

# Euro cash unpacked

## Investment case, exposure considerations and implementation

Designed for portfolio constructors, this publication is part of a series that aims to provide analysis and insights on targeted index and ETF exposures that can be used as building blocks for portfolios.

A decorative background pattern consisting of a series of parallel red lines forming a hatched or chevron-like texture, covering the bottom half of the page.

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# Reframing cash as a strategic portfolio allocation

Cash has often been treated as a residual position within portfolios – a place to park capital temporarily or a mechanical offset to risk assets. Persistently low and negative policy rates reinforced the perception that cash was inert: useful for liquidity, but largely irrelevant to return and risk outcomes.

That environment has changed. Higher front-end rates, increased macro uncertainty and sharper repricing of short-dated bonds have forced portfolio constructors to reassess what they expect from their cash allocations. In doing so, an important reality has re-emerged: cash is not necessarily risk free, and the way it is implemented matters.

In this analysis, we consider euro cash through a portfolio construction lens, looking in particular at:

- Why money market exposure has regained strategic relevance
- How different approaches to euro cash embed materially different portfolio risks
- How investors can implement euro cash exposure using a physically replicated, conservative structure

## Cash has become an active choice again

The return of positive euro short-term rates has fundamentally altered the role of cash in portfolios. Where cash once imposed a predictable drag, it can now contribute to income while preserving flexibility. However, this shift has not merely increased the attractiveness of cash – it has also increased the cost of poor implementation.

In a world where the European Central Bank's policy path remains sensitive to inflation dynamics, growth risks and geopolitical shocks, short-dated yields can reprice quickly. That volatility is felt most acutely at the front end of the curve, precisely where money market portfolios operate.

## Reasons to consider a money market fund



Capital stability



Income



Liquidity



Diversification

## Cash as a stabilising force – when used correctly

At first glance, money market instruments may appear insulated from market risk. Their short maturities limit duration exposure and their high credit quality reduces default risk. In practice, however, cash portfolios are still exposed to mark-to-market movements driven by changes in front-end yields and credit spreads.

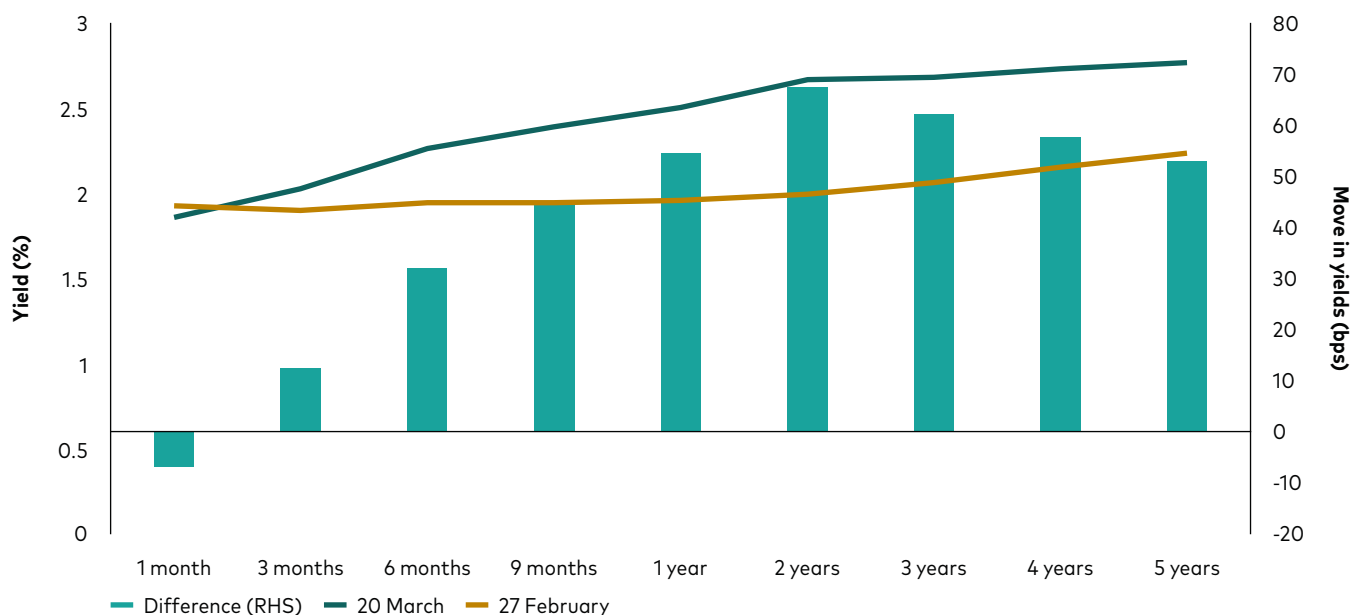
Recent episodes of market stress underscore this point – namely the onset of geopolitical tensions in the Middle East in March 2026. During periods of elevated volatility, even six-month government yields

can move sharply, leading to NAV deterioration in cash portfolios that extend too far along the maturity spectrum. The difference between cash that behaves as expected and cash that does not often comes down to maturity discipline.

This is why many portfolio constructors are increasingly distinguishing between funds that aim for “yield-maximising” cash and “capital-preserving” cash. While both may appear similar in benign conditions, they can diverge meaningfully when volatility rises.

### Short-dated euro government yield movements during a volatility episode

Europe government bond yields



Source: Bloomberg, as at 20 March 2026. Chart shows the euro German sovereign yield curve.

## The multiple portfolio construction roles of euro cash

From a portfolio perspective, euro cash typically plays more than one role. It can provide immediate liquidity to fund allocations, act as a defensive ballast when risk assets reprice sharply or even be used by some investors as simply a source of income.

What matters is recognising that these roles should not be considered interchangeable. A cash allocation designed primarily to enhance yield may compromise stability. Conversely, a highly

conservative cash sleeve may sacrifice income unnecessarily. Investors therefore benefit from being clear on intent: what role is cash playing in the portfolio, and what risks are acceptable in fulfilling that role?

This clarity becomes particularly important when comparing seemingly similar money market products that actually embed very different exposures beneath the surface.

# Understanding the differences between euro cash approaches

## Structural choices matter more than they appear

At a high level, euro cash strategies often track similar benchmarks. The distinctions that drive performance differences rarely lie in the benchmark itself, but rather in how that exposure is obtained. When analysing different euro cash vehicles, the key areas to focus on include:

- Replication method
- Yield
- Maturity
- Structure and transparency
- Trading costs

## Weighing up synthetic versus physical replication in cash allocations

One of the most significant structural differentiators in euro cash products is replication method. A substantial share of euro overnight ETFs use synthetic replication via swaps. These structures can offer certain advantages, including efficient index tracking and, in some cases, more attractive yields, but they also introduce counterparty exposure and rely on collateral or substitute portfolios that may not consist solely of cash market instruments.

In the context of cash allocations, this additional layer of complexity can be relevant. Some synthetic euro overnight ETFs may hold a broad range of

financial assets within their collateral baskets, even though the fund's economic exposure is linked to a cash benchmark. During periods of market stress, differences between the benchmark exposure and the underlying collateral can become more visible.

Physically replicated approaches, by contrast, obtain exposure by holding cash instruments directly. For investors who prioritise transparency and a close alignment between portfolio holdings and intended cash exposure, physical replication is often viewed as a robust and straightforward approach within cash-oriented allocations.

## Yield often reflects credit risk, not efficiency

Another major point of differentiation lies in credit exposure. Higher yields within money market products are frequently achieved by introducing corporate credit, securitised instruments or financial issuers into portfolios. While these exposures can enhance income at the margin, they also change the character of the allocation by introducing additional spread and issuer-specific risks that are distinct from pure cash-like behaviour.

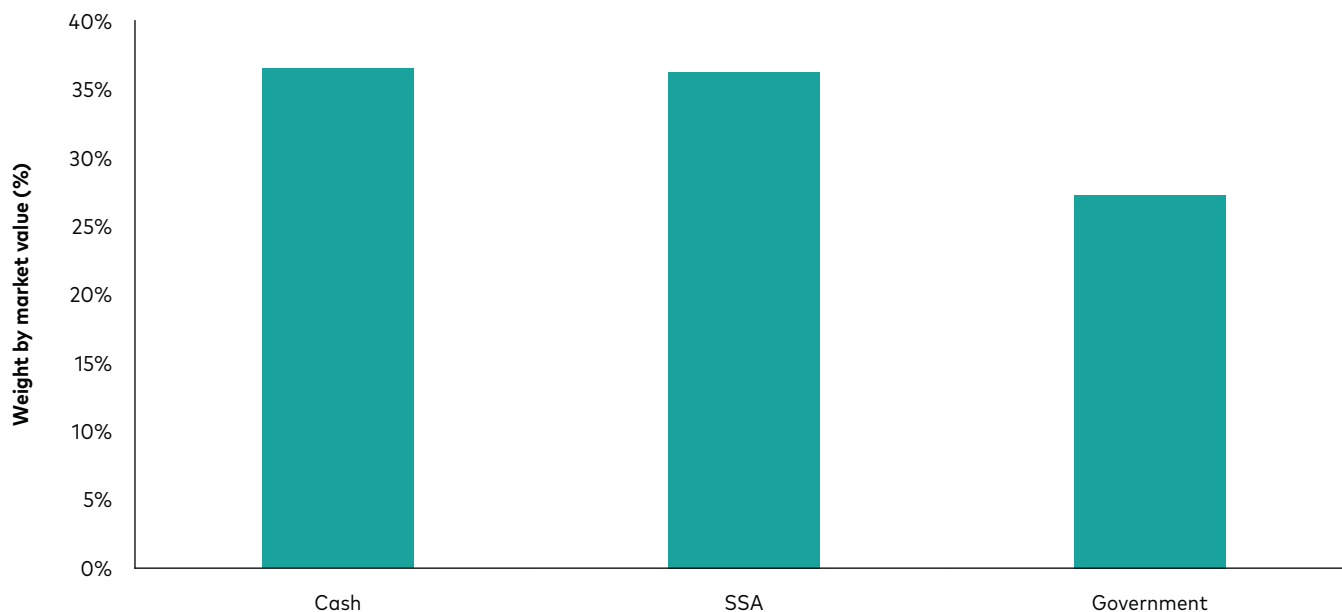
Credit risk has a tendency to surface precisely when investors rely most heavily on cash for stability. Spread widening, ratings actions or idiosyncratic credit events can all erode the buffering role cash exposures are expected to play within portfolios, particularly during periods of broad market stress, when correlations tend to rise and liquidity can deteriorate.

By contrast, money market portfolios with a mandate to invest only in securities issued by governments and supranationals prioritise resilience over incremental yield, reducing sensitivity to credit-driven drawdowns.

Over a full cycle, this trade-off can be decisive in preserving the defensive and liquidity characteristics that many investors seek from a cash allocation.

## Investing exclusively in governments and sovereigns, supranationals and agencies (SSAs)

Issuer type breakdown for Vanguard EUR Cash UCITS ETF



Source: Vanguard and Aladdin, as at 8 May 2026.

## Managing maturity can preserve cash-like behaviour

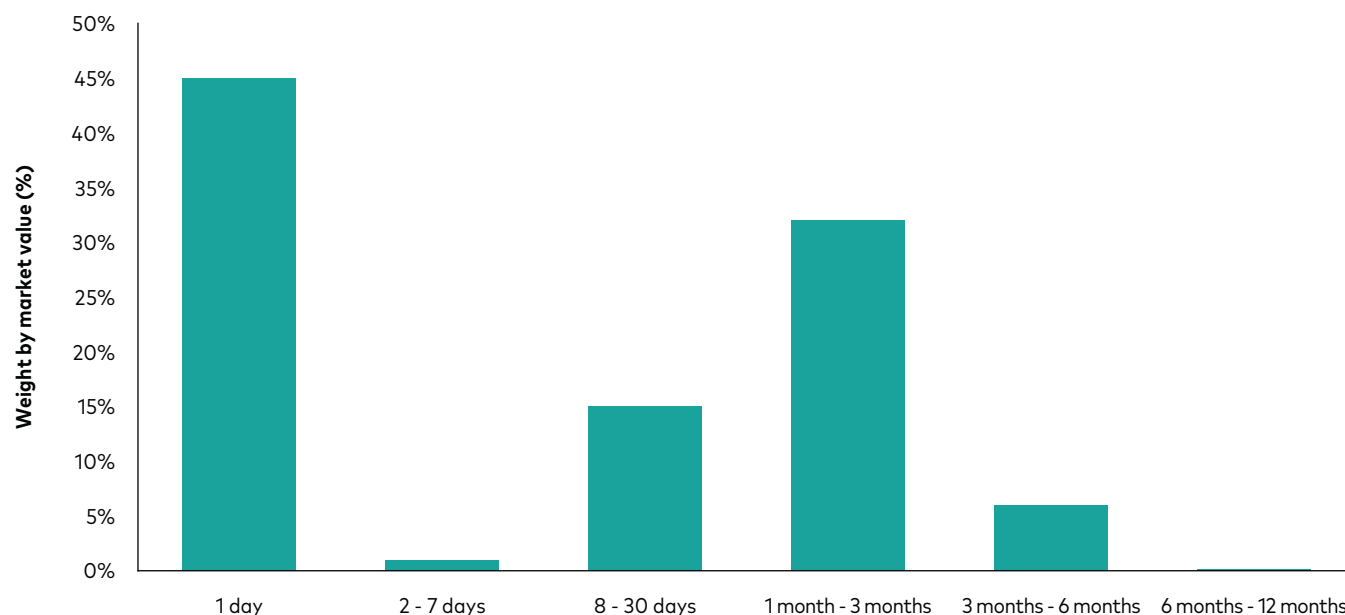
In money market portfolios, maturity is the primary lever through which risk is managed – and the area where active decision-making matters most. Weighted average maturity (WAM) and weighted average life (WAL) measure how sensitive a money market portfolio is to front-end rate movements<sup>1</sup>. Extending maturities can enhance income in upward-sloping curves, while shortening them can reduce risk when rate volatility rises. How deliberately maturity flexibility is deployed can be a key differentiating factor between money market strategies.

Effective active money market management treats maturity as a dynamic risk tool rather than a static source of incremental yield. By adjusting maturity exposure in response to changing macro conditions, liquidity needs and policy uncertainty, managers can seek to preserve capital when front-end repricing accelerates. In practice, this often means prioritising resilience over yield at precisely the moments when cash is relied upon most within portfolios.

<sup>1</sup> Weighted average maturity (WAM) measures the average time to interest-rate reset of securities in a money market portfolio and is a key indicator of sensitivity to changes in short-term rates. Weighted average life (WAL) measures the average time to final principal repayment, capturing exposure to credit and liquidity risk beyond interest-rate resets. Together, WAM and WAL help assess how a cash portfolio may respond to market stress and changes in short-term funding conditions.

## The value of strict maturity limits in euro cash allocations

Maturity breakdown for Vanguard EUR Cash UCITS ETF



Source: Vanguard and Aladdin, as at 8 May 2026.

## The importance of structure and transparency

Fund structure plays a key role in shaping how investors experience volatility. VNAV (variable net asset value) money market funds mark holdings to market daily, providing continuous transparency into portfolio value and making changes in underlying conditions immediately visible. CNAV (constant net asset value) and LVNAV (low volatility net asset value) structures, by contrast, are designed to limit day-to-day NAV variability through pricing conventions and regulatory thresholds. This can result in less immediate visibility of small valuation changes, particularly during periods of market stress.

For portfolio constructors, capital stability and transparency are closely linked. Structures that reflect changes in market conditions as they occur can help ensure that cash behaves as expected within the broader portfolio, rather than relying on accounting conventions that may delay or smooth the recognition of underlying risks.

Because VNAV money market funds are marked to market daily, changes in valuation, risk and liquidity can be captured consistently within portfolio-level risk systems, valuation processes and governance frameworks. This allows cash exposures to be monitored, stress-tested and managed alongside other liquid assets using the same metrics – an advantage that becomes particularly important when market conditions are less predictable.

## What money market fund structures are available?

CNAV, LVNAV and VNAV by the numbers

|                                   | Constant net asset value (CNAV)  | Low volatility net asset value (LVNAV)                                         | Variable net asset value (VNAV), used by Vanguard      |
|-----------------------------------|----------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------------|
| Net asset value                   | Constant NAV (€1)                | Constant NAV (€1); converts to VNAV if mark-to-market deviation exceeds 20 bps | Mark-to-market NAV, displayed daily (4 decimal places) |
| Minimum daily liquidity           | 10%                              | 10%                                                                            | 7.5%*                                                  |
| Minimum weekly liquidity          | 30%                              | 30%                                                                            | 15%*                                                   |
| Maximum weighted average maturity | 60 days                          | 60 days                                                                        | 60 days                                                |
| Maximum weighted average life     | 120 days                         | 120 days                                                                       | 120 days                                               |
| 'Break the buck'                  | Occurs if NAV declines >50 cents | If NAV declines >50 bps                                                        | Not applicable (NAV varies daily)                      |

**Source:** Vanguard. Note: \* indicates European Securities and Markets Authority's Money Market Fund Regulation (MMFR) requirements, though in practice the Vanguard EUR Cash UCITS ETF is typically managed to stricter guardrails, with a focus on capital preservation and stability.

## Trading costs: Where cash returns are won or lost

Cash is particularly sensitive to friction. Bid-ask spreads, secondary market depth and execution quality all matter more when returns are measured in basis points. In this context, headline charges provide only a partial picture of total cost.

For investors who use cash dynamically – rotating in and out alongside other exposures – transaction efficiency can dominate long-term outcomes. Vanguard's ETF Capital Markets team works with investors to help minimise trading frictions and support high-quality execution.

# Implementing euro cash with the Vanguard EUR Cash UCITS ETF

## A design philosophy anchored in capital preservation

The Vanguard EUR Cash UCITS ETF is built around a clearly defined objective: an aim to preserve capital, maintain a high level of liquidity and provide a return in line with euro money market rates. In pursuing these goals, the ETF does not rely on credit risk or maturity extension. Rather than optimising for headline yield, the strategy prioritises behaviour – particularly during periods of market stress – to faithfully

provide the characteristics that investors seek from the asset class.

This philosophy is reflected in every aspect of the portfolio: physical replication, exposure exclusively to government and supranational issuers, conservative maturity limits and ongoing risk oversight.

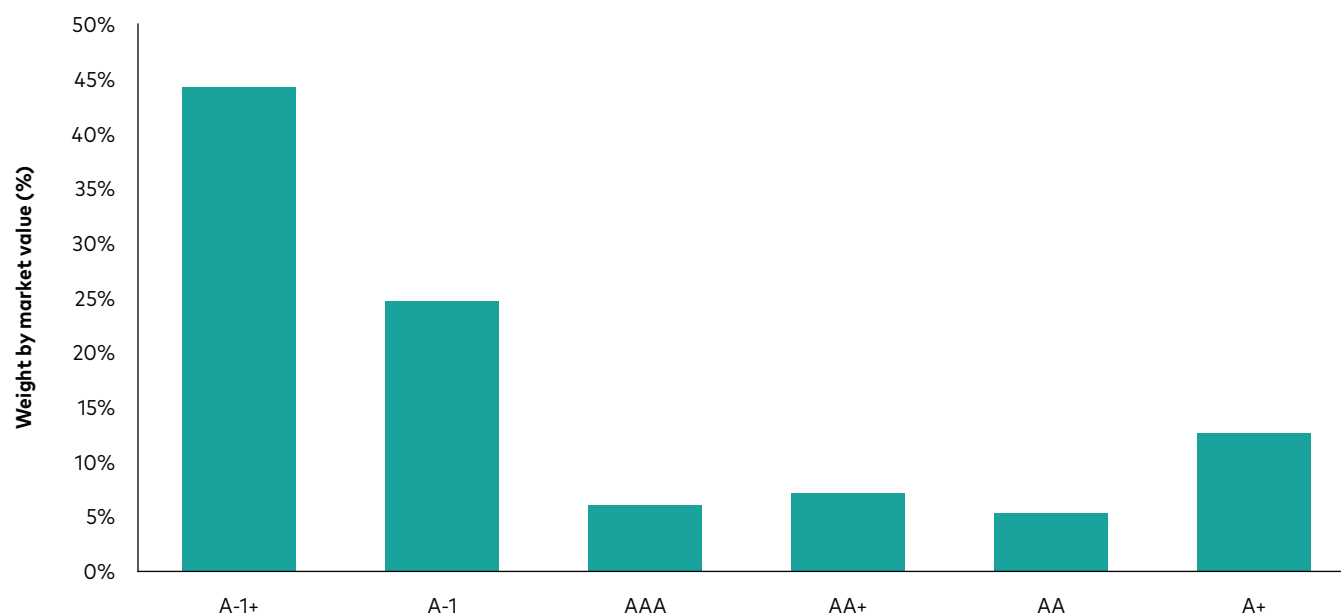
## Portfolio characteristics in practice

The fund invests across a diversified set of euro-denominated sovereigns and supranationals, maintaining high average credit quality and avoiding corporate exposure entirely. Maturities are concentrated in overnight to short-dated instruments, with strict limits of no holdings beyond one year.

While this approach may result in slightly lower peak yields than strategies with a less disciplined approach during benign environments, it is designed to preserve capital when conditions deteriorate – in other words, the times when cash matters most.

## Focus on quality reinforces stabilising role of cash in portfolios

Credit quality breakdown for Vanguard EUR Cash UCITS ETF



Source: Vanguard and Aladdin, as at 8 May 2026.

## Risk management as a continuous process

Risk management is not an overlay, but an integral part of the investment process of the Vanguard EUR Cash UCITS ETF. Maturity profiles are actively adjusted in response to market conditions, particularly when front-end volatility increases. Portfolios are subject to daily monitoring, stress testing and independent oversight supported by

Vanguard's Fixed Income Group (FIG), which provides centralised risk management, analytics and governance frameworks.

This continuous focus on risk seeks to ensure that the fund behaves like cash across a range of environments, not only when markets are calm.

## A versatile exposure for portfolio constructor toolkits

The Vanguard EUR Cash UCITS ETF can function as more than a holding place for idle capital. It can serve as a liquidity sleeve within multi-asset portfolios, a defensive anchor during periods of uncertainty or a simple income source.

The ETF structure adds operational flexibility through intraday liquidity and transparent pricing, supporting precise portfolio implementation.

Cash is no longer neutral. In today's environment, the difference between "cash" and "cash-like" exposures can meaningfully affect portfolio outcomes. By focusing on structure, risk control and implementation rather than yield alone, portfolio constructors can restore cash to its intended role: a source of stability when it is needed most.

| Share class  | OCF   | Inception date | ISIN         | Currency | Ticker | Listing exchange |
|--------------|-------|----------------|--------------|----------|--------|------------------|
| Distributing | 0.07% | 11-Dec-25      | IE000AFVKJZ0 | EUR      | VCASH  | NYSE Euronext    |
|              |       |                |              |          | VCASH  | Borsa Italiana   |
|              |       |                |              |          | VCAS   | Deutsche Boerse  |
| Accumulating | 0.07% | 11-Dec-25      | IE000SOORXS0 | EUR      | VCSHA  | NYSE Euronext    |
|              |       |                |              |          | VCSHA  | Borsa Italiana   |
|              |       |                |              |          | VCAA   | Deutsche Boerse  |

**Source:** Vanguard, as at 30 April 2026. The ongoing charges figure (OCF) covers administration, audit, depository, legal, registration and regulatory expenses incurred in respect of the fund.



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The value of investments, and the income from them, may fall or rise and investors may get back less than they invested. ETF shares can be bought or sold only through a broker. Investing in ETFs entails stockbroker commission and a bid-offer spread which should be considered fully before investing.

Funds investing in fixed interest securities carry the risk of default on repayment and erosion of the capital value of your investment and the level of income may fluctuate. Movements in interest rates are likely to affect the capital value of fixed interest securities. Corporate bonds may provide higher yields but as such may carry greater credit risk increasing the risk of default on repayment and erosion of the capital value of your investment. The level of income may fluctuate and movements in interest rates are likely to affect the capital value of bonds.

An investment in a money market fund is not a guaranteed investment. An investment in a money market fund is different from an investment in deposits, as the amount invested in a money market fund is capable of fluctuation. Money market funds do not rely on external support for guaranteeing the liquidity of the money market fund or stabilising the Net Asset Value per share. The risk of loss of the amount invested shall be borne by the investor.

For further information on risks please see the "Risk Factors" section of the prospectus on our [website](#).

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