00 NAV
- Public disclosure and uniformity of information provides investors, issuers, and the industry clear and consistent information
- It creates the ability to review and compare funds on a 60-day delay
- Trends in NAVs can identify more aggressive, riskier funds

Source: Invesco
Portfolio Liquidity & Structure

- **Higher liquidity** levels provide greater shareholder confidence in redemption availability even during periods of market stress.
- **Shorter** maximum weighted average maturity and introduction of weighted average life result in lower volatility and **greater flexibility** to address changes in the market.

**Reform**

- **Weighted Average Maturity limited to 60 days or less**
- **Weighted Average Life limited to 120 days or less**
- **10% and 30% of assets in daily and weekly liquid assets**

**Benefits**

- + Funds are more resilient to changes in interest rates or other market shocks
- + Rule enhances the portfolio liquidity profile of the funds
- + Ensure funds can maintain stability even during volatile markets
- + Rule enhances the portfolio liquidity profile of the funds
- + Provides greater certainty and comfort that both expected and unexpected redemptions can be met

Source: Invesco
• 1-day and 5-day liquidity stabilized at higher levels post 2010 reforms.
• WAM and WAL levels stabilized and remain significantly within 2010 reform parameters.
Stability in NAVs

• Demonstrated **stability in NAVs**, even during periods of market stress.

• Investor **confidence in MMFs** with assets of $2.7T due to success of reforms.

**Note:** Invesco STIT Liquid Assets Portfolio ("SLAP")

**Source:** Invesco
Conclusion: 2a-7 Reforms From 2010 Are Working

Transformational improvement in governance, portfolio structure, liquidity, and transparency reduces the likelihood and mitigates potential impact of runs.

- **Greater governance** required from fund boards with more oversight & responsibilities including a mechanism (pre-ordained orderly liquidation mechanism) to minimize or stop runs at an individual fund through its orderly wind-down.
- Rules around this pre-ordained orderly liquidation mechanism ensure that objectives of shareholders, regulators, and advisors are aligned more than ever before.
- **Higher liquidity** levels provides greater shareholder confidence in redemption availability even during periods of market stress.
- **Shorter** maximum weighted average maturity and introduction of weighted average life result in lower volatility and greater flexibility to address changes in the market.
- More frequent & detailed portfolio disclosures providing greater evidence of the stability and resiliency of MMFs.
- **Demonstrated stability in NAVs**, even during periods of market stress.
- **Investor confidence in MMFs** with assets of $2.7T due to success of reforms.

Because current reforms are working, extreme proposals, such as floating NAV, capital buffers and holdbacks, are not warranted. Introduction of unnecessary regulation during a period of slow economic growth will restrict access to credit for the economy, disrupt market functioning and damage a fragile economic recovery.