

Money Market Funds 101

AN INTRODUCTION TO MONEY MARKET FUNDS

What is a Money Market Fund?

A money market fund (MMF) is a type of mutual fund that invests in short-term, high-quality securities with the aim of preserving capital, providing liquidity, and generating income for investors. Investments typically consist of a diversified portfolio of instruments such as Treasury bills, certificates of deposit (CDs), commercial paper, and repurchase agreements. These securities have short maturities—typically less than 13 months—and are considered to have a low risk of default. Money market funds are designed to offer a safe and relatively liquid investment option for individuals and institutions.

Types of Money Market Funds

Government MMFs

- Government MMFs invest at least 99.5% of total assets in U.S. Treasury and government agency securities, cash, and fully collateralized repurchase agreements.
- Treasury MMFs are a subset of government MMFs that invest exclusively in U.S. Treasury securities and/or repurchase agreements fully collateralized by U.S. Treasuries.

Prime

- Prime MMFs invest primarily in short-term, high-quality securities across a range of eligible money market investments, including bank obligations such as time deposits and CDs, commercial paper, asset-backed securities, corporate and medium-term notes, adjustable-rate securities, municipal securities, repurchase agreements, and government-related debt.

Tax-Free

- Tax-free MMFs invest primarily in debt obligations issued by states, municipalities, or entities whose interest is federally tax-exempt.



Retail versus institutional MMFs

Under U.S. Securities and Exchange Commission (SEC) regulations, prime and tax-free MMFs are classified as either retail or institutional based on the type of investors who may invest in the fund. Retail MMFs are required to restrict investments to “natural persons” only, meaning that institutions (non-natural persons such as companies and pension plans) are ineligible to invest in them. There is no such restriction on government MMFs, as both retail and institutional investors are eligible to invest in the same funds. The primary difference between retail and institutional MMFs is how the fund prices its shares. Retail funds are allowed to maintain a stable \$1.00 net asset value (NAV), by using amortized cost accounting to value portfolio investments. Institutional funds must use a market-based “floating NAV” priced out to four decimal places (for example, \$1.0002 or \$0.9997).

SEC Rule 2(a)-7

The rule governing money market funds, Rule 2(a)-7, part of the Investment Company Act of 1940, contains several measures designed to limit the risk that a fund will not be able to meet its objectives of stability of principal and liquidity. These criteria require them to ensure they are assuming minimal credit risk in their investments by selecting only the very highest quality securities; limit the maximum maturity of portfolio investments; establish maximum weighted average portfolio maturities; ensure adequate diversification; and establish minimal levels of liquidity available on a daily and weekly basis. Allspring’s money market fund shareholders can monitor fund metrics, such as daily and weekly liquidity levels, daily market-based net asset values, net shareholder flows, and portfolio composition, by visiting allspringglobal.com.

Maturity

- Individual securities have a maximum maturity of 397 days (13 months); some government securities must mature within 762 days.
- Maximum weighted-average maturity (WAM) of 60 days
 - WAM measures the average time to maturity of all securities in the fund; certain “maturity shortening” provisions allow interest rate reset dates to be used for final maturity on adjustable -rate securities.
 - WAM reflects interest rate risk.
- Maximum weighted-average life (WAL) of 120 days
 - WAL measures the average time to maturity of all securities in the fund without taking into consideration interest rate resets on adjustable-rate securities.
 - WAL reflects liquidity risk.

Credit quality

- Rule 2(a)-7 requires a fund’s board (or its delegate) to determine whether a security presents “minimal credit risks” to the fund.
 - The minimal credit risk determination compels fund managers to emphasize investment in issuers with the strongest capacity to repay their debt.



Diversification

- Most funds are limited to a maximum of 5% of assets in any one issuer so that no individual security can disproportionately affect a fund.
- Funds that invest only in government securities are exempt from this limitation.

Liquidity

To help ensure funds can meet shareholders' redemption needs, Rule 2(a)-7 establishes minimum liquidity thresholds:

- **DAILY LIQUID ASSETS:** Funds must hold at least 25% of their assets in government securities or securities that are payable the next business day, including cash.
- **WEEKLY LIQUID ASSETS:** Funds must hold at least 50% of their assets in government securities or securities payable within one week, including cash and certain government agency securities.

To learn more

We want to help clients build for successful outcomes, defend portfolios against uncertainty, and create long-term financial well-being. To learn more, investment professionals can contact us.

For more information, please contact:

- Global Liquidity Solutions team at liquiditysolutions@allspringglobal.com

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Weighted average maturity (WAM): An average of the effective maturities of all securities held in the portfolio, weighted by each security's percentage of total investments. The maturity of a portfolio security is the period remaining until the date on which the principal amount is unconditionally required to be paid, or in the case of a security called for redemption, the date on which the redemption payment is unconditionally required to be made. WAM calculations allow for the maturities of certain securities with demand features or periodic interest rate resets to be shortened. WAM is a way to measure a fund's sensitivity to potential interest rate changes. WAM is subject to change and may have changed since the date specified.

Weighted average life (WAL): An average of the final maturities of all securities held in the portfolio, weighted by their percentage of total investments. The maturity of a portfolio security is the period remaining until the date on which the principal amount is unconditionally required to be paid, or in the case of a security called for redemption, the date on which the redemption payment is unconditionally required to be made. The calculation of WAL allows for the maturities of certain securities with demand features to be shortened but, unlike the calculation of WAM, does not allow shortening of the maturities of certain securities with periodic interest rate resets. WAL is a way to measure a fund's potential sensitivity to credit spread changes. WAL is subject to change and may have changed since the date specified.

All investing involves risks, including the possible loss of principal. There can be no assurance that any investment strategy will be successful. Investments fluctuate with changes in market and economic conditions and in different environments due to numerous factors, some of which may be unpredictable. Each asset class has its own risk and return characteristics.

Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus and, if available, a summary prospectus, containing this and other information, allspringglobal.com Read it carefully before investing.



Retail

For retail money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. The fund may impose a fee upon sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Government

For government money market funds: You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time. The U.S. government guarantee applies to certain underlying securities and not to shares of the fund.

Diversification does not ensure or guarantee better performance and cannot eliminate the risk of investment losses.

For municipal income funds: A portion of the fund's income may be subject to federal, state, and/or local income taxes or the alternative minimum tax. Any capital gains distributions may be taxable.

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