

## Note on Qualifying Money Market Funds

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## Qualifying Money Market Funds

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 given below.

### ***Extract from the Glossary to the Financial Services Authority Handbook***

#### *qualifying money market fund*

<sup>8, 6</sup>(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*]

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.

## **Benefits of Qualifying Money Market Funds**

The key benefits of QMMFs are summarised below.

### ***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 depository – 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

## Prime Rate's Investment Strategy

Prime Rate aims to provide investors with an extremely liquid, highly diversified and highly rated portfolio of money market securities. In order to achieve this we operate within tighter limits than those enforced by the rating agencies. Our current internal limits are summarised below.

	Rating Agency/IMMFA Limits	Prime Rate Internal Limits
<b>Maximum maturity of credit exposure</b>	13 months	3 months for A-1+ or strong A-1 rated* 1 month for other A-1 rated
<b>Maximum maturity of floating rate note exposure</b>	2 years	3 months
<b>Maximum credit exposure over 8 days</b>	5%	4% for A-1+ or strong A-1* 2% for other A-1
<b>Maximum % illiquid assets</b>	10%	0%
<b>Maximum % asset backed securities</b>	At discretion of manager	0%
<b>Minimum % cash</b>	10%	25%
<b>Transparency of portfolio</b>	Typically monthly / top 10 holdings	Daily publication of portfolio for clients

\* "Strong A-1 rated" refers to a small number of key financial institutions in G8 countries where the national government has demonstrated support for the banking system.

By operating within these guidelines our aim is always to ensure that investors can benefit from security of capital, daily liquidity and money market rates of return.

### ***Prospectus Issues***

In our prospectus we reserve the right to:-

- meet redemption request by an in specie transfer
- defer redemptions of more than 20% of the fund
- suspend dealings in shares

In all cases we would not aim to exercise any of these rights except in extreme market conditions where it might be necessary to protect the interests of all shareholders.

We also reserve the right to charge a dilution levy. In practice we do not intend to charge a dilution levy but would discuss proposed investments with the client to ensure that existing investors were not unduly affected.

We do not make any charge in the case of large redemptions. As it is a liquidity fund we know that investors may need to make relatively large redemptions. If an investor is a large part of the fund we will keep in touch to ensure we understand their likely cash flows.

***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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