

Email received from Client Services, CCLA dated 2 March 2021

Dear Shareholder

**The Public Sector Deposit Fund ("the Fund"), a sub-fund of CCLA Public Sector Investment Fund**

This letter is to provide our view of the potential future direction of interest rates in UK money markets and to advise you of changes we are making to the Fund. **Although these changes do not require you to take any action, the changes set out in this letter are important and we recommend that you read it carefully. If you are unclear about the matters set out in this letter, we strongly recommend you seek independent professional advice.**

**1. The outlook for interest rates**

Against a backdrop of deep recession and continued pressure on businesses and individuals, the Government and 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 0.65% reduction in the Bank of England's Official Bank Rate to 0.10%. The economic recovery however remains far from complete, and although borrowing costs have been reduced already, further reductions in interest rates are possible. Indeed, the Bank of England has undertaken a process to review the potential implications for the UK of a regime of negative interest rates and has put the financial system on notice that it should prepare for the possible introduction of a negative interest rate in the future. Whilst we do not expect any movement of this nature in the near term, its impact could be significant and it is incumbent on CCLA to ensure that we can continue to provide cash management services should such circumstances arise.

**2. Proposed changes to the Fund and reason for those changes**

As a result of the market conditions outlined above, it is possible that the Fund's investments become low yielding or negative yielding and, following the deduction of charges and expenses, a negative yield arises to the Fund (a **"Negative Yield Environment"**).

In a Negative Yield 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 the income received by the Fund, whether positive or negative, is 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, we have decided to create Accumulation Share Classes, into which to convert Income Shareholders in a Negative Yield Environment (the **"Negative Yield Response Measure"**). This approach aims to mitigate disruption for Shareholders and is consistent with that being undertaken by the wider money market fund industry, enabling the Fund to stay classified as a LVNAV fund.

Negative Yield Response Measure

We propose to amend the Fund's Instrument of Incorporation and Prospectus (together, the **"Fund Documents"**) to include a Negative Yield Response Measure. The measure will permit us, as the Authorised Corporate Director (**"ACD"**) to the Fund, to automatically convert Shareholders in an

Income Share Class to an equivalent Accumulation Share Class in a Negative Yield Environment, provided it is in the best interests of Shareholders to do so.

As it is difficult to predict with certainty exactly when a Negative Yield Environment will occur, we intend to first inform Shareholders by way of notice on our website where we are able to identify that a Negative Yield Environment is likely to, or has, occurred. In the event that we then consider it necessary to implement the Negative Yield Response Measure we aspire to give Shareholders advance written notice of any conversion, but it may be that changes happen suddenly and that it is not possible to give prior written notice. In these circumstances, written notification will follow as soon as it is practicable to do so.

We will continue to monitor the Negative Yield Environment and keep under review our decision to implement the Negative Yield Response Measure. If the Negative Yield Environment has ceased for a continuous period for three months, we will reverse the conversion and make available again the Income Share Classes on the next Business Day provided we consider it in the best interests of Shareholders. We will endeavour to give you as much notice as practicable of the conversion back to the Income Share Classes, considering prevailing market conditions at the time.

If we do not consider it to be in the best interests of Shareholders to reverse the conversion and make available again the Income Share Classes at the end of the foregoing period, then we will notify you within one Business Day of our decision, the reasons for our decision and the date on which the matter will next be reviewed. We will review this decision at least every two weeks until the transfer is effected and, after each review, notify you of the outcome.

The implementation of the Negative Yield Response Measure has been discussed with the depositary of the Fund, HSBC Bank plc (the “**Depositary**”), and the Depositary has not raised any concerns.

The Financial Conduct Authority (“**FCA**”) has confirmed that the proposed change will not affect the authorisation of the Fund.

Under the FCA Handbook, Shareholders are entitled to receive advance notice of the amendments to the Fund Documents set out above and this letter constitutes the required notice. The change will take effect from 6 April 2021.

### Accumulation Share Classes

The implementation of the Negative Yield Response Measure is subject to the creation of the new Accumulation Share Classes.

The Accumulation Shares will carry the same characteristics as the Income Shares of the equivalent class, save for the following:

- (i) Accumulation Shares will not carry a right to any dividend. Any income accrued in each accumulation share class shall be retained within such class and the value of such class will rise or fall accordingly;
- (ii) the value of the Accumulation Shares will be quoted to four decimal places as required in order to give sufficient precision in pricing of the Accumulation Shares in a Negative Yield Environment;
- (iii) Accumulation Shares will be dealt on a historic pricing basis in order to provide same day settlement; and
- (iv) the name of the shares will be "Accumulation Shares" (as set out in the Appendix to this letter).

Details of the new Accumulation Share Classes are set out in the Appendix to this letter.

As we stated above Accumulation Shareholders will not receive a monthly dividend. Shareholders should also be aware that in a Negative Yield Environment the value of their Shares may fluctuate and they may realise less than they invested.

**Please note that the Accumulation Share Classes described in this letter are not currently available for investment and will only be activated in conditions where the ACD considers it is in the best interests of Shareholders to implement the Negative Yield Response Measure.**

### **Costs**

All costs associated with the changes outlined in this letter will be borne by us, as the ACD.

### **Further information**

As we have stated above, this letter is for your information and you do not need to take any action as a result of it. However, if you have any questions on the contents of this letter or would like additional information please contact Mark Davies on 0207 489 6045 or by email to [mark.davies@ccla.co.uk](mailto:mark.davies@ccla.co.uk) or alternatively Kelly Watson on 0207 489 6105 or by email to [kelly.watson@ccla.co.uk](mailto:kelly.watson@ccla.co.uk).

Yours faithfully



Alison Jermey

Head of Client Services

## Appendix

| Share Class                   | Minimum Investment and Balance* |
|-------------------------------|---------------------------------|
| Class 1 Shares — Accumulation | £1.00                           |
| Class 2 Shares - Accumulation | £25,000.00                      |
| Class 3 Shares - Accumulation | £5,000,000.00                   |
| Class 4 Shares — Accumulation | £15,000,000.00                  |
| Class 5 Shares - Accumulation | £1,000,000.00                   |
| Class 6 Shares - Accumulation | £0.00                           |

\*The ACD has discretion to waive or vary this limit.