New Lion King: Santero In at Dreyfus; Cardona Retiring

This month, MFI interviews Mark Santero, C.E.O of the Dreyfus Corporation, and Charlie Cardona, President of Dreyfus Corporation and C.E.O of BNY Mellon’s Cash Investment Strategies division. Cardona will be retiring at the end of the year, and Santero recently became the leader of the cash business at Dreyfus. We wanted to discuss their transition, their latest plans and strategies, and some lessons learned from Cardona’s extensive history in the money fund business. Our interview follows.

MFI: Tell us about the latest changes.
Santero: My role as the C.E.O of Dreyfus is really to run the Dreyfus mutual fund family, which includes the cash funds…. Dreyfus is a great brand; it’s been in existence for 60-plus years. It’s something which in a former life was a formidable competitor of mine when I spent over 11 years at AIM Management Group…. When we look at Dreyfus, we look at the cash business as a true growth opportunity, given the resources that we have within the bank to support it and the types of clients we have at the bank. The synergies [with the bank] are very strong…. We have some very distinct and unique boutiques, and we’re looking to grow that business.

My background is 33-plus years in financial services, including stints at Oppenheimer Funds and AIM (now Invesco) and on the investment side as a portfolio manager and muni bond analyst, as well as on the sales and marketing side. At Dreyfus we have all those capabilities under one roof. We have alternative strategies, we have cash strategies, we have intermediary distribution and we have direct distribution to individual investors, making it a great platform from which grow the organization and deliver a full suite of investment solutions to clients.

Cardona: Through the Cash Investment Strategies (CIS) division of the Dreyfus Corp., we oversee approximately $220 billion in assets under management. This includes the Dreyfus money market funds, the BNY Mellon offshore liquidity funds based out of Dublin, the bank’s commingled funds, and a handful of third-party funds that we sub-advice. Our CIS credit analysts and risk resources also provide oversight for the bank’s cash reinvestment book for securities lending. We also work closely with a BNY Mellon investment boutique, Standish, which is based in Boston for short duration separate accounts.

Dreyfus launched its first money market fund in 1974, so we’ve obviously been around the business for a significant period of time…. I’ve been with Dreyfus for 35 years, and have lived through a lot of the history. I’ve always been part of, or responsible for running, the cash business the past 20 years. As I thought about seeing the reform-related changes through in 2016, it seemed like the right time to retire and pass things along as we move into this next paradigm…. Mark is beginning to spend time now working closely with the team here, with Patricia Larkin, our chief investment officer, and Tracy Hopkins, our chief operating officer. We’re getting integrated, and we will have everything in place for a smooth transition on December 31.

MFI: What’s your biggest priority?
Cardona: Our biggest priority [has been] preparing for the new regulations. This includes streamlining our products and segregating the institutional vs. retail funds … and really taking a hard look at the product lineup. We merged funds that made sense to merge, and closed funds that didn’t look viable. We have one merger pending, which, once approved, will ba-

(Continued on page 2)
sically take our institutional prime money market fund lineup down to two funds. We will have the Dreyfus Cash Management Fund that will price once a day at 3pm, targeted towards sweep platforms that want to continue to use a prime money market fund but do not do not want to deal with intraday pricing. We will also offer one institutional prime fund that will price three times a day for intraday liquidity, at 9am, noon and 3 pm.

We’ve created a private placement fund in a 3c-7 structure, a Treasury portfolio that is a Delaware business trust with an offshore Cayman sleeve. We recently added a prime portfolio to that and have seeded it, and are now in dialogue with large sophisticated institutional investors.... Through the bank, we have a capital markets group that offers securities, direct purchases for people that want to buy and ‘roll their own’ paper.

So, as an enterprise, we really try to position ourselves with product in all of these spaces, not being certain where people will eventually migrate to. We don’t advise clients on where they should move their money, but instead help them to understand what their options are, and how those options will change as the regulations take hold. We think between now and October clients will largely go to government and treasury funds, while they continue to revisit their investment guidelines and look at other products. When the dust settles, we’ll see what succeeds and what doesn’t. But we didn’t want to take anything for granted.

Santero: Certainly with money market reform, there will continue to be challenges, as individuals and institutions become acclimated to the new environment.... Whether it’s in a packaged product, whether it’s in a private placement, structured product outside the U.S., or in separate accounts ... given our capabilities, our mission is to meet those challenges. So, to summarize, our focus is to continue to build on what Charlie and the CIS team has put together, and utilize the scale and strength of BNY Mellon and our Investment Management business to meet our investor’s challenges.

MFI: How are you positioning portfolios?
Santero: To say there is a lot of money in motion would be an understatement. So the challenge is truly setting expectations with clients about the ramifications for money market reform. What is going to happen? What are their options? We’re being upfront, and being as proactive as possible to get ahead of it. There’s an old saying, ‘It’s not ‘hot money’ if you know where it is going.’ So our focus is working with Tracy and our clients, and ensuring that everybody is fully aware of what October means, and positioning their needs in advance so that the transition on the investment side with Patricia [Larkin] and her team is seamless. So that is the biggest challenge — truly understanding what the client’s needs are. Not everybody knows what those needs are right now. That is not just our concern, but I think all of our peers’ concerns as well.

MFI: What about fee waivers?
Cardona: The 25 basis point move [in federal interest rates] in December has mitigated about 40% of the waivers that we were experiencing prior.... If we get another 25 basis point move, [that] would mitigate about 70-75% of waivers. So obviously the slow return to normalized interest rates has been very helpful.

MFI: Are there other reform issues?
Cardona: We’ve actually been in dialog with insurance companies, which links to the NAIC ratings [issue], and educating them about these changes. We think that institutional prime funds should continue to qualify, but that’s a work in progress... We are optimistic that will play out well ... as we are able work through all the questions and get some support behind it. When I think about reform at this point, I see two major issues between now and October: We have one last merger to complete to finalize our institutional prime funds and then it’s managing our portfolios between now and October for this significant shift in cash.
Santero: It’s round one. It’s a major event. But I think as people get acclimated to the new liquidity (Continued on page 3)
market, and they see how it affects their cash situation, they will look to shift assets.... Also, I think banks, with regulatory reforms and capital requirements, do not want to keep deposits on the balance sheet. They are going to look more towards money funds as reform continues in the banking industry. There is a lot of money in motion. I think where we sit, we’re well placed to meet the needs of our investors.... It’s certainly not going to be the end stage; it’s going to continue to evolve.

MFI: Any thoughts on the future? Santero: I think the future of the money fund business, or I would call it the liquidity business, is very bright.... October 2016 will be one of those months that you remember.... With our multiple businesses, we have an exceptionally strong desk in New York; we’ve got a team in Boston that is a liquidity manager of short duration; we’ve got a team [Insight Investment] in the U.K. So I’m extremely optimistic about our ability of meeting the challenges and opportunities that may come after October 2016.

It’s the ability to be flexible and adaptive to leverage resources that you have.... We have client contacts through all these different lines of businesses, and conversations that can only enhance and help us run our cash portfolios. Using those client feedback loops through all of our different lines of business helps us be better investment managers. So another lesson is really that things change, times change, regimes change, regulations change, and you’ve got to have the breadth of business to adapt. Certainly, Dreyfus has changed over the years. It’s transformed itself over the years. But at the end of the day, we’re still strong and optimistic about the direction we’re headed.

Cardona: You just really need to embrace change and not be afraid of it, because it is the only constant that we all deal with.... We are fortunate to be part of an organization like Dreyfus, and part of a very strong financial organization in the form of BNY Mellon.... The other [advice I have] is: Stay very close to your clients and prospects, that’s where you really learn what is going on. That is what is going to drive the solutions that you are going to create. Make sure that you are relevant and reliable with your clients in a way that is helpful and beneficial to them and is productive to us.

MFI: Thanks, and we’d like to thank Charlie for his years of service and extensive contributions to the money fund industry, and to wish Mark best of luck in his new role!

For more information, please reach out to your BNY Mellon Fixed Income Sales representative or call our Institutional Servicing group at 1-800-346-3621.

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