

Money Market Fund  
Criteria Report

# Exposure Draft: Global Money Market Fund Rating Criteria

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## Summary

The following exposure draft updates and replaces the existing money market fund rating criteria reports entitled “*US Money Market Fund Ratings*” and “*European Money Market Ratings*”, both published on March 6, 2006. The updated criteria is intended to be global in nature and addresses both constant net asset value (CNAV) and variable net asset value (VNAV) money market funds.

The primary focus of this exposure draft is on ‘prime’ money market funds and cash management products investing in short-term debt instruments issued by financial and non-financial corporations, banks and asset-backed commercial paper issuers. With respect to Treasury, government and municipal money market funds, Fitch Ratings continues to evaluate the appropriate asset liquidity, issuer diversification and shareholder concentration guidelines for such funds. That said, the agency would expect that a number of elements of this proposed criteria would be applicable to such funds. Fitch will comment further on Treasury, government and municipal money market funds in the near future.

While money market funds and short-term markets currently benefit from various government support programs - such as the Temporary Guarantee Program for Money Market Funds and the Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility - Fitch notes the temporary and local nature of such programs. Fitch’s proposed criteria is intended to reflect and address the creditworthiness and liquidity of funds operating in the absence of such facilities.

Prior to implementation of the proposed criteria changes, Fitch is undertaking a 60-day comment period, during which the agency is soliciting feedback from market participants regarding the changes proposed under this exposure draft. Feedback can be emailed to [mmf.feedback@fitchratings.com](mailto:mmf.feedback@fitchratings.com). Among the proposed key criteria changes for the global ratings of CNAV and VNAV money market funds are:

- An evaluation of the fund’s institutional sponsor and the potential level of support (typically of an implicit nature) that may be forthcoming during a period of stress experienced by such fund. This is in recognition of the fact that many money funds could have experienced a net asset value (NAV) impairment in the Autumn of 2008 in the absence of institutional support. Where institutional support is viewed as less likely, Fitch is proposing more conservative rating criteria.
- Updated rating criteria with respect to redemption risk and investor concentration - relative to assets maturing overnight and within one month’s time - in order to reflect the heightened redemption activity which many prime money market funds experienced in 2008.
- Greater differentiation between weighted average days to interest rate reset ( $WAM_R$ ) - which is a measure of interest rate risk exposure - versus weighted average days to final maturity ( $WAM_F$ ), which primarily measures spread risk and encompasses overall portfolio liquidity.
- Revised diversification criteria which incorporate the obligor’s rating and the exposure’s time to maturity, as well as indirect exposures through other sponsored programs, such as asset-backed commercial paper (ABCP) conduits.
- A matrix-based approach to evaluating money market fund portfolios in the context of asset maturity and credit quality (termed the Portfolio Credit

Factor). This is intended to more effectively afford credit to those funds which focus on high credit quality and short-term investments, relative to those funds which may exhibit higher levels of credit and/or market risk given longer asset maturities and/or lower credit quality.

- The establishment of a new money market fund rating scale with a ‘AAA<sub>MMF</sub>’ rating that replaces the ‘AAA’/‘V1+’ rating. This is intended to better differentiate the most liquid and creditworthy money market funds from those which exhibit heightened credit and/or liquidity risk. Funds which previously would have been rated ‘AAA’/‘V1+’ would be assigned a ‘AAA<sub>MMF</sub>’ rating under the proposed rating scale.
- Money market fund ratings will be assigned to those money market funds which offer CNAV share classes as well as those offering VNAV share classes, provided they manage under the same mandate of safety of principal and daily liquidity. Fitch notes that in certain markets only VNAV money market funds are offered.

Fitch requests feedback from market participants on the following questions:

- To what extent do market participants believe institutional support influences fund performance during periods of stress? Are there relevant considerations beyond the willingness and ability of a fund sponsor to provide support?
- To what extent do market participants believe that aligning overnight and one-month asset maturities with the largest single investor and top-five investors respectively, addresses potential redemption risk?
- To what extent do market participants believe that the issuer diversification guidelines outlined herein address potential concentration risk facing funds? To what extent do market participants believe that there is a relationship between direct exposure and indirect exposure through sponsored special purposes vehicles such as ABCP conduits?
- To what extent do market participants believe that the WAM<sub>R</sub> and WAM<sub>F</sub> guidelines outlined herein sufficiently address potential interest rate risk and spread risk, respectively? Are there other portfolio parameters which market participants monitor when evaluating such risks?
- To what extent do market participants believe that Fitch’s proposed Portfolio Credit Factor appropriately captures the relationship between asset credit quality and maturity?
- To what extent do the proposed changes to the rating scale, including the adoption of a ‘AAA<sub>MMF</sub>’ rating (without a volatility rating modifier) help provide greater clarity to market participants? Are there alternate points of differentiation market participants would like to see Fitch’s ratings address?
- To what extent do market participants believe that CNAV and VNAV funds should be evaluated under the same rating methodology and scale, despite potential differences in payment terms?
- What are market participants’ reactions to Fitch utilizing this MMF rating subscript for high quality cash management products not registered as money market funds pursuant to Rule 2a-7 Under the Investment Company Act of 1940 (such as local government investment pools and cash vehicles offered through private placements)?

**Summary of Proposed Global Money Market Fund Rating Guidelines**

| Fund rating   | AAA <sub>MMF</sub>           | AA <sub>MMF</sub>                   | AA <sub>MMF</sub>  | AA <sub>MMF</sub>  | A <sub>MMF</sub>   | A <sub>MMF</sub>   |
|---|------------------------------|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Institutional support level                         | Likely                       | Less likely                         | Likely             | Less likely        | Likely             | Less likely        |
| <b>Asset credit quality</b>                         |                              |                                     |                    |                    |                    |                    |
| F1+ or F1 (minimum %)                               | 100                          | 100                                 | 95                 | 95                 | 90                 | 90                 |
| F2 (maximum %)                                      | 0                            | 0                                   | 5                  | 5                  | 10                 | 10                 |
| F3 or lower (maximum %)                             | 0                            | 0                                   | 0                  | 0                  | 0                  | 0                  |
| <b>Portfolio credit factor (maximum)</b>            | <b>1.50</b>                  | <b>0.75</b>                         | <b>2.50</b>        | <b>1.25</b>        | <b>5.00</b>        | <b>2.50</b>        |
| <b>Issuer diversification (maximum aggregate %)</b> |                              |                                     |                    |                    |                    |                    |
| F1+ or F1, overnight                                | 10.0                         | 5.0                                 | 10.0               | 5.0                | 10.0               | 5.0                |
| F1+ or F1, 2-90 days                                | 5.0                          | 2.5                                 | 5.0                | 2.5                | 5.0                | 2.5                |
| F1+ or F1, greater than 90 days                     | 2.5                          | 1.0                                 | 2.5                | 1.0                | 2.5                | 1.0                |
| F2, overnight                                       | 0.0                          | 0.0                                 | 2.0                | 2.0                | 2.0                | 2.0                |
| F2, 2-90 days                                       | 0.0                          | 0.0                                 | 1.0                | 1.0                | 1.0                | 1.0                |
| F2, greater than 90 days                            | 0.0                          | 0.0                                 | 1.0                | 1.0                | 1.0                | 1.0                |
| <b>Other diversification (maximum %)</b>            |                              |                                     |                    |                    |                    |                    |
| Financial sponsor                                   | 15.0                         | 15.0                                | 15.0               | 15.0               | 15.0               | 15.0               |
| Repurchase agreement counterparty <sup>a</sup>      | 25.0                         | 25.0                                | 25.0               | 25.0               | 25.0               | 25.0               |
| Single government agency                            | 35.0                         | 35.0                                | 35.0               | 35.0               | 35.0               | 35.0               |
| <b>Asset maturity (maximum)</b>                     |                              |                                     |                    |                    |                    |                    |
| Fixed rate securities (months)                      | 13                           | 13                                  | 13                 | 13                 | 13                 | 13                 |
| Floating rate securities <sup>b</sup> (years)       | 2                            | 2                                   | 3                  | 3                  | 4                  | 4                  |
| <b>WAM<sub>R</sub> (maximum) (days)</b>             | <b>60</b>                    | <b>60</b>                           | <b>90</b>          | <b>90</b>          | <b>120</b>         | <b>120</b>         |
| <b>WAM<sub>F</sub> (maximum) (days)</b>             | <b>120</b>                   | <b>60</b>                           | <b>180</b>         | <b>100</b>         | <b>360</b>         | <b>180</b>         |
| <b>Portfolio liquidity</b>                          |                              |                                     |                    |                    |                    |                    |
| Overnight maturities (minimum)                      | Equal to largest investor    | Equal to largest investor or 30%    | Case-by-case basis | Case-by-case basis | Case-by-case basis | Case-by-case basis |
| One-month maturities (minimum)                      | Equal to largest 5 investors | Equal to largest 5 investors or 50% | Case-by-case basis | Case-by-case basis | Case-by-case basis | Case-by-case basis |
| <b>Additional leverage</b>                          |                              |                                     |                    |                    |                    |                    |
| Reverse repurchase agreements (maximum) (%)         | 0                            | 0                                   | Case-by-case basis | Case-by-case basis | Case-by-case basis | Case-by-case basis |
| Securities lending (maximum) (%)                    | 0                            | 0                                   | Case-by-case basis | Case-by-case basis | Case-by-case basis | Case-by-case basis |

<sup>a</sup> Applicable to US Treasury and/or government agency collateral with at least 102% overcollateralization. Otherwise, unsecured guidelines are applicable

<sup>b</sup> Subject to aggregate limit of 10% of the portfolio, minimum Long- and Short-Term Ratings of 'AA'/F1', a minimum Support Rating of '2' and a minimum Individual Bank Rating of 'B'

Source: Fitch

**Introduction**

The “money market fund” designation may be applied to a broad spectrum of funds globally, ranging from conservatively constructed and managed funds focused on liquidity and preservation of invested principal, to funds which place greater focus on achieving enhanced yield. Accordingly, the core investment objectives of these funds may vary between security (preservation of capital), liquidity (accessibility) and return. Besides differences in portfolio construction, other factors, such as investment strategy and execution among funds, the advent and growth of less liquid and non-traditional securities in short-term capital markets, and the instability of investors have further amplified the variability of risk profiles among money market funds, including those funds which are marketed as CNAV or VNAV funds.

Money market funds are exposed to the following risks, among others:

- credit risk, including the deterioration of an asset's ability to fulfil its financial obligations of timely payment of interest and principal, which can result in rating transition, default, or market price decline due to spread widening;
- interest rate risk, whereby a change in interest rates results in increased price volatility;
- liquidity risk, stemming from the inability to liquidate an asset in the secondary market at a price close to its book value in a short period of time, due to a deterioration of market demand for such an asset;
- other market risks, such as currency, extension/prepayment, or basis risk, resulting in market price decline or loss of principal at maturity;
- operational failures.

Fitch's money market fund ratings serve to offer retail and institutional investors a differentiated means of assessing and comparing funds with respect to their underlying credit quality, liquidity and relative safety of principle.

### **Revised Money Market Fund Rating Scale**

Aside from proposed criteria revisions related to portfolio composition, liquidity and institutional support, one of the key changes Fitch is proposing relates to the money market fund rating scale. At present, Fitch utilizes the traditional letter rating scale to reflect a fund's credit risk, and a complimentary volatility rating to reflect a fund's asset price volatility and liquidity. The intention of the revised rating scale is to offer at once a more simplistic and informative rating, which encompasses both the credit risk and liquidity risk a money market fund may potentially be exposed to.

Fitch's money market fund rating is an opinion as to the capacity of a fund to meet its investment objectives regarding timely repayment of invested principal, accumulated income and capital gains, if any. In the case of CNAV funds, Fitch's rating addresses the capacity to maintain the net asset value at par which is being rated; in the case of VNAV funds, Fitch's rating addresses the capacity to maintain the net asset value at the value of investors' initial capital, plus accumulated income and capital gains (net of fees).

Fitch's money market fund ratings are based on an evaluation of several factors including credit, market and liquidity risk (as measured by the credit quality of portfolio assets), overall levels of portfolio diversification, repricing and maturity of the assets in the portfolio, stability of the shareholder base, and the operational and investment management capabilities of the investment manager.

### **Money Market Fund Ratings**

Fitch proposes to establish a new money market fund rating scale with:

- the highest 'AAA<sub>MMF</sub>' rating replacing the 'AAA'/'V1+' rating. This is intended to differentiate money market funds from other funds, including funds previously rated 'AAA'/'V1' or lower, which invest in high credit quality but less liquid assets;
- the majority of other money market funds and cash management products rated 'AA<sub>MMF</sub>' and 'A<sub>MMF</sub>'.

Such simplification is aimed at:

- enhancing investor and regulator understanding and use of the ratings;
- establishing a continuum of fewer rating buckets;
- aligning the ratings with one of the perceived primary objectives of short-term investors, namely to understand the investment risk, irrespective of its credit- or market-origin.

**Rating Subscript**

Fitch is proposing to utilize a rating subscript for money market funds, in order to differentiate the ratings of money market funds and other cash management products from bond fund ratings. It is Fitch’s intention to apply the ‘MMF’ subscript to funds which address and encompass both credit and liquidity risk, regardless of domicile or regulatory framework. For example, ratings assigned to local government investment pools - which are not registered as money market funds but operate in a similar form - would be expected to include the ‘MMF’ subscript.

**Proposed Money Market Fund Rating Scale**

| Current MMF rating scale | Proposed MMF rating scale | MMF rating definitions   |
|--------------------------|---------------------------|--|
| ‘AAA/V1+’                | ‘AAA <sub>MMF</sub> ’     | Extremely strong capacity to achieve fund’s investment objective of maintaining the net asset value either constant at par, or at the value of the investors’ initial capital plus accrued interest and capital gain and provide timely liquidity. |
| ‘AA/V1+’                 | ‘AA <sub>MMF</sub> ’      | Strong capacity to achieve fund’s investment objective of maintaining the net asset value either constant at par, or at the value of the investors’ initial capital plus accrued interest and capital gain and provide timely liquidity.           |
| ‘A/V1+’                  | ‘A <sub>MMF</sub> ’       | Adequate capacity to achieve fund’s investment objective of maintaining the net asset value either constant at par, or at the value of the investors’ initial capital plus accrued interest and capital gain and provide timely liquidity.         |

Source: Fitch

**Investment Objectives of CNAV and VNAV Funds**

Money market funds addressed in this criteria report can offer either CNAV or VNAV share classes, or both. Shares of CNAV funds are usually offered as a single unit of the respective portfolio base currency (one US dollar, one British pound sterling or one euro per share). CNAV funds’ income is accrued daily and usually paid monthly. In VNAV funds, income is not distributed, but is reflected by an increase in the share value.

Under a stable NAV construct, assets in CNAV portfolios are valued using the amortised cost, which imposes particular controlling and reporting procedures. CNAV funds are also expected to establish procedures that output a deviation between the stable unit and a share price - calculated on the basis of the market value of the assets - in order to monitor NAV volatility introduced solely by a change in the market value of the portfolio assets. VNAV funds generally use hybrid valuation procedures, whereby assets with short-term maturities (typically less than three months) are accounted for using amortised cost, while other assets are marked-to-market.

One of the primary differences between VNAV and CNAV funds is that the former do not split capital and income; this can ultimately result in capital losses being muted by the income component. As a consequence, while for a CNAV fund, a capital loss is quickly reported and can result in remedial action or support, the impact for a VNAV fund can be a total return incrementally lagging the cash market yield.

Given the ability of income to offset the effect of capital loss, Fitch views institutional support and remedial actions as less likely in the case of VNAV funds, compared to CNAV funds. Conversely, Fitch would expect VNAV funds to exhibit moderated levels of redemption risk, relative to comparable CNAV funds, as investors may be less sensitive to the risk on NAV impairment following asset default or deterioration. VNAV funds may be able to achieve comparable ratings to CNAV funds, provided such funds benefit from high levels of implicit or explicit support and more transparent disclosure (with respect to realized and mark-to-market capital losses). In the absence of such mitigants, VNAV funds are expected to be managed more conservatively at a given rating level.

Despite potential differences in payment terms, CNAV and VNAV funds will both be rated on the money market fund scale. Indeed, they may be able to achieve comparable ratings provided appropriate investment guidelines, liquidity and institutional support are in place.

Expectations of institutional sponsor support would be a key ratings factor.

### **Institutional Sponsorship and Support**

Events in the financial markets over the last year have introduced heightened credit and liquidity risk to money market funds. For example, certain money market funds had exposure to troubled financial institutions and/or structured investment vehicles (SIVs), impacting the credit quality of fund portfolios. From a liquidity perspective, most underlying asset types experienced heightened asset price volatility, while the NAV impairment or temporary closure of certain funds created additional redemption pressure across money market funds.

In order to insulate money market funds from heightened redemption activity or exposure to credit-impaired or illiquid assets, a number of funds relied upon the support of institutional sponsors. For example, institutional sponsors purchased distressed assets from funds at amortized cost or otherwise indemnified funds from potential losses on such assets. Institutional sponsors also purchased performing assets from funds at amortized cost in order to assist funds seeking liquidity to meet redemptions.

In Fitch's opinion, a number of money market funds would have been forced to temporarily cease meeting redemption requests or face a permanent impairment of their NAV, in the absence of such institutional support. As such, Fitch is proposing to update its rating criteria for money market funds to more directly consider both the willingness and ability of institutional sponsors to provide credit and liquidity support on an implicit or explicit basis.

As proposed in this exposure draft, for all Fitch-rated money market funds, Fitch will specify whether support from the related institutional sponsor is believed to be 'Likely' or 'Less Likely'. The agency will utilize alternate and more conservative rating criteria for those funds with respect to which institutional support is believed to be less likely. This explicit recognition of support is an important enhancement to the existing money fund rating criteria, as it offers an additional measure with which to differentiate between funds and their expected future performance. Nevertheless, Fitch continues to view the intrinsic quality of the fund on a standalone basis as the primary source of protection for investors. Indeed, the agency will also consider whether the existence of a strong sponsor introduces moral hazard to the investment process, which could lead a fund to assume excessive risk.

The willingness of an institutional sponsor to provide support would be evaluated in the context of the importance of the fund to the sponsor, the sponsor's supporting history, as well as the broader importance of investment/wealth management operations to the institution. Clearly, if the institutional sponsor views the reputational risk stemming from a fund's closure or impairment as being low, support is less likely to be forthcoming during periods of stress.

The ability of an institutional sponsor to provide support would be evaluated in the context of the credit rating of the sponsor, as well as the size of the fund relative to the institutional sponsor's financial resources and other obligations. Part of the analysis will also involve determining where support is likely to come from - between the operating subsidiaries and the holding company - and ultimately to assess the relative financial strength and resources of such entities. Fitch believes that available support to funds would likely be provided by the parent company rather than the banking or insurance subsidiary. Given that parent companies traditionally have limited resources relative to their operating subsidiaries, this will also be factored into Fitch's assessment of ability.

Beyond generic statements regarding the willingness and ability of an institutional sponsor to provide support to funds, much will be determined on a case-by-case basis. As such, Fitch's Financial Institutions and Insurance groups will be closely involved in the determination of the likelihood of support and its rating implications for both the fund and the institutional sponsor.

**Credit Risk: Credit Quality, Diversification and Maturity**

**Portfolio Credit Quality**

When evaluating a money market fund’s portfolio quality, Fitch focuses on the credit quality of the individual holdings and the overall diversification. The credit quality assessment is based on the credit ratings assigned by Fitch to portfolio holdings, if available. If a Fitch rating is not available, the lowest public rating from other global rating agencies is applied. Fitch views the following credit quality guidelines as consistent with the respective fund ratings:

**Asset Credit Quality Guidelines**

| Fund rating (%)       | Minimum rated 'F1' or higher | Maximum rated 'F2' | Maximum rated 'F3' or lower |
|-----------------------|------------------------------|--------------------|-----------------------------|
| 'AAA <sub>MMF</sub> ' | 100                          | 0                  | 0                           |
| 'AA <sub>MMF</sub> '  | 95                           | 5                  | 0                           |
| 'A <sub>MMF</sub> '   | 90                           | 10                 | 0                           |

Note: if a Fitch rating is not available, the lowest public rating from other global rating agencies is applied  
Source: Fitch

Fitch recognizes that assets held by money market funds may be on Rating Outlook Negative or Rating Watch Negative. Such securities will be evaluated in the context of Fitch’s Portfolio Credit Factor metric, by applying haircuts of one and two notches for assets on Rating Outlook Negative and Rating Watch Negative, respectively.

In cases when there is no credit rating explicitly assigned to a portfolio security - but such a security benefits from a letter of credit (LOC), guarantee, or other means of credit enhancement, each of which fully assumes the credit risk of such exposure - the Issuer Default Rating (IDR) of the LOC provider, guarantor or credit enhancement provider will be considered.

In cases where no public or guarantor-based ratings are available, Fitch may, on a case-by-case basis and in consultation with other Fitch analysts rating substantially similar securities, consider the fund investment advisor’s internal credit assessment. This typically entails an examination of the fund investment advisor’s credit research process and is intended to determine whether, in Fitch’s view, such a security carries credit risk consistent with the assigned money market fund rating. Fitch notes that unrated securities generally exhibit lower liquidity in secondary markets and therefore exposure to such instruments is expected to be less than 2% of the portfolio and treated as illiquid.

**Portfolio Credit Factor**

Fitch is proposing an additional metric to capture portfolio credit quality, in the form of a quantitative measure termed the Portfolio Credit Factor (PCF). The PCF is intended to recognize the two-dimensional nature of investment risks in terms of credit quality and maturity.

The credit factors outlined in the matrix below were developed on the basis of the historical relationship between default probabilities for fixed-income securities at different rating levels; they were normalized assuming that a ‘AAA’-rated security maturing in one year has a credit risk factor of 1.00. Benchmarked against the ‘AAA’ one year factor of 1.00, securities rated ‘AA’ and ‘A’ are assigned credit risk factors of 3.00 and 10.00, respectively, reflecting their historical relative default risks. At lower rating categories, Fitch added additional conservatism to these historical default probability relationships in order to reflect the potential for increased market value and/or credit risk for lower rated securities. These factors were then interpolated to estimate factors applicable to securities with maturities of 13 months or less and extrapolated to estimate factors applicable to securities with maturities greater than 13 months. For exposures beyond 13 months, the factors increase in a non-linear fashion, consistent with observed default risk.

Introduction of a Portfolio Credit Factor metric which reflects credit risk along two dimensions - credit quality and maturity.

The following table outlines the factors assigned to securities of various rating levels and maturities. The PCF is calculated by multiplying each security's credit risk factor - as determined by its rating and remaining days to maturity - by its percentage of total fund holdings, and summing these values for all portfolio holdings. As mentioned previously, Fitch assumes haircuts of one and two notches respectively for assets which are on Rating Outlook Negative and Rating Watch Negative. Fitch does not assume comparable uplifts for assets on Rating Outlook Positive or Rating Watch Positive. In the case of securities with extension features, Fitch will assume the final maturity of such securities for the purpose of calculating the PCF.

**Credit Risk Factors by Security Rating and Maturity**

|           | AAA  | AA+   | AA    | AA-   | A+    | A     | A-     | BBB+   | BBB    |
|-----------|------|-------|-------|-------|-------|-------|--------|--------|--------|
| O/N       | 0.01 | 0.01  | 0.01  | 0.01  | 0.02  | 0.03  | 0.04   | 0.07   | 0.10   |
| 2-7       | 0.02 | 0.04  | 0.06  | 0.10  | 0.15  | 0.20  | 0.30   | 0.50   | 0.80   |
| 8-30      | 0.08 | 0.16  | 0.25  | 0.40  | 0.60  | 0.80  | 1.30   | 2.10   | 3.80   |
| 31-90     | 0.25 | 0.50  | 0.70  | 1.20  | 1.70  | 2.50  | 4.00   | 6.40   | 9.90   |
| 91-180    | 0.50 | 1.00  | 1.50  | 2.50  | 3.50  | 4.90  | 7.90   | 12.80  | 19.70  |
| 181-397   | 1.00 | 2.00  | 3.00  | 5.00  | 7.00  | 10.00 | 16.00  | 26.00  | 40.00  |
| 398-729   | 2.70 | 5.30  | 8.00  | 13.00 | 19.00 | 27.00 | 43.00  | 69.00  | 106.00 |
| 2-3 years | 4.70 | 9.40  | 14.00 | 24.00 | 33.00 | 47.00 | 75.00  | 122.00 | 188.00 |
| 3-5 years | 9.70 | 19.00 | 29.00 | 48.00 | 68.00 | 97.00 | 155.00 | 252.00 | 387.00 |

Source: Fitch

For securities which benefit only from a Short-Term Rating, Fitch utilizes the following conversions for the purposes of calculating portfolio PCF:

**Relationship Between Short-Term and Long-Term Ratings for Purposes of Calculating Portfolio Credit Factor<sup>a</sup>**

| Short-Term Rating | Implied minimum Long-Term Rating |
|-------------------|----------------------------------|
| 'F1+'             | 'AA-'                            |
| 'F1'              | 'A'                              |
| 'F2'              | 'BBB'                            |

<sup>a</sup> Fitch reserves the right to assume a more conservative relationship between Short- and Long-Term Ratings on a case-by-case basis  
Source: Fitch

Recognizing that fund managers have the ability to make continual trade-offs between the improved liquidity of short-tenor assets and the improved yield of longer tenor assets, Fitch will evaluate the appropriateness of a fund's portfolio composition based on the following PCF guidelines, by respective fund rating category:

**Portfolio Credit Factor Guidelines by Fund Rating Category**

| Fund rating           | Maximum portfolio credit factor |                                   |
|-----------------------|---------------------------------|-----------------------------------|
|                       | Likely institutional support    | Less likely institutional support |
| 'AAA <sub>MMF</sub> ' | 1.50                            | 0.75                              |
| 'AA <sub>MMF</sub> '  | 2.50                            | 1.25                              |
| 'A <sub>MMF</sub> '   | 5.00                            | 2.50                              |

Source: Fitch

It is possible that a fund manager could pursue an excessively 'barbelled' investment strategy while maintaining adherence to the PCF and other proposed credit quality guidelines outlined herein. Rather than establishing additional explicit guidelines with respect to the amount and duration of 'A' and 'BBB' rated investments, Fitch will seek to understand a fund manager's policies in this regard to ensure that the perceived risk parameters are consistent with the rating level of the fund, particularly for funds that do not benefit from 'Likely' institutional support.

**Portfolio Diversification**

Recent credit deterioration and defaults experienced by assets underlying certain money market funds have further emphasized the importance of issuer diversification as a means of protecting money market fund investors from the risk of loss and/or NAV impairment. Fitch evaluates portfolio concentration in the context of the credit quality of the issuer and the remaining term of such exposure, based on the following guidelines:

**Issuer Diversification Guidelines for Corporate Unsecured Exposure**

| (Maximum % of total assets) | 'AAA <sub>MMF</sub> ' - rated funds |                     | 'AA <sub>MMF</sub> ' - rated funds |                     | 'A <sub>MMF</sub> ' - rated funds |                     |
|-----------------------------|-------------------------------------|---------------------|------------------------------------|---------------------|-----------------------------------|---------------------|
|                             | Likely support                      | Less likely support | Likely support                     | Less likely support | Likely support                    | Less likely support |
| 'F1+' or 'F1', overnight    | 10.0                                | 5.0                 | 10.0                               | 5.0                 | 10.0                              | 5.0                 |
| 'F1+' or 'F1', 2-90 days    | 5.0                                 | 2.5                 | 5.0                                | 2.5                 | 5.0                               | 2.5                 |
| 'F1+' or 'F1', > 90 days    | 2.5                                 | 1.0                 | 2.5                                | 1.0                 | 2.5                               | 1.0                 |
| 'F2', overnight             | 0.0                                 | 0.0                 | 2.0                                | 2.0                 | 2.0                               | 2.0                 |
| 'F2', 2-90 days             | 0.0                                 | 0.0                 | 1.0                                | 1.0                 | 1.0                               | 1.0                 |
| 'F2', > 90 days             | 0.0                                 | 0.0                 | 1.0                                | 1.0                 | 1.0                               | 1.0                 |

Source: Fitch

The above issuer diversification guidelines are not intended to be additive in nature. Put another way, Fitch would view aggregate exposure (over all time periods) of less than or equal to 10% as consistent with rated funds. In addition to the rating of the fund, the level of institutional support, and the credit quality/maturity of such assets, Fitch's issuer diversification guidelines are intended to acknowledge the fact that money market fund managers are challenged to strike the appropriate balance between concentration risk to the portfolio and managing a limited number of approved issuers and counterparties.

In addition to direct issuer exposure, money market funds may also assume indirect issuer exposure through the purchase of ABCP. While ABCP exposure benefits from the support of underlying asset collateral, timely repayment may be dependent upon liquidity providers, particularly in periods of heightened stress. Money market funds may also enter into repurchase agreements which may expose them to varying degrees of counterparty risk, depending on the term of the repurchase agreement, the underlying collateral type, and the level of overcollateralization. Fitch evaluates aggregate issuer exposure (ie both direct and indirect) based on the following guidelines:

**Other Portfolio Diversification Guidelines**

| (Maximum % of total assets)  |   |
|--|---|
| Maximum exposure to a single financial group, including indirect exposure via ABCP conduits and other sponsored special purpose vehicles | 15  |
| Maximum exposure to a single repurchase agreement counterparty   |   |
| Treasury and/or government agency collateral with at least 102% overcollateralization  | 25  |
| Otherwise  | See unsecured limits above (ie collateral is ignored) |
| Maximum per government agency  | 35  |

Source: Fitch

Fitch would not expect money market funds to invest in secured or unsecured exposure issued by the institutional sponsor of such funds, nor would Fitch expect money market funds to invest in ABCP sponsored by the institutional sponsor of such funds.

**Maturity of Portfolio Securities**

In addition to the asset maturity guidelines set forth in the PCF, Fitch evaluates the maturity dates of purchased securities in the context of any interest rate reset features which may be inherent within such assets, based on the following guidelines:

### Maximum Asset Maturity Guidelines

| Fund rating           | Floating rate securities <sup>a</sup> (years) | Fixed rate securities (months) |
|-----------------------|---|--------------------------------|
| 'AAA <sub>MMF</sub> ' | 2   | 13                             |
| 'AA <sub>MMF</sub> '  | 3   | 13                             |
| 'A <sub>MMF</sub> '   | 4   | 13                             |

<sup>a</sup> Subject to aggregate limit of 10% of the portfolio, minimum Long- and Short-Term Ratings of 'AA'/F1+, a minimum Support Rating of '2' and a minimum Individual Bank Rating of 'B'  
Source: Fitch

### Liquidity

Money market funds typically maintain short investment horizons in order to offer a high level of liquidity to shareholders. Fitch's 'AAA<sub>MMF</sub>' rating encompasses an expectation of a very high level of liquidity as well as appropriate asset/liability matching (to the extent possible). Sources of liquidity risk in money market funds include, but are not limited to:

- unexpected redemption activity in excess of a fund's available liquidity, in terms of overnight and short-term investments or readily marketable assets;
- concentration and type of shareholders;
- maturity structure of the portfolio, such as a low proportion of short-term assets insufficient to meet unexpected redemptions;
- securities of particular asset classes which experience unanticipated illiquidity;
- market characteristics of the instruments (such as industry of the issuer, issue size, participants);
- operational and financial condition of counterparties;
- outsized exposure to a single position, issuer or counterparty.

In evaluating the liquidity of a money market fund, Fitch considers:

- the nature and concentration of fund shareholders and the likelihood that unexpected redemptions could lead to forced asset liquidations;
- the ability of the portfolio to meet redemptions via asset maturities as opposed to asset sales;
- the liquidity of the underlying assets in secondary markets, should asset disposal be necessary;
- alternative sources of liquidity to avoid forced selling of assets, such as implicit or explicit support facilities.

### Portfolio Level Liquidity

Among the primary objectives of liquidity fund managers is to balance the liquidity of the underlying portfolio with the liquidity offered to investors. For a money market fund, managers should maintain a conservative strategy to cope with potentially sudden, large investor outflows, notably in stressed markets where secondary market liquidity may be reduced. As money funds are typically 'hold to maturity' in nature, it is particularly important to understand how a money market portfolio breaks down in terms of the final maturities of underlying instruments versus liquidity needs for redemption purposes.

In money market funds, the first layer of liquidity is provided by the overnight positions in time deposits or repurchase agreements, which enable the manager to face redemptions immediately without taking on market risk by selling holdings. Between 10% and 30% of overnight cash is normally maintained in money market funds and should be adjusted to reflect expectations as regards the volatility of investors' flows, taking market conditions into account at all times. A second layer of liquidity is then provided by near-term investments, with a regular roll-off of assets allowing for cash regeneration.

For 'AAA<sub>MMF</sub>' funds, matching of overnight and one-month liquidity to single and top five largest shareholders, respectively.

Fund managers should closely monitor and anticipate redemption activity in order to ensure a sufficient level of liquidity during periods of stress. Maintaining sufficient liquidity is closely related to the composition and diversification of shareholders by type and concentration, as a well-diversified investor base should help mitigate the risks of large single withdrawals and simultaneous massive redemptions from investors affected by similar economic factors.

Fitch compares a money market fund’s asset maturity profile to the composition and characteristics of fund shareholders, as a means to gauge the potential redemption risk the fund may be exposed to. With respect to the characteristics of shareholders, Fitch considers whether shareholders are omnibus accounts, internal accounts or cash sweeps from other lines of business of the fund sponsor. Fitch believes such shareholders will exhibit lower levels of redemption risk relative to external shareholders. Furthermore, Fitch believes shareholders who access funds via portals or other third-party distribution methods exhibit increased redemption risk, particularly in periods of heightened stress.

Investments in overnight securities should be consistent with anticipated daily redemption requests and historical cash flow volatility, as well as the current market context. A close study of the historical and stressed future redemption activity is carried out by Fitch to assess the level of portfolio liquidity needed to meet anticipated redemptions and to allow a sufficient cushion for unanticipated redemptions.

Subject to the aforementioned considerations, Fitch views the following investor concentration guidelines as consistent with ‘AAA<sub>MMF</sub>’ rated funds:

**Investor Concentration Guidelines Relative to Asset Maturity Profile**

| Level of institutional support | Overnight maturities                                | One month maturities                                     |
|--------------------------------|---|--|
| Likely                         | Greater than or equal to single largest investor    | Greater than or equal to five largest investor exposures |
| Less likely                    | Greater of single largest investor or 30% of assets | Greater of five largest investors or 50% of assets       |

Source: Fitch

For ‘AA<sub>MMF</sub>’ and ‘A<sub>MMF</sub>’ rated funds, the consistency between the investor base and the maturity profile of the portfolio will be analysed on a case-by-case basis, as it needs to be considered in relation to the investment objectives and settlement terms of the fund.

**Evaluating Spread Risk: Weighted Average Days to Final Maturity**

In evaluating money market fund portfolio maturities, Fitch has historically focused on the weighted average final maturity of portfolio assets, with the exception of floating rate securities, which were evaluated in the context of their next interest rate reset date. While Fitch continues to utilize this metric to evaluate interest rate risk in money market fund portfolios, the agency is proposing to explicitly incorporate a second metric, measuring the weighted average maturity of the portfolio based on the final maturity of all assets, including those which may have interim interest rate reset dates. This is in recognition of the fact that a portfolio with a long WAM<sub>F</sub> will be exposed to changes in credit spreads even if the fund’s exposure to interest movements, as measured by the WAM<sub>R</sub>, is very low.

Fitch views the following WAM<sub>F</sub> guidelines as consistent with the respective fund rating:

**Maximum Weighted Average Days to Final Maturity (WAM<sub>F</sub>) Guidelines**

| Fund rating           | Days                         |                                   |
|-----------------------|------------------------------|-----------------------------------|
|                       | Likely institutional support | Less likely institutional support |
| ‘AAA <sub>MMF</sub> ’ | 120                          | 60                                |
| ‘AA <sub>MMF</sub> ’  | 180                          | 100                               |
| ‘A <sub>MMF</sub> ’   | 360                          | 180                               |

Source: Fitch

Liquidity metric of weighted average days to final maturity to evaluate spread risk, in addition to traditional weighted average days to interest rate reset measure to evaluate interest rate risk.

### Asset Level Liquidity

Should a fund need to sell assets to face redemptions, it is essential that the invested assets offer very high liquidity in secondary markets to minimize capital losses. Highly liquid, transparent (non-complex) and readily traded investments are less likely to experience pricing inefficiencies during periods of market disruption and, therefore, may provide the fund with the ability to raise cash to meet ongoing redemptions with less risk of principal loss.

Non-negotiable instruments, with respect to which transferability or trading between parties is limited, are viewed by Fitch as less liquid instruments. Such instruments include repurchase agreements, funding agreements and time deposits maturing in more than seven days. A number of negotiable assets are also considered by Fitch to be less liquid, such as asset-backed and mortgage-backed securities. Finally, other instruments with narrow secondary markets or short trading histories may be deemed to be illiquid by the fund manager and the fund's Board of Directors.

Fitch views exposure to illiquid assets in excess of 10% of an individual fund's assets to be inconsistent with rated funds with respect to which institutional support is deemed to be likely. Fitch views any exposure to illiquid assets as inconsistent with rated funds with respect to which institutional support is deemed to be less likely, emphasizing the greater reliance on asset liquidity in such instances.

### Alternative Sources of Liquidity: Lines of Credit, Liquidity Support, Interfunding Agreements, Reverse Repurchase Agreements

Beyond implicit liquidity support, which may be forthcoming from a fund's institutional sponsor, investment management companies may make arrangements with other financial institutions to provide committed or uncommitted lines of liquidity to money market funds to cover liquidity needs. Uncommitted facilities are typically provided on an unpaid, "best effort" basis. When a committed facility is arranged, a fee is paid for any unused portion of the facility. The pan-European fund regulatory framework, *Undertakings for Collective Investment in Transferable Securities*, limits such borrowing to 10% of the fund's net assets. In the US, Rule 2a-7 of the Investment Company Act of 1940, limits such fund borrowing to 33.3% of the fund's net assets.

While reverse repurchase agreements can serve as a valuable liquidity buffer in other instances, Fitch views such facilities as a source of leverage, which would not be appropriate for 'AAA<sub>MMF</sub>' money market funds. At the 'AA<sub>MMF</sub>' and 'A<sub>MMF</sub>' rating levels, the use of reverse repurchase agreements will be assessed on a case-by-case basis, but generally would not be seen as a viable option to face redemptions over a long period of time, as it may leave 'last out' investors in a worse situation than those who redeem early.

Inter-fund lending programmes can also be arranged if a fund experiences a temporary shortage of liquidity. Before such transactions can take place, fund guidelines require the approval of the funds' Board of Directors, which will also decide on the terms and tenor of the loan. Fitch views such inter-fund lending programs as consistent with rated funds, provided they constitute arms-length transactions between the funds and do not violate regulatory or fund-specific parameters.

### Market Value Risk

An important factor influencing a fund's ability to preserve principal is the management of market value risk in its various forms. For rated money funds, Fitch criteria considers a fund manager's investment strategy with respect to market value risk, including interest rate risk, spread risk, basis risk and asset liquidity risk. A fund's rating will depend on the degree to which the fund's investment policies and practices limit these forms of market value risk.

**Evaluating Interest Risk: Weighted Average Days to Reset**

WAM<sub>R</sub> is the primary metric used by Fitch to assess the interest rate risk of money market funds, calculated as the dollar-weighted average number of the days to the floating-rate reset date (or the maturity date for fixed rate instruments and floating rate instruments that have passed their last reset date). This measure is a good proxy for a fund’s NAV sensitivity to unexpected changes in the general level of short-term interest rates. For example, a fund with a WAM<sub>R</sub> of 45 days would be expected to experience a NAV decline of approximately 35-40bps in the face of an instantaneous 300bps increase in short-term interest rates. Fitch views the following WAM<sub>R</sub> guidelines as consistent with the respective fund rating categories:

**Weighted Average Days to Interest Rate Reset (WAM<sub>R</sub>) Guidelines**

| Fund rating           | Maximum weighted average days to interest rate reset |
|-----------------------|--|
| ‘AAA <sub>MMF</sub> ’ | 60   |
| ‘AA <sub>MMF</sub> ’  | 90   |
| ‘A <sub>MMF</sub> ’   | 120  |

Source: Fitch

These WAM<sub>R</sub> guidelines were determined by evaluating expected London Interbank Offered Rate (LIBOR) and Euro Interbank Offered Rate (EURIBOR) changes under various rating stress scenarios, as well as the resultant expected impact on fund NAVs. For more information on Fitch’s interest rate stress scenarios, please see the interest rate stress spreadsheets entitled, “*Fitch USD LIBOR Stresses*”, and “*Fitch EURIBOR Stresses*”, dated January 5, 2009 and December 9, 2008 respectively, and available for download on Fitch’s website at [www.fitchratings.com](http://www.fitchratings.com).

**Potential Basis Risk in Floating Rate Notes**

Money market funds may incur basis risk due to potential mismatches between the index used to reset floating-rate notes (FRNs) and the prevailing level of money market rates. If a fund invests in floating-rate assets that reset periodically to a longer-dated or lagging index that is not closely linked to short-term money market rates, then its yield and NAV may deviate from prevailing money market rates.

Neither WAM<sub>F</sub> nor WAM<sub>R</sub> are intended to measure basis risk. Rather, a FRN should be benchmarked against indices which result in the market value of such FRN reasonably approximating its amortized cost upon reset. Accordingly, an underlying index should move in tandem with changes in short-term market rates. Acceptable indices include the three- and six-month US Treasury bill rates, one-, three-, and six-month LIBOR, one-, three-, and six-month EURIBOR, one-year Constant Maturity Treasury rate (CMT), Prime rate, Federal Funds rate and Commercial Paper Composite indices.

FRNs that reset on the basis of a longer-term index (such as the 10-year CMT) or are tied to a lagging index (such as the 11th District Cost of Funds Index) are inappropriate for money market funds. Additionally, structured notes with complex coupon formulas do not generally conform to Fitch’s guidelines for FRNs. Examples of these types of securities are inverse floaters, capped floaters, range floaters and dual-index notes.

**Mark-to-Market**

Robust internal policies and procedures, with respect to the frequent mark-to-market pricing of a fund’s NAV, are viewed as important components of rated money market funds. VNAV funds are obligated to determine NAV on a daily basis, given that daily redemptions are a function of the portfolio NAV at that time. While CNAV funds are not obligated to mark assets to market on a daily basis, the frequent revaluation of CNAV funds (at least weekly) - even if only for internal purposes - is consistent with industry best practices and can help the early identification of potential issues (even if there is no requirement to recognize

temporary reductions in fund NAV). This interim mark-to-market activity proved extremely useful in the Autumn of 2008, allowing fund managers (and Fitch) to monitor and respond to interim NAV pressure stemming from general asset price declines and asset sales to meet heightened redemption activity.

For rated money market funds, Fitch seeks to ensure that strong internal policies and procedures exist to govern the mark-to-market process, including: the reliability and consistency of the mark-to-market process; back-testing against actual market experience and other funds; stress testing vis-à-vis scenario analysis; comprehensive reporting to the fund's management and board; and clearly defined escalation procedures that articulate the actions expected of the fund's board in the event the NAV deviates from predetermined limits.

### **Counterparty Risk**

Money market funds can be exposed to credit, market or operational risk through counterparties related to financial transactions such as interest rate or currency swaps, repurchase agreements or structured investments, such as ABCP. Credit and operational risks that emanate from third-party obligations are therefore included in Fitch's money market fund analysis.

### **Minimum Credit Quality**

Fitch's counterparty risk analysis considers the credit quality, diversification, and operational risks related to a potential counterparty. Consistent with Fitch's counterparty criteria for structured finance transactions, counterparties rated 'A'/'F1' or higher are viewed as appropriate for rated money market funds. Should a counterparty be downgraded below 'A' or F1', remedial actions - such as a replacement, use of a guarantor or collateral posting - would be expected within 30 days. Given that the majority of counterparty risk in money market funds stems from repurchase agreements with overnight maturities, Fitch acknowledges that the aforementioned replacement provisions will likely be unnecessary in most instances (as the maturity of such exposure will serve to mitigate such counterparty risk). Nevertheless, such replacement provisions remain applicable for longer-term counterparty exposures, such as term repurchase agreements and interest rate or currency swaps.

For further information on Fitch's counterparty criteria, see the criteria report entitled, "*Counterparty Risk in Structured Finance Transactions: Hedge Criteria*", dated August 1, 2007 and available on Fitch's website at [www.fitchratings.com](http://www.fitchratings.com). On October 18, 2008, Fitch issued a press release entitled, "*Fitch: Counterparty Criteria For Global Structured Finance Under Review*", announcing that its counterparty criteria was under review in light of recent market events. Should Fitch's counterparty criteria with respect to global structured finance change, comparable changes to Fitch's counterparty criteria with respect to money market funds would be expected.

Money market funds may enter into repurchase agreements with unrated repurchase agreement counterparties under two circumstances: the first relates to counterparties which are unrated, but benefit from an implicit or explicit guarantee from an explicitly rated parent; the second relates to counterparties which are unrated and are not wholly-owned by a rated parent company. In the first instance, Fitch confers with analysts in its Financial Institutions group to confirm the level of support afforded to the unrated subsidiary. Provided the level of support is deemed to be sufficient, Fitch will look to the rating of the parent company, subject to the counterparty concentration guidelines outlined in the *Portfolio Diversification* section of this exposure draft. In the second instance, unrated repurchase agreement counterparties are viewed as inconsistent with rated money market funds, with the exception of overnight repurchase agreements collateralized 102% or more by government collateral held by a third party.

In all instances, repurchase agreements should benefit from appropriate collateralization rules to ensure that collateral is accessible, subject to regular margin calls, and can be liquidated without introducing additional credit or market value risks.

### **Asset-Backed Commercial Paper**

While the majority of ABCP issuers benefit from committed third-party liquidity support, Fitch considers additional distinctions between ABCP issuers which may impact the liquidity of such securities during periods of heightened stress. Foremost among these distinctions is the presence of an ABCP conduit sponsor that is a rated financial institution. Fitch views financial institution-sponsored ABCP conduits - whether multi-seller, single-seller or securities-backed - as being most appropriate for investment by rated money market funds. The agency will review exposure to ABCP conduits sponsored by corporate and/or unrated entities on a case-by-case basis, but would expect such exposure to be limited on the basis of total exposure and the provision of 100% third-party liquidity from appropriately rated liquidity providers. In order to address potential liquidity risk associated with extendible commercial paper, Fitch will assume the final maturity date of such assets for the purposes of calculating PCF and WAM<sub>F</sub>.

### **Asset-Backed Securities and Mortgage-Backed Securities**

Fitch views 'AAA'/'F1+' tranches of asset-backed securities (ABS) and mortgage-backed securities (MBS) with maturities of less than 397 days as eligible investments for rated funds, provided such securities represent the senior most tranche of such securitization. Nevertheless, recent market illiquidity for such products further supports Fitch's views that such securities be counted towards the fund's maximum 10% illiquid bucket.

Fitch analyzes the overall exposure of the portfolio to ABS and MBS, taking into consideration the type of collateral, the liquidity and the structure of the transactions it invests in. The exposure should not jeopardize the stability of principal being offered to the fund's investors, even under a very stressed economic or market scenario.

As part of Fitch's manager review, the agency evaluates the quality of collateral performance monitoring, as well as the procedures for transaction analysis, from a collateral and structural viewpoint.

### **Derivative Usage: Swaps and Futures**

Interest rate swaps and futures can be used by money market funds to manage duration in a more flexible way, or systematically hedge interest rate risk. For example, assets resetting to three-month LIBOR or EURIBOR can be hedged to overnight LIBOR or the Euro OverNight Index Average (EONIA) respectively, using swaps. Short-term futures can also be employed to shorten or lengthen duration in rising or decreasing rate environments, respectively. Therefore, swaps and futures can allow fund managers to, at least in part, minimize the effect of duration on credit investment decisions. The use of swaps or futures as a means to add leverage is viewed as inconsistent with rated money market funds.

Fitch views short-term indices (such as LIBOR, EURIBOR or EONIA) as appropriate swap reference rates. Appropriate reference rates for futures include those referencing short-term papers or indexes. Furthermore, swap counterparties are subject to the generic counterparty guidelines mentioned above. Futures should be cleared through recognised exchanges such as Eurex, Liffe and the Chicago Board Of Trade.

As part of Fitch's manager review, the use of swaps and futures will be considered in the context of risk management procedures (duration sensitivity monitoring for example). Swap counterparties will be subject to the minimum credit quality

guidelines of 'A'/'F1' and the 30-day replacement, guarantee or collateralization provisions outlined previously in this exposure draft.

### **Manager Governance and Controls**

Part of Fitch's rating analysis includes an assessment of the fund management organisation, notably its control environment and the fund's governance structure.

The ability of a fund to meet its stated investment objectives depends on management's experience, track record, investment processes, and operational capabilities. In Fitch's view, well-managed funds have clearly articulated and documented policies and procedures to define the credit, liquidity, and market risk management objectives and the means available to achieve these objectives. The agency reviews the policies and procedures developed to meet investment objectives, as well as the supporting organizational structure, internal controls, and risk management and reporting systems.

The control framework, as part of the internal risk management, compliance and governance procedures, is expected to include the following:

- clear investment guidelines and limits;
- continuously updated list of approved issuers and counterparties (to reflect changing credit and liquidity risk profiles of issuers and overall market dynamics);
- a credit selection and monitoring process geared towards minimising rating migration risk;
- independent and comprehensive controls on compliance, with investment guidelines and limits;
- mark-to-market valuation procedures, for NAV and control purposes;
- regular reconciliation of records between front-office, back-office, custodian, administrator and transfer agent;
- corresponding checks and balances and reporting procedures, with a fair degree of automation and technology expected.

Fitch assesses a fund manager's capabilities in the context of meeting minimum levels of acceptability in these and other areas. Depending on Fitch's view of the manager's capabilities, a more conservative fund rating conclusion may be arrived at.

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