

CHANGES TO THE PUBLIC SECTOR DEPOSIT FUND

The European Commission has implemented changes, through Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 (the “Regulation”), with the intention of making money market funds more transparent and resilient in times of stress. In normal market conditions, there will be no impact to the way in which The Public Sector Deposit Fund (PSDF) is managed. **This communication is for notification purposes only and the key changes are set out below.**

This new Regulation specifies the rules which all money market funds domiciled within the European Union will need to comply with. Amongst other items, it sets out requirements regarding eligible financial instruments, diversification, the valuation of fund assets and the reporting requirements to both Shareholders and the local regulatory authority; for the UK this is the Financial Conduct Authority (FCA).

Under Article 3 of the Regulation, the PSDF will conform to the Low Volatility Net Asset Value (LVNAV) money market fund structure. This structure will allow the PSDF to continue to provide Shareholders with a service which is as close to the current offering as possible.

An application will be made to the FCA on 14 January 2019 to seek approval for this change and it is expected that the FCA will have up to one month to respond. Upon receipt of FCA approval, the PSDF will immediately follow the requirements of the new Regulation.

On a day to day basis, during normal market conditions, Shareholders will not notice any changes to the way in which they access the PSDF. However, Shareholders should note that the PSDF would operate differently in the unlikely event of extreme stress in the financial markets. Although none of these scenarios have been experienced since the PSDF was launched, the key differences in times of stress include:

- On any dealing day when the gap between the PSDF’s constant net asset value and the variable net asset value is 0.2% or greater, the PSDF must calculate its share price using its variable net asset value. **This could result in a change in the value of your shareholding.**
- If weekly liquidity falls below 30% and daily net redemptions exceed 10%, the PSDF’s Authorised Corporate Director must meet and consider imposing additional fees or limitations on redemptions.
- If weekly liquidity drops below 10%, liquidity fees and/or limitations on redemptions become mandatory.
- If redemptions are suspended for more than 15 days over 90 consecutive days, the PSDF must calculate its share price using its variable net asset value (rather than its constant net asset value). You will be immediately informed in writing in the event of this occurring. **This could result in a change in the value of your shareholding.**

The PSDF's primary investment objective remains to maximise the current income consistent with the preservation of capital and liquidity. Additionally, the PSDF will continue to be invested in a diversified portfolio of high-quality sterling denominated deposits and securities as specified in the fund's prospectus. All investments purchased will have the highest available short-term credit rating and a correspondingly strong long-term rating. The maximum weighted average maturity and weighted average life of the investments will remain unchanged at 60 days and 120 days respectively. There will continue to be no exposure to derivatives or to other collective investment schemes.

An updated Prospectus will be published on <https://www.ccla.co.uk/investment-solutions/fund/the-public-sector-deposit-fund> once FCA approval has been granted. Should Shareholders wish to review the proposed prospectus in advance of the FCA approval, please contact clientservices@ccla.co.uk.

Although the regulatory background is changing, what will remain unchanged will be the investment strategy and our focus on capital security. **There is no need for you to take any action as a result of this notification** but if you have any questions then please contact our Client Services Team at clientservices@ccla.co.uk or call us on 0800 022 3505.

Definitions

Shareholder – means holders of shares in The Public Sector Deposit Fund.

Authorised Corporate Director – means CCLA Investment Management Limited as the authorised corporate director of the CCLA Public Sector Investment Fund of which The Public Sector Deposit Fund is a Sub-Fund.

Constant net asset value – means the net asset value of the PSDF calculated using the “amortised cost method” (i.e. a valuation method which takes the combined acquisition cost of assets and adjusts that for amortisation of premiums or discounts until maturity.) A share price calculated using the “constant net asset value” will tend to stay fixed from one dealing day to the next.

Variable net asset value – the net asset value of the PSDF calculated using either or both of the following methods:

- the “mark-to-market method”, (i.e. a valuation method which takes the valuation of positions at readily available close out prices that are sourced independently); and/or
- the “mark-to-model method” (i.e. i.e. a valuation method in which assets are benchmarked, extrapolated or otherwise calculated from one or more market input).

A share price calculated using the “variable net asset value” may fluctuate from one dealing day to the next.

Low Volatility Net Asset Value (LVNAV) money market fund structure – one of three fund structures introduced under the new European Money Market Fund regulations. Within this structure a constant share price can be maintained as long as the value of the fund, calculated using the constant net asset value does not differ by more than 0.2% from the value of the fund calculated using the variable net asset value.

Weighted average maturity – used to measure the sensitivity of a money market fund to changing money market interest rates.

Weighted average life – used to measure the credit risk of a money market fund's portfolio, the longer the life, the higher the credit risk. Weighted average life is also used to limit the liquidity risk of the portfolio.

(14 November 2018)