

Prime Rate Liquidity Funds

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Prime Rate Capital Management LLP

Purpose

Prime Rate Capital Management LLP was formed to become the first independent, specialist provider of AAA-rated liquidity funds, known as Qualifying Money Market Funds, serving the corporate and institutional market.

Objective

The market in “QMMFs” has grown from \$1bn in 1998 to over \$650bn in 2008, and is set to grow further as recent changes in capital requirements and regulation have expanded the universe of investors to include all banks and additional categories of financial intermediary.

- After Basel II reduced the risk weighting of QMMFs to a standardised 20% and they became eligible assets in the 0-8 day bucket of the FSA Liquidity Mismatch regime, all **banks** became potential users of these funds for their own balance sheet purposes.
- **Custodian banks** have always been enthusiastic users of liquidity funds for client cash.
- MiFID legislation has opened up the market to those **intermediaries** who had previously only been permitted to deposit aggregated client monies with banks.
- Favourable **insurance industry** regulatory treatment has led to QMMFs becoming a popular cash instrument for insurers and an appropriate home for brokers’ client monies.
- In **investment management**, investors who have embraced QMMFs include pension funds, investment trust and VCT managers, hedge funds and other asset managers.
- **Corporate treasuries** realised the advantages of investing surplus cash in a liquidity fund very quickly after the market first opened, as did **public sector bodies**.

Prime Rate provides independent, specialist liquidity fund product on a wholesale, competitive basis for the full range of corporate and institutional investors:

- **to employ in the management of their own liquidity,**
- **to use as a secure, liquid and competitive home for client cash, or**
- **to distribute to their client base under a “white-labelling” arrangement.**

Market Opportunity

The recent credit and liquidity crunch has focused investors’ minds on the need for secure, diversified and transparent cash investments that provide an attractive yield. QMMFs fit this description perfectly, and have become a money market instrument in their own right.

The unmatched concentration of experience in Prime Rate’s team means that it is uniquely placed to respond to the convergence between banking and asset management that liquidity funds represent.

What are Qualifying Money Market Funds (QMMFs)?

Money market funds are mutual funds that invest in short term debt instruments. They can cover a wide range of investments with varying risk profiles. However Qualifying Money Market Funds represent a specific sub-set of money market funds, with a much tighter set of investment parameters. The FSA Handbook definition of a QMMF is shown on page 7.

QMMFs, which benefit from the highest possible credit rating, are designed to provide a safe and flexible alternative to bank deposits. They provide the key benefits of security, same day access (liquidity), competitive performance (return), transparency and administrative efficiency to a wide range of users, while maintaining a constant net asset value.

Security

- Funds are invested in highly rated, liquid, short-term money market securities. At least 50% of the assets must have a short-term rating of A-1+; the balance must be rated A-1
- The fund must hold a highly diversified pool of assets. Typically the fund will have no exposure to an individual counterparty greater than 5% (other than for assets under 8 days)
- The fund is a separate legal entity, regulated independently. Exposure is therefore to the assets of the fund not to an individual institution (as is the case with a bank deposit)
- The fund has an independent custodian, administrator and depositary – ensuring that the investor's interests are protected

Same Day Access (Liquidity)

- Same day access to funds
- Single transaction to invest or redeem
- No need to decide in advance on the term for which funds are invested

Competitive Performance (Return)

- Net returns typically in excess of one week LIBID while still having same day access to funds
- Benefit from managed exposure to the yield curve
- Consistent performance in all market conditions
- Low management fees ensure best value returns for clients

Transparency

- Daily pricing
- Returns are published daily
- Single management fee deducted daily from returns
- No additional charges
- Able to look through to the underlying assets in the fund

Administrative Efficiency

- Single transaction to invest or redeem
- No daily reconciliations
- All reporting produced within 24 hours

The benefits of investing in QMMFs

For Banks & Building Societies

With the implementation of the Capital Requirements Directive QMMFs are treated in the same way as deposits with highly rated banks.

- Under the standardised approach QMMFs are risk weighted at 20%
- Using a look through approach the weighting may be much lower – as all the assets held by the fund are themselves highly rated
- Under the liquidity mismatch regime the funds can be included in the sight to 8 day liquidity time bucket with a 5% 'haircut' (0% for building societies)

The result of these changes is that QMMFs are an attractive home for short-term cash for banks and building societies.

For Financial Intermediaries

The MiFID regulations implemented in the UK in November 2007 mean that client monies can now be invested in QMMFs. The new regulations also mean that intermediaries are under increasing pressure to demonstrate that they have achieved the best solution for their clients' cash, including transparency of both product and dealing terms.

QMMFs are designed to meet these challenges and to provide a safe and flexible alternative to bank deposits.

For Managers of SIPPs & ISAs

An additional attraction of QMMFs is the ability to receive income gross.

For Insurers

QMMFs are admissible assets, have a zero capital charge and do not have limits applied to them. This makes them an attractive home for cash for insurance companies, captive insurers and Lloyd's syndicates.

For Public Sector and HE/FE

English and Welsh local authorities and universities have been able to use liquidity funds since the change in legislation in 2003. They offer important advantages of economies of scale, competitive returns and transparency.

For Investment Trusts, VCTs etc

The investment trust and VCT regulations allow them to use QMMFs for cash investments. Their ease of use and competitive returns make them an attractive alternative to bank deposits.

For Corporates, Pension Funds, Hedge Funds, Asset Managers

QMMFs have for some years been the natural home for many institutions in the corporate and investment sectors. The principal reasons for this are the benefits of security, access, return and administrative simplicity. Lower administration costs are frequently the deciding factor in preferring liquidity funds to bank deposits.

For Custodians

Liquidity funds allow custodians to offer a cash investment product which meets their fiduciary responsibilities.

Prime Rate liquidity funds - unique propositions

The factors distinguishing Prime Rate from other providers of AAA-rated Qualifying Money Market Funds can be summarised in five ways:

- ***Independence***

We have neither group “pressures”, agendas, alignments nor other products to cross-sell. For aggregators of assets, we are not seen as a competitor but as a specialist independent provider of a single service, cash management.

- ***Specialisation and experience***

From the team biographies you can see the depth of experience in the banking and financial markets that is concentrated in our management team. We believe that this group provenance, concentrated in one specific specialist area is one of the most experienced teams managing institutional cash in London. Of specific note is the collective banking (two former heads of bank treasury), liquidity management (previous directorships of AAA rated funds) and regulatory/trade association experience (IMMFA) combined in the Prime Rate team.

- ***The first AAA rated liquidity fund to be domiciled in the UK***

We believe that with banking and regulatory changes taking place, an on-shore fund will be convenient and appropriate to a number of institutions, especially financial intermediaries. UK retail and institutional clients might feel more comfortable with funds domiciled in the UK, especially with regards to FSA authorisation and the legal role of the UK depository. However, we have an Isle of Man ‘feeder’ fund (100% invested in the UK fund) for those clients preferring to invest offshore.

- ***Competitive delivery***

We believe that the AAA rated liquidity fund has matured well beyond the original profile of the late 1990s. At that time it was an investment alternative with share class fees to match. The liquidity fund is now a mainstream financial/banking product and should be treated as such in the way that it is made available to investors, including delivery cost. Prime Rate does not have legacy share classes or historic fee rates and thus can deliver liquidity funds in a more bespoke and cost effective way. We believe that this is the way forward as the product becomes more integrated within banking and investment management.

- ***Fund quality***

No asset-backed investments: recent market turbulence has had material implications for portfolio composition. Whilst appreciating that a number of high quality ABCP programmes remain in the market, Prime Rate has taken the decision not to hold any asset-backed or illiquid securities in its portfolios. This also recognises client feedback expressing a clear preference for clean, vanilla fund assets. In any event, our track record shows that asset-backed securities are not required to produce a first-class yield.

Complete transparency: we aim to enhance portfolio transparency to clients by showing the investments held in the portfolios on a daily basis.

Prime Rate liquidity funds – fund quality

Recalibration of liquidity fund parameters

Following the recent dislocation in the credit and money markets, many investors have become more concerned about where and how their cash is held. In line with this concern and the fundamental shift in market conditions, the investment parameters of the Prime Rate liquidity funds have been set to a finer calibration than traditional QMMF standards.

This is illustrated by the following comparison table:

	<i>Rating agency/IMMFA product limits</i>	<i>Prime Rate internal “soft” limits #</i>
Maximum maturity of any single credit exposure (approx)	13 months	3 months for A-1+ credits 1 month for A-1 credits
Maximum weighted average maturity of the portfolio	60 days	50 days
Maximum single credit exposure (in excess of 8 days)	5%	4% for A-1+ credits 2% for A-1 credits
Maximum illiquid securities in portfolio	10%	zero
Maximum percentage of asset-backed paper in portfolio	At discretion of manager	zero
Minimum cash (overnight deposits or call account)	10%	25%
Transparency of portfolio	Typically monthly: top 10 holdings	Next day: complete portfolio viewable by clients online

Prime Rate currently adopts these “soft” limits, within product guidelines, specifically to address current market conditions. These self-imposed limits remain under constant review.

The benefit is a cleaner, more transparent portfolio that reflects investor concerns and market conditions rather than only ratings agency guidelines.

Liquidity of investments

In addition to assessing the credit quality of an investment, Prime Rate also carries out a liquidity test before any assets are acquired for the portfolio. However highly it may be credit rated, an individual credit investment will only be made if it is clear to Prime Rate that there would be another willing buyer in the market for the paper concerned at the same price.

Prime Rate Capital Management - The Executive Team

Chris Oulton (CEO) has been involved in the liquidity funds industry since 1998 and was a founding member of IMMFA (Institutional Money Market Funds Association) in 2000. He was Deputy Chair until June 2008 and remains a Director. He has over 25 years experience in banking and asset management, most recently Head of Money Market Sales at Insight Investment, which he joined in 2004. As an independent consultant he successfully launched the Abbey AAA rated MMF. Chris is the founding partner of Prime Rate.



Dennis Gepp (CIO) was Treasurer of Brown Shipley & Co Ltd, private bankers, responsible for the management of the bank's liquidity and asset and liability management from 1992 until he joined Prime Rate in May 2007. During the previous 19 years he held senior positions in the Treasury departments of CIBC (Europe), Middle East Bank, Baring Brothers, Iran Overseas Investment Bank and Bank of America International. Since 2004 he has been Hon Treasurer of ACI UK – the Financial Markets Association, the world's largest association of financial markets practitioners. Dennis is a member of IMMFA's technical committee.



Judith Benson (COO) was money market product manager at Insight Investment from August 2004 until she joined Prime Rate in June 2007. Prior to joining Insight, Judith was a principal consultant at Demica, a specialist software consultancy, providing securitisation solutions to investment banks, corporates and their advisors from 1998 to 2004. Before that she had 15 years experience in banking at Kleinwort Benson and Den norske Bank. She holds the IMC from the UK Society of Investment Professionals and has served on IMMFA's technical committee.



Henry Buckmaster (Head of Sales) joined Prime Rate from Investec Asset Management where he had been head of UK Institutional liquidity sales with specific responsibility for the Money Market Funds. He was a director of the AAA rated fund. Prior to this he had 21 years' experience in banking and asset management including senior roles at Paribas Capital Markets and Barings. Henry is a member of IMMFA's distribution committee.



Gary Skedge (Portfolio Manager) joined Prime Rate from HSBC Investments, where he co-managed the AAA-rated Sterling Liquidity and Liquidity Plus funds as well as numerous segregated portfolios. He has 18 years' experience of the banking and investment management sector. He was Director of Money Markets and Foreign Exchange at Robert Fleming, gaining experience also at JP Morgan Chase and Invesco Fund Managers.



John Parker (Sales Director) joined Prime Rate from HSBC Bank plc where he was a Director, Global Financial Institutions. He has over 30 years of experience in banking, asset management, treasury and capital markets. He has previously held senior positions at HFC Bank, AIM Global, Hill Samuel and Chemical Bank, having begun his career at Phillips & Drew and the Bank of England.





Extract from the Glossary to the Financial Services Authority Handbook

qualifying money market fund

⁶(1) (in *COLL* and *CASS 7*) a *collective investment scheme* authorised under the *UCITS Directive* or which is subject to supervision and, if applicable, authorised by an authority under the national law of an *EEA State*, and which satisfies the following conditions:

(a) its primary investment objective must be to maintain the net asset value of the undertaking either constant at par (net of earnings), or at the value of the investors' initial capital plus earnings;

(b) it must, with a view to achieving that primary investment objective, invest exclusively in high quality money market instruments with a maturity or residual maturity of no more than 397 days, or regular yield adjustments consistent with such a maturity, and with a weighted average maturity of no more than 60 days. It may also achieve this objective by investing on an ancillary basis in deposits with credit institutions;

(c) it must provide liquidity through same day or next day settlement.

(2) For the purposes of (1)(b), a money market instrument is to be considered to be of high quality if it has been awarded the highest available credit rating by each competent rating agency which has rated that instrument. An instrument that is not rated by any competent rating agency is not to be considered to be of high quality.

(3) For the purposes of (2), a rating agency is to be considered to be competent if it issues credit ratings in respect of money market funds regularly and on a professional basis and is an eligible ECAI within the meaning of Article 81(1) of the *BCD*.

Note: article 18(2) of the *MiFID implementing Directive*]



The London-based Institutional Money Market Funds Association (IMMFA) was established in 2000 and is the trade association for AAA rated money market funds. Its objectives are to ensure that members: -

- Offer high quality products and services
- Follow best practice procedures
- Maintain an optimum control environment for the funds.

It aims to achieve this through its Code of Conduct. This has established common standards across all IMMFA members and also allows investors to achieve a better insight into the policies and procedures of such funds.

IMMFA is also extremely active in lobbying governments and regulators on matters of concern to the industry. Most recently this has resulted in the recognition of QMMFs as a specific asset class in European legislation, the FSA allowing QMMFs to be used for holding client money and the inclusion of QMMFs in the liquidity regimes for banks and building societies.

IMMFA also endorses the consistent presentation of fund data and works with iMoneyNet, an independent data supplier, to produce weekly statistics on all member funds.

Fund Fact Sheet

Prime Rate Capital Management LLP

Authorised and Registered by the Financial Services Authority, reference number 469674

IMMFA Member, APCIMS Associate Member, ACI Member

Chief Executive Officer	Chris Oulton
Chief Operating Officer	Judith Benson
Chief Investment Officer	Dennis Gepp
Head of Sales	Henry Buckmaster

Prime Rate liquidity funds

Umbrella fund Prime Rate Cash Management Funds

Authorised by the Financial Services Authority, reference number 475469

Product type	OEIC
Scheme type	UCITS
Liquidity sub-funds	Prime Rate Sterling Liquidity Fund Prime Rate Euro Liquidity Fund Prime Rate US Dollar Liquidity Fund

Domicile UK

Ratings	S&P	AAAm
	Fitch	AAA/V-1+

Investment Objective:

The investment objective of the Prime Rate Liquidity Funds is to maximise current income consistent with the preservation of principal and liquidity by investing in a diversified portfolio of high quality, short-term debt and debt related instruments, as described in the Prospectus.

Fund Administrator	Bank of New York Europe Ltd
Fund UK Depository	Bank of New York Trust and Depository Co Ltd
Fund Auditor	Nexia Smith & Williamson Audit Ltd
Authorised Corporate Director	Prime Rate Capital Management LLP

Share Classes Constant Net Asset Value, Accumulating

Dealing cut-off times (London):	
GBP	1330 hrs
EUR	1300 hrs
USD	1500 hrs

Off-shore (Feeder) Fund Isle of Man

See Prospectus for full information including share class fees

SEDOL and ISIN Codes

ISSUER: Prime Rate Capital Management LLP

SecurityDescription	ShortDescription	ISINCode	SEDOLCode
EURO LIQUIDITY FUND SHARE CLS 1	PRIME RT EURO LIQ	GB00B2PM9749	B2PM974
EURO LIQUIDITY FUND SHARE CLS 2	PRIME RT EURO LIQ	GB00B2R5T484	B2R5T48
EURO LIQUIDITY FUND SHARE CLS 3	PRIME RT EURO LIQ	GB00B2R5T591	B2R5T59
EURO LIQUIDITY FUND SHARE CLS 4	PRIME RT EURO LIQ	GB00B2R5T609	B2R5T60
EURO LIQUIDITY FUND SHARE CLS 5	PRIME RT EURO LIQ	GB00B2R5T716	B2R5T71
EURO LIQUIDITY FUND SHARE CLS 6	PRIME RT EURO LIQ	GB00B2R5T823	B2R5T82
EURO LIQUIDITY FUND SHARE CLS 7	PRIME RT EURO LIQ	GB00B2R5T930	B2R5T93
EURO LIQUIDITY FUND SHARE CLS 8	PRIME RT EURO LIQ	GB00B2R5TB53	B2R5TB5
STERLING LIQUIDITY FUND SHARE CLS 1	PRIME RT GBP LIQ	GB00B2PM9186	B2PM918
STERLING LIQUIDITY FUND SHARE CLS 2	PRIME RT GBP LIQ	GB00B2R5TD77	B2R5TD7
STERLING LIQUIDITY FUND SHARE CLS 3	PRIME RT GBP LIQ	GB00B2R5TF91	B2R5TF9
STERLING LIQUIDITY FUND SHARE CLS 4	PRIME RT GBP LIQ	GB00B2R5TG09	B2R5TG0
STERLING LIQUIDITY FUND SHARE CLS 5	PRIME RT GBP LIQ	GB00B2R5TH16	B2R5TH1
STERLING LIQUIDITY FUND SHARE CLS 6	PRIME RT GBP LIQ	GB00B2R5TJ30	B2R5TJ3
STERLING LIQUIDITY FUND SHARE CLS 7	PRIME RT GBP LIQ	GB00B2R5TK45	B2R5TK4
STERLING LIQUIDITY FUND SHARE CLS 8	PRIME RT GBP LIQ	GB00B2R5TL51	B2R5TL5
US DOLLAR LIQUIDITY FUND SHARE CLS 1	PRIME RT USD LIQ	GB00B2PM9418	B2PM941
US DOLLAR LIQUIDITY FUND SHARE CLS 2	PRIME RT USD LIQ	GB00B2R5TN75	B2R5TN7
US DOLLAR LIQUIDITY FUND SHARE CLS 3	PRIME RT USD LIQ	GB00B2R5TP99	B2R5TP9
US DOLLAR LIQUIDITY FUND SHARE CLS 4	PRIME RT USD LIQ	GB00B2R5TQ07	B2R5TQ0
US DOLLAR LIQUIDITY FUND SHARE CLS 5	PRIME RT USD LIQ	GB00B2R5TR14	B2R5TR1
US DOLLAR LIQUIDITY FUND SHARE CLS 6	PRIME RT USD LIQ	GB00B2R5TS21	B2R5TS2
US DOLLAR LIQUIDITY FUND SHARE CLS 7	PRIME RT USD LIQ	GB00B2R5TT38	B2R5TT3
US DOLLAR LIQUIDITY FUND SHARE CLS 8	PRIME RT USD LIQ	GB00B2R5TV59	B2R5TV5

DISCLAIMER

This material is not to be regarded as an offer or invitation to buy or sell an investment in the Prime Rate Cash Management Fund nor does it solicit any such offer or invitation. Applications to invest must only be made on the basis of the offer document relating to the investment, which is only available to Eligible Counterparties and Professional Clients.

Past performance is no guarantee of future performance and the value of investments and income from them may fall as well as rise and investors may not get back the amount originally invested. Tax assumptions are subject to statutory change and the value of tax reliefs will depend on individual circumstances.

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