

Frequently Asked Questions

Negative Yields and their impact on the PSDF

What is yield?

- Yield is a measure of return. It is a daily calculation which represents the level of interest which the PSDF pays to its clients.

How is the yield calculated?

- Yield is calculated daily. It represents the level of interest that the PSDF generates and is expressed as a percentage of its total investment holdings.

What is a Negative Yield Environment?

- It is a situation that may arise whereby the PSDF is unable to pay interest to its clients, as a result of the investments held in the PSDF not generating enough income to cover fees and expenses.

How is a Negative Yield Environment related to the Bank of England Base Rate?

- Further changes in the Base Rate could result in a Negative Yield Environment, but it is possible that yields may reduce even without a change in Base Rate. See CCLA's low interest rate paper for further details <https://www.ccla.co.uk/with-your-cash-reserves-now-earning-less-extra-prudence-is-required>

Why are you making this change? Why are you doing this?

- We believe in putting our clients first and communicating in a timely manner. We have done this to enable us to implement changes to the PSDF quickly to allow clients to continue to invest in the PSDF should a Negative Yield Environment occur. If we didn't make these changes, we would be unable to continue to operate the Fund.

Should negative rates occur, where does the money we lose go?

- Low interest rates are a national monetary policy decision made by the Bank of England, designed to support the economy.
- In this instance, the PSDF would effectively be paying to put your money with a financial institution, CCLA does not profit from this activity.

What are other financial institutions and banks doing?

- Other Sterling Money Market Funds are taking a similar approach.
- Banks are also reducing their interest rates on cash deposit accounts and we expect they will be in a similar position. It is quite possible banks will start charging for current account services.
- CCLA is not the only fund provider doing this, all fund providers will be making sure they have arrangements to support their clients and continue to manage their clients' money.

How would the PSDF operate in a Negative Yield Environment?

What will happen to interest payments?

- They would stop.

Am I going to lose money (is my capital at risk)?

- If there is not enough income to pay expenses of the PSDF, those expenses may be paid out of capital therefore it is possible you may get back less than you put in (this would be the same for other cash type investment vehicles).

How quickly can I get my money back?

- Same day, if you let us know by 11.30am on a business day, provided we have received your instruction signed in accordance with your mandate.

Can we put money back in future if we have taken all our money out?

- Yes, the account will remain open and you can put money back into the PSDF.

Will my account stay open if I take all my money out?

If the account is unused for an extended period, then you may need to submit new forms to use the account once again.

What are your fees?

- Our management fee is 0.08% p.a. and is deducted before declaring the daily yield.

Have you reduced your fees?

- We have not reduced our fees since 2015 as our net yield remains competitive within the market.

What does this mean for statements and reports?

- Yields and share prices will continue to be available daily on CCLA's website www.ccla.co.uk and by calling 0800 022 3505.

Who can I speak to?

- If you have any questions on the contents of this FAQ sheet or would like additional information, please contact Mark Davies on 0207 489 6045 or by email to mark.davies@ccla.co.uk or alternatively Kelly Watson on 0207 489 6105 or by email to kelly.watson@ccla.co.uk

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Additional Information

Why are yields so low?

- Against a backdrop of deep recession and continued pressure on businesses and individuals, the Government and the Bank of England have undertaken a number of initiatives to support economic activity and ensure that financial markets continue to function efficiently. These initiatives have included quantitative easing on a substantial scale and a reduction in the Official Bank Rate to 0.1%. The economic recovery however remains far from complete, and although borrowing costs have been reduced already, further reductions in official interest rates are possible. Indeed, the Bank of England has begun a process to review the potential implications for the UK of a regime of negative interest rates.
In a Negative Yield Environment, the Fund will be unable to maintain a stable share price for income share classes and maintain distributions because of the impact of negative income flows.

What does a Negative Yield Environment mean for the PSDF and my investment and distributions?

- There will not be an impact on the rating of the Fund. The Fund will continue to follow the Money Market Fund Regulation and prioritise security and liquidity.
- In this environment, it is difficult to maintain a stable share price for income share classes and maintain distributions because of the impact of negative income flows. Accumulation share classes overcome this problem because returns generated by the Fund, whether positive or negative, are reflected in the share price.
- Currently the Fund issues income shares only. In a Negative Yield Environment, the Fund could not maintain income paying shares and a stable share price as negative income would be deducted from capital. This inability to maintain a constant price for the income shares would affect the Fund's Low Volatility Net Asset Value ("LVNAV") fund classification, meaning that the Fund would no longer be an eligible investment for a significant number of Shareholders.
- For this reason, accumulation share classes have been created to mitigate disruption for Shareholders and this approach is consistent with that being undertaken by the wider money market fund industry. The accumulation share classes will use historic pricing, rather than the forward pricing methodology used for existing income shares. Historic pricing is where the price used is determined at the valuation point on the previous dealing day. This will allow CCLA to continue to provide same day liquidity to Shareholders.
- Should the move to an accumulation share class happen mid-month, the Shareholders will still receive a distribution at the start of the following month, for the income earned until the point of switch.
- As stated above, holders of accumulation Shares will not receive a monthly dividend. Shareholders should also be aware that, in a negative interest rate environment, the value of their shares may fluctuate, and they may realise less than they invested. Please note, for those Shareholders who have already opted to reinvest their income back into the Fund, this election will cease once the move to an accumulation Share class completes.

The Public Sector Deposit Fund is a UK short-term LVNAV Qualifying Money Market Fund.

THE PUBLIC SECTOR DEPOSIT FUND

PUBLIC SECTOR DEPOSIT FUND

	Income Share Class	Accumulation Share Class
SHARE PRICING	Stable price*	Fluctuating price – changes daily to reflect accumulation of negative/positive income
NAV	Priced to two decimal places	Priced to four decimal places
EFFECT IN POSITIVE YIELD ENVIRONMENT	Income is distributed on a monthly basis	Income is accrued and reflected by an equivalent increase in the daily price
EFFECT IN NEGATIVE YIELD ENVIRONMENT	Not possible to maintain a stable price and distribute negative income	Income is accrued and reflected by an equivalent decrease in the daily price

* Assuming mark-to-market price stays within +/- 20bps collar.

What happens if we return to a Positive Yield Environment?

- We will continue to monitor the Negative Yield Environment and keep under review our decision to implement the Negative Yield Response Measure. If we consider that yields have become sustainably positive for a continuous period of 3 months, we will consider whether it is in the best interests of Shareholders to reverse the conversion and make available the income share classes again. We will endeavour to give you as much notice as practicable of the conversion back to the income share classes.

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CCLA

w: www.psdf.co.uk

CCLA Investment Management Limited (registered in England No. 2183088 at Senator House, 85 Queen Victoria Street, London EC4V 4ET) is authorised and regulated by the Financial Conduct Authority and is the Authorised Corporate Director, Fund Manager, Administrator and Registrar for the Company.

