



**DIFC Employees Workplace Savings (DEWS) Plan**

# **DEWS Low Growth Fund – Mercer USD Cash Fund**

**Creating a More Diverse Solution**

30 April 2020

welcome to brighter

## Introduction

In light of the challenging conditions faced by markets globally, Mercer Financial Services Middle East Limited (Mercer) as investment advisors to the Master Trustee of the DEWS Plan would like to reassure you of the resiliency of the cash fund (Mercer USD Cash Fund) used for the Low Growth Fund within the DEWS Plan in the current environment.

This document details some changes that Mercer Global Investments Europe Limited (MGIE) (as investment manager to the DEWS Plan's core risk-profiled funds) are undertaking in the Mercer USD Cash Fund to further improve liquidity<sup>1</sup>, increase diversification and reduce counterparty risk, whilst also ensuring that the portfolio remains closely aligned to regulations. This will result in the portfolio comprising both cash deposit holdings and short-dated government bonds, instead of a 100% allocation to cash deposits.

You do not need to take any action as a result of these changes. In addition, the underlying sub-Investment Manager fee percentage is not expected to change as a result of these enhancements.

## Overview of Structural Changes

### Better Liquidity Profile

- The portfolio will be more liquid, comprising both cash deposits and publicly traded, short-term government bonds.
- Prior to this, the entirety of the portfolio comprised of cash deposits with various counterparties.
- On average, the portfolio is expected to hold over 30% in short-dated government bonds.
- Accordingly, these changes will have the effect of improving the overall liquidity profile and reducing the average duration<sup>2</sup> of the portfolio in certain circumstances.

### A More Diversified Solution

- With an allocation to short-dated government bonds, the portfolio can be more diversified, and less exposed to counterparty risk.
- Additionally, the maximum exposure to any one counterparty is being reduced from 8% to 6%.

### No Changes to the Fund Management Approach

- The portfolio will continue to follow a rules-based approach to active management, with the overarching goal of outperforming the 'cash' market; the scope of these rules have just been amended to allow for an allocation to government bonds (from which redemptions can be drawn), along with the maximum exposure reduction, as mentioned above.

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<sup>1</sup> Liquidity refers to the ability to buy or sell an asset without causing a significant impact on the asset's price.

<sup>2</sup> Duration is a measure of the sensitivity of the price of a bond to a change in interest rates.

## Alignment with Regulation

### UCITS<sup>3</sup> & Money Market Regulations

- By diversifying away from allocating 100% of the portfolio to cash deposits with intermediaries, these changes will keep the portfolio closely aligned with UCITS and the European Money Market Funds (MMF) Regulations.
- Accordingly, these changes act as an increase in diversification and a reduction in risk.

### Impacts of Restructuring

- As discussed above, the changes will increase the liquidity profile of the cash portfolio, whilst also creating a more diverse solution.
- There is not expected to be any change to the sub-Investment Manager fee percentage, nor will the changes result in extra trading costs of any nature.

### Anticipated Timeline

- The portfolio is already in the process of reducing its average duration and is expected to begin allocating towards short-dated government bonds very soon, as holdings in cash deposits mature.
- The transition is expected to take up to 6 months.

### A Final Word on the Benchmark

- The target benchmark MGIE use for the USD Cash portfolio is the FTSE USD 1 month Euro Deposit index (note that the term 'Euro Deposit' here simply refers to the instrument used to deposit cash with a Eurozone bank)
- The portfolio is mandated to outperform a representation of cash, and the portfolio changes will not necessitate a change to the benchmark.

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<sup>3</sup> Undertakings for the Collective Investment in Transferable Securities (UCITS) refers to a regulatory framework that allows for collective investment schemes to operate freely throughout the European Union.

## Important Notices

Mercer USD Cash Fund is a sub fund of MGI Funds PLC, an Irish domiciled UCITS umbrella fund authorised and regulated by the Central Bank of Ireland. All documentation related to the fund, including Prospectuses and Key Investor Information Documents, where relevant, and information on costs and charges, can be found on <https://investment-solutions.mercer.com/#generalfundinformation>.

Funds are only available for sale in jurisdictions where they have been approved for distribution. The Sub-Fund is authorised under the Money Market Fund Regulation as a VNAV Money Market Fund and is classified as a Standard Money Market Fund

This document has been created by Mercer Financial Services Middle East Limited at the request and under the supervision of Equiom Isle of Man Ltd, the Master Trustee and Operator of the DIFC Employee Workplace Savings plan ('DEWS' or 'the Plan'). The information contained herein supports the DEWS Member's Guide and the DEWS Investment Guide, providing information on the various Investment Options available within the Plan. It should only be read by Members of the Plan.

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