How To Determine The Eligibility Of Money Market Fund Investments Under Rule 2a-7

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HALE AND DORR LLP

Threshold Eligibility Questions

Is the investment a debt security or shares of another money market fund?

Is the investment dollar denominated?

Does the investment present minimal credit risks?

If yes to all 3 questions

Continue

If no to any question, don't buy it



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Deciding Whether an Investment Is Rated or Unrated

Short Term NRSRO Rating: Has the investment (or any related guarantee) received at least one short term rating from an NRSRO?

Comparable Short Term NRSRO Rating: If no, has the issuer of the investment or the guarantee received at least one short term NRSRO rating for a comparable short term debt obligation?

If yes to both sets of questions

RATED

Is the investment something other than a rated refunded or other security with a refunding arrangement or guarantee added after the security was last rated?

If no to either set of questions

UNRATED

Deciding Eligibility of Investments with Guarantees or Demand Features

Is (1) the investment a fully collateralized repurchase agreement or (2) is each guarantee associated with the investment either (a) a Government security or (b) issued by a person in a control relationship with the issuer?

If no, as to any guarantee that is being relied on and if the investment was issued after the grandfather date, does that guarantee have at least one NRSRO rating?

If the investment was issued after the grandfather date, has the guarantee provider or another institution agreed to notify promptly the fund if the guarantee is replaced by another provider's guarantee?

Do the investment and any related demand feature or guarantee on which the fund is relying present minimal credit risks?

If yes to all questions



If no to any question, don't buy it



Deciding Eligibility of Investments with Conditional Demand Features*

Is there minimal risk that the fund will be unable to exercise the demand feature?

(a) Can the conditions readily be monitored by the fund or are they tax-related or (b) will the fund be notified of the occurrence of a condition and the opportunity to exercise the demand feature?

Is the underlying security rated by the requisite NRSROs within the top 2 short term or long term NRSRO rating categories or, if unrated, determined to be of comparable quality?

Is the demand feature itself an eligible security?

If yes to all questions



If no to any question, don't buy it



 $[^]st$ Assuming that a conditional demand feature is being relied on for an investment issued after the grandfather date

Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?

If yes to either question

→ 1ST TIER

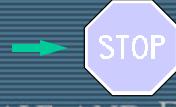
Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?

If yes to either question

2ND TIER

If no to all 4 questions, don't buy it



Special Credit Eligibility Determinations

If the investment is an asset backed security that was issued after the grandfather date and is not backed exclusively by municipal securities, does it have at least one NRSRO rating?

If yes to both questions



If the investment or its guarantor has a long term, but not a short term, NRSRO rating, at least one long term rating is below the 3 highest longterm rating categories, and the investment originally had a maturity of over 397 days, does it have long term ratings from the requisite NRSROs within the 3 highest rating categories?

If no, don't buy it



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?

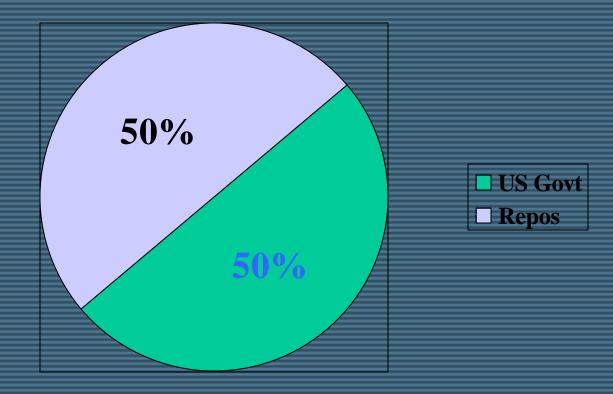
If yes to either question

Continue

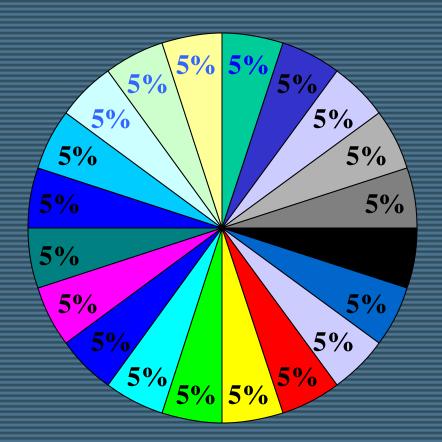
3 Day First Tier Securities Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days? If no to both questions, don't buy it



Example 1 of SEC Diversification



Example 2 of SEC Diversification (all first tier issuers)

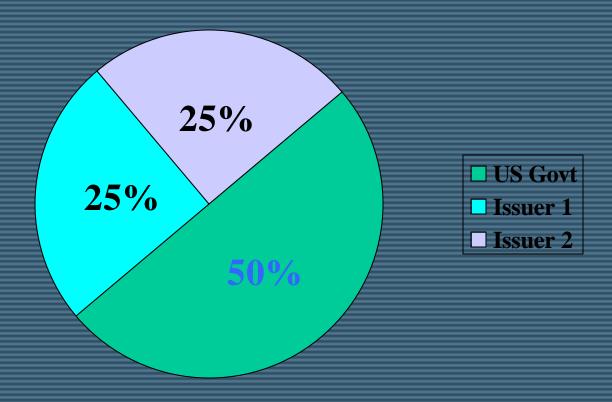


SEC vs. Tax Diversification

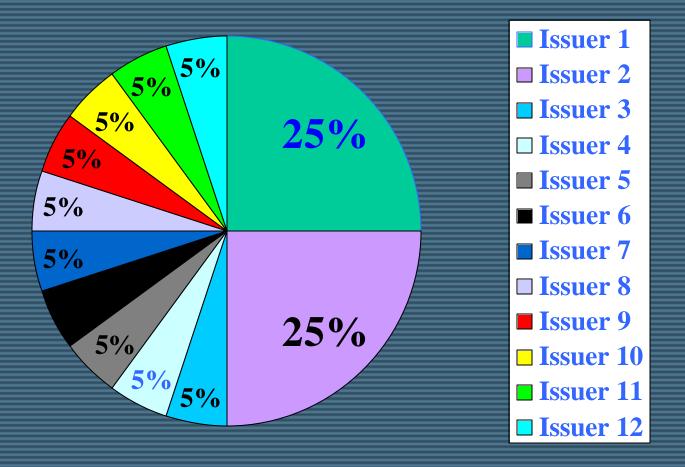
Repurchase agreements

- SEC: the issuer of the underlying security (e.g. U.S. government) of a fully collateralized repo is the issuer of the repo
- Tax: the repo counterparty is the issuer of a fully collateralized or other repo

Example 1 of Tax Diversification



Example 2 of Tax Diversification



Diversification of Second Tier Securities

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities?

If no to both questions

Continue

If the fund buys the investment, will more than 1% of total assets be invested in securities issued by the same issuer?

If yes to either question, don't buy it



Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?

If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?

If no to both sets of questions



If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?

If yes to either set of questions, don't buy it



Determining the Issuer of Asset Backed Securities

Does the primary asset backed security ("ABS") have any 10% obligors? Does any 10% obligor that is an ABS have any 10% obligors? If yes to either question, treat each 10% obligor as the issuer of its direct or indirect share of the primary ABS.

In all cases, treat the special purpose entity that issued the primary ABS as an issuer of the ABS.

Is the ABS or other security issued by any 10% obligor subject to a demand feature or guarantee?

If yes, apply guarantor diversification limits to each demand feature and guarantee.

Determining the Maturity of Securities

Type of Security

Variable rate government security

Floating rate government security or short term floating rate security

Short term variable rate security

Long term floating rate security with demand feature

Long term variable rate security with demand feature

Maturity of Security

- Period until next interest rate reset
- One day
 - Earlier of period until next interest rate reset or demand date
- Period until next demand date
- Longer of period until next interest rate reset or demand date



Determining the Maturity of Securities

Type of Security

Repurchase agreement

Securities loan

Money market fund shares

Maturity of Security

Earlier of period until repurchase date or demand notice period

Earlier of period until due date or demand notice period

Earlier of 7 days or shorter contractual redemption period

Determining Compliance with Maturity Limits

Does the investment have a remaining maturity of 397 days or less?

If the fund buys the investment, will the fund still have a dollar-weighted average maturity of 90 days or less?

If the investment has an adjustable rate but not a demand feature, upon reset of the interest rate, can the market value of the investment reasonably be expected to approximate its amortized cost value?

If yes to all 3 questions



If no to any question, don't buy it



Example 1: Taxable Fund

Possible investment--commercial paper with the following features:

- Is not rated, but issued by Esprit Corp., a company with 3 short term ratings: A-1/P-1/F-2
- Principal and interest are payable in U.S. dollars
- Interest rate is 30-day U.S. LIBOR and resets every 30 days

Example 1: Taxable Fund

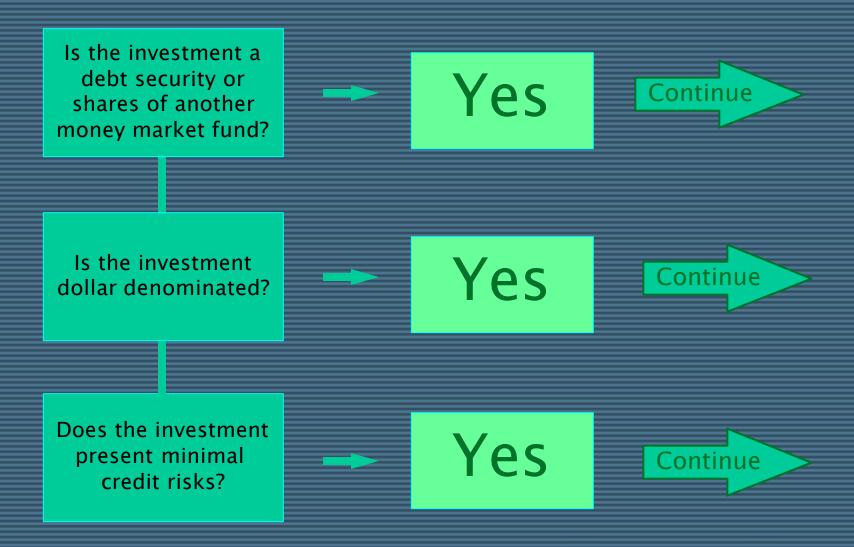
Commercial paper characteristics:

- A maximum stated remaining maturity of 2 years, with a 30-day conditional demand feature that is:
 - Fully exercisable unless there is a downgrade in the credit rating of, a payment default by, or an insolvency proceeding against the issuer
 - Provided by Fred's Bank, which has an
 A-1/P-1 rating and no known credit issues

Example 1: Taxable Fund

- The fund has total assets of \$100 million
- The fund proposes to buy \$1 million of Esprit Corp.'s new commercial paper
- The fund already owns \$1 million of Esprit Corp's paper and \$5 million of CDs issued by Fred's Bank
- The average dollar weighted maturity of the fund before acquiring the new paper is 30 days

Threshold Eligibility Questions

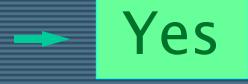


Deciding Whether an Investment is Rated or Unrated

Short Term NRSRO Rating: Has the investment (or any related guarantee) received at least one short term rating from an NRSRO?

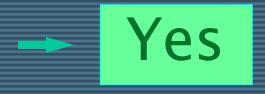
Comparable Short Term NRSRO Rating: If no, has the issuer of the investment or the guarantee received at least one short term NRSRO rating for a comparable short term debt obligation?







Is the investment something other than a rated refunded or other security with a refunding arrangement or guarantee added after the security was last rated?





Deciding Eligibility of Investments with Guarantees or Demand Features

Is (1) the investment a fully collateralized repurchase agreement or (2) is each guarantee associated with the investment either (a) a Government security or (b) issued by a person in a control relationship with the issuer?

If no, as to any guarantee that is being relied on and if the investment was issued after the grandfather date, does that guarantee have at least one NRSRO rating?

If the investment was issued after the grandfather date, has the guarantee provider or another institution agreed to notify promptly the fund if the guarantee is replaced by another provider's guarantee?

Do the investment and any related demand feature or guarantee on which the fund is relying present minimal credit risks?

N/A: No guarantee

Yes

Yes



Deciding Eligibility of Investments with Conditional Demand Features

Is there minimal risk that the fund will be unable to exercise the demand feature?

(a) Can the conditions readily be monitored by the fund or are they tax-related or (b) will the fund be notified of the occurrence of a condition and the opportunity to exercise the demand feature?

Is the underlying security rated by the requisite NRSROs within the top 2 short term or long term NRSRO rating categories or, if unrated, determined to be of comparable quality?

Is the demand feature itself an eligible security?



Yes, conditions can be monitored

Yes

Yes



Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?

Yes, 2 out of 3

N/A: Rated

N/A: 1 st tier

N/A: Rated 1st tier

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IST TIER

Special Credit Eligibility Determinations

If the investment is an asset backed security that was issued after the grandfather date and is not backed exclusively by municipal securities, does it have at least one NRSRO rating?



N/A: Not an ABS



If the investment or its guarantor has a long term, but not a short term, NRSRO rating, at least one long term rating is below the 3 highest longterm rating categories, and the investment originally had a maturity of over 397 days, does it have long term ratings from the requisite NRSROs within the 3 highest rating categories?



N/A: Shortterm rating



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



Yes, issuer is only 2% of total assets



3 Day First Tier Securities
Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: Only 2% of assets

Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?

If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or quarantees provided, by any one institution?



No, Fred's Bank = only6% of assets



N/A: Only 6% of assets



N/A: all 1st tier

Determining the Maturity of Securities

Type of Security

Variable rate government security

Floating rate government security or short term floating rate security

Short term variable rate security

Long term floating rate security with demand feature

Maturity of Security

Period until next interest rate reset

One day

Earlier of period until next interest rate reset or demand date

Period until next demand date

Long term variable rate security with demand feature

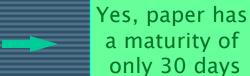


Longer of period until next interest rate reset or demand date



Determining Compliance with Maturity Limits

Does the investment have a remaining maturity of 397 days or less?

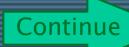




If the fund buys the investment, will the fund still have a dollar-weighted average maturity of 90 days or less?



Yes, average maturity is only 30 days



If the investment has an adjustable rate but not a demand feature, upon reset of the interest rate, can the market value of the investment reasonably be expected to approximate its amortized cost value?



N/A: paper has a demand feature



Eligibility Conclusion

Taxable fund can buy up to \$4 million of Esprit Corp. variable rate commercial paper with conditional demand feature from Fred's Bank

Example 2: Taxable Fund

Same paper as in Example 1, except:

- Interest rate floats with daily changes in 30-day U.S. LIBOR
- Paper has only 2 short term ratings: A-1 and P-2
- Demand feature is unconditional
- Terms of paper require notice to fund if another demand feature provider is substituted for Fred's Bank

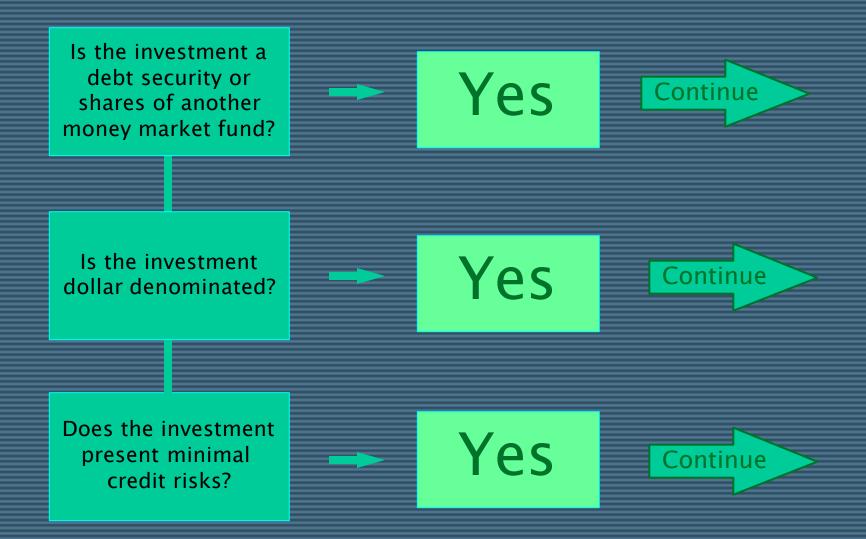
Example 2: Taxable Fund

- Fred's Bank does not control, is not controlled by and is not under common control with Esprit Corp.
- Fund already has 4% of total assets in securities issued by Fred's Bank and 6% of assets in securities guaranteed by Fred's Bank

Example 2: Taxable Fund

- Fund does not have more than 10% of assets in securities issued or guaranteed by any other person
- Fund does not own any other securities issued or guaranteed by Esprit Corp.

Threshold Eligibility Questions



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Deciding Whether an Investment is Rated or Unrated

Short Term NRSRO Rating: Has the investment (or any related guarantee) received at least one short term rating from an NRSRO?

Comparable Short Term NRSRO Rating: If no, has the issuer of the investment or the guarantee received at least one short term NRSRO rating for a comparable short term debt obligation? Paper is rated,
demand
feature is not

RATED

->

Guarantor is rated

RATED

Is the investment something other than a rated refunded or other security with a refunding arrangement or guarantee added after the security was last rated?



RATED

Deciding Eligibility of Investments with Guarantees or Demand Features

Is (1) the investment a fully collateralized repurchase agreement or (2) is each guarantee associated with the investment either (a) a Government security or (b) issued by a person in a control relationship with the issuer?

If no, as to any guarantee that is being relied on and if the investment was issued after the grandfather date, does that guarantee have at least one NRSRO rating?

If the investment was issued after the grandfather date, has the guarantee provider or another institution agreed to notify promptly the fund if the guarantee is replaced by another provider's guarantee?

Do the investment and any related demand feature or guarantee on which the fund is relying present minimal credit risks?

- No

Yes

Yes

Yes Continue

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Deciding Eligibility of Investments with Conditional Demand Features

Is there minimal risk that the fund will be unable to exercise the demand feature?

(a) Can the conditions readily be monitored by the fund or are they tax-related or (b) will the fund be notified of the occurrence of a condition and the opportunity to exercise the demand feature?

Is the underlying security rated by the requisite NRSROs within the top 2 short term or long term NRSRO rating categories or, if unrated, determined to be of comparable quality?

Is the demand feature itself an eligible security?

N/A: Demand feature is unconditional





Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?



NO: paper split rating = 2nd tier



1ST TIER
due to
credit
substitution





N/A: Rated 1st tier



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Special Credit Eligibility Determinations

If the investment is an asset backed security that was issued after the grandfather date and is not backed exclusively by municipal securities, does it have at least one NRSRO rating?



N/A: Not an ABS



If the investment or its guarantor has a long term, but not a short term, NRSRO rating, at least one long term rating is below the 3 highest longterm rating categories, and the investment originally had a maturity of over 397 days, does it have long term ratings from the requisite NRSROs within the 3 highest rating categories?



N/A: Shortterm rating



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



N/A: Credit Substitution



3 Day First Tier Securities
Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: Credit Substitution

Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?

If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?



Yes, Fred's
Bank = 11%
of assets



No, Fred's
Bank is not
affiliated and
= only 11%
of assets



N/A: 1st tier guarantor

Determining the Maturity of Securities

Type of Security

Variable rate government security

Floating rate government security or short term floating rate security

Short term variable rate security

Long term variable rate security with demand feature

Maturity of Security

Period until next interest rate reset

One day

Earlier of period until next interest rate reset or demand date

Longer of period until next interest rate reset or demand date

Long term floating rate security with demand feature

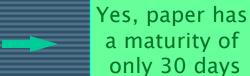


Period until next demand date



Determining Compliance with Maturity Limits

Does the investment have a remaining maturity of 397 days or less?

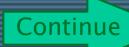




If the fund buys the investment, will the fund still have a dollar-weighted average maturity of 90 days or less?



Yes, average maturity is only 30 days



If the investment has an adjustable rate but not a demand feature, upon reset of the interest rate, can the market value of the investment reasonably be expected to approximate its amortized cost value?



N/A: paper has a demand feature



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Eligibility Conclusion

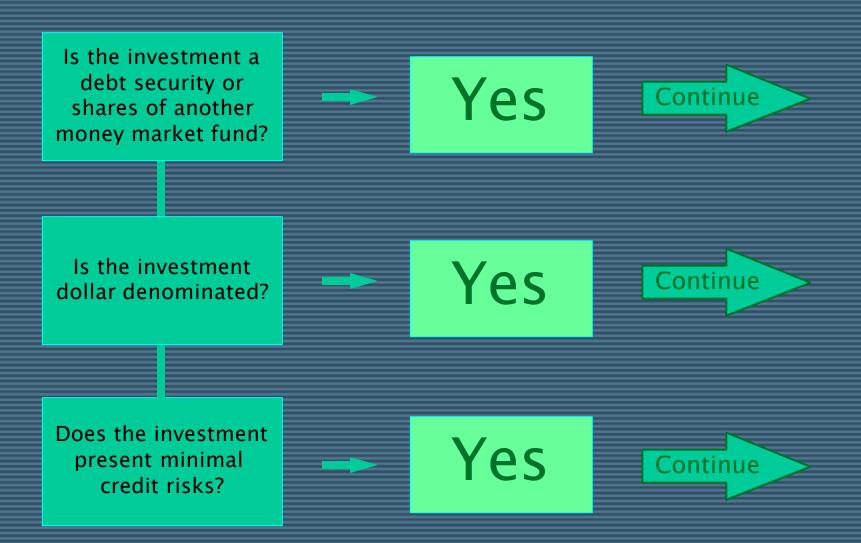
Taxable fund can buy up to \$15 million of Esprit Corp. floating rate commercial paper with unconditional demand feature from Fred's Bank

Example 3: Taxable Fund

Same paper as in Example 1, except:

- Issuer has only 2 short term ratings:
 - A-1 and P-2
- Paper has no demand feature or guarantee
- Fund owns no Esprit Corp. paper yet but plans to invest not more than 10% of assets in paper for up to 3 business days

Threshold Eligibility Questions



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Deciding Whether an Investment is Rated or Unrated

Short Term NRSRO Rating: Has the investment (or any related guarantee) received at least one short term rating from an NRSRO?

Comparable Short Term NRSRO Rating: If no, has the issuer of the investment or the guarantee received at least one short term NRSRO rating for a comparable short term debt obligation? No

Yes

RATED

Is the investment something other than a rated refunded or other security with a refunding arrangement or guarantee added after the security was last rated?





Deciding Eligibility of Investments with Guarantees or Demand Features

Is (1) the investment a fully collateralized repurchase agreement or (2) is each guarantee associated with the investment either (a) a Government security or (b) issued by a person in a control relationship with the issuer?

If no, as to any guarantee that is being relied on and if the investment was issued after the grandfather date, does that guarantee have at least one NRSRO rating?

If the investment was issued after the grandfather date, has the guarantee provider or another institution agreed to notify promptly the fund if the guarantee is replaced by another provider's guarantee?

Do the investment and any related demand feature or guarantee on which the fund is relying present minimal credit risks?



N/A: No guarantee



N/A: No guarantee or demand feature



N/A: No guarantee or demand feature



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Deciding Eligibility of Investments with Conditional Demand Features

Is there minimal risk that the fund will be unable to exercise the demand feature?

(a) Can the conditions readily be monitored by the fund or are they tax-related or (b) will the fund be notified of the occurrence of a condition and the opportunity to exercise the demand feature?

Is the underlying security rated by the requisite NRSROs within the top 2 short term or long term NRSRO rating categories or, if unrated, determined to be of comparable quality?

Is the demand feature itself an eligible security?

N/A: Demand feature is unconditional





Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?

-

NO: split rating is not 1st tier

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?

N/A: Rated

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?

Yes

2ND TIER

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?

N/A: Rated

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Special Credit Eligibility Determinations

If the investment is an asset backed security that was issued after the grandfather date and is not backed exclusively by municipal securities, does it have at least one NRSRO rating?



N/A: Not an ABS



If the investment or its guarantor has a long term, but not a short term, NRSRO rating, at least one long term rating is below the 3 highest longterm rating categories, and the investment originally had a maturity of over 397 days, does it have long term ratings from the requisite NRSROs within the 3 highest rating categories?



N/A: Shortterm rating



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



N/A: Paper is 2nd tier



3 Day First Tier Securities
Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: No exemption for 2nd tier paper

Diversification of Second Tier Securities

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities?

If the fund buys the investment, will more than 1% of total assets be invested in securities issued by the same issuer?

Yes, if fund invests 10%

No, if fund invests 1%



Continue

Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?

If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?

N/A: No demand features or guarantees



If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?

Determining the Maturity of Securities

Type of Security

Variable rate government security

Floating rate government security or short term floating rate security

Short term variable rate security

Long term variable rate security with demand feature

Maturity of Security

Period until next interest rate reset

One day

Earlier of period until next interest rate reset or demand date

Longer of period until next interest rate reset or demand date

Long term variable rate security with no demand feature



Period remaining until final maturity date



Determining Compliance with Maturity Limits

Does the investment have a remaining maturity of 397 days or less?



No, maturity is 2 years



If the fund buys the investment, will the fund still have a dollar-weighted average maturity of 90 days or less?



No, if fund invests 10% Yes, if fund invests 1%

If the investment has an adjustable rate but not a demand feature, upon reset of the interest rate, can the market value of the investment reasonably be expected to approximate its amortized cost value?



Yes, if initial cost reflects
30-day rate on
2 year paper

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Eligibility Conclusion

Taxable fund cannot buy more than \$1 million of Esprit Corp. second tier variable rate commercial paper with no demand feature or guarantee and cannot buy this paper until it has become a short term security (with a remaining maturity of 397 days or less)

Example 4: Taxable Fund

Same paper as in Example 3, except:

- Paper and issuer have no short term ratings, but paper has received long term ratings of BBB, Baa and A
- Adviser believes that paper is comparable in quality to securities rated A-2, P-2, F-2

Threshold Eligibility Questions

Is the investment a debt security or shares of another money market fund?





Is the investment dollar denominated?



Yes



Does the investment present minimal credit risks?



Questionable unless long term ratings are lagging real credit quality



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Deciding Whether an Investment is Rated or Unrated

Short Term NRSRO Rating: Has the investment (or any related guarantee) received at least one short term rating from an NRSRO?

Comparable Short Term NRSRO Rating: If no, has the issuer of the investment or the guarantee received at least one short term NRSRO rating for a comparable short term debt obligation?









UNRATED

Is the investment something other than a rated refunded or other security with a refunding arrangement or guarantee added after the security was last rated?



N/A

Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?



If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?



Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?



If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?

Yes

→ 2ND TIER

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Special Credit Eligibility Determinations

If the investment is an asset backed security that was issued after the grandfather date and is not backed exclusively by municipal securities, does it have at least one NRSRO rating?



N/A: Not an ABS



If the investment or its guarantor has a long term, but not a short term, NRSRO rating, at least one long term rating is below the 3 highest longterm rating categories, and the investment originally had a maturity of over 397 days, does it have long term ratings from the requisite NRSROs within the 3 highest rating categories?









Eligibility Conclusion

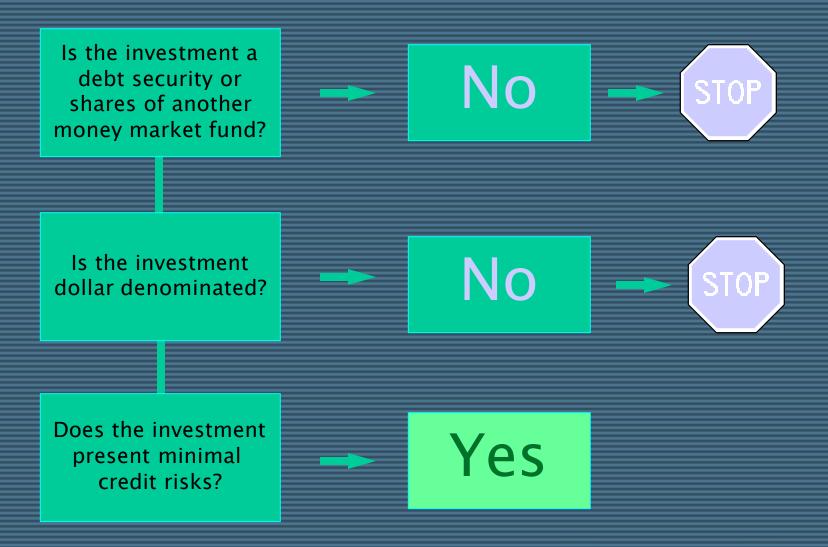
Taxable fund cannot buy Esprit Corp. commercial paper with no short term rating and ineligible long term ratings

Example 5: Taxable Fund

Possible investment in 1 year certificate of deposit with these terms:

- Issuer is a Bermuda bank with A-1/
- P-1/F-1 ratings
- Amount of interest depends on the performance of the EAFE stock index
- Principal and interest are payable in Euros

Threshold Eligibility Questions

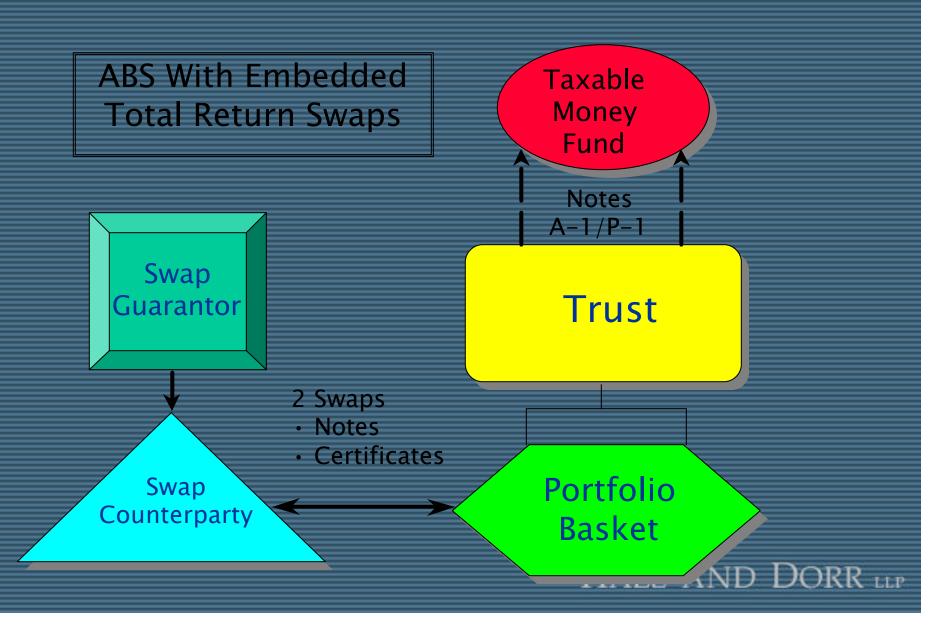


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Eligibility Conclusion

Taxable fund cannot buy Bermuda Bank CD with foreign equity rate of return and principal and interest payable in a foreign currency

Example 6: Taxable Fund



Example 6: Taxable Fund

Possible investment in asset backed notes with embedded swaps

- The notes mature 360 days after the date of issue
- A note holder can extend the maturity of the notes by 360 days by signing an agreement with the trust
- The notes do not have a demand feature

Example 6: Taxable Fund

Possible investment in asset backed notes with embedded swaps

- The notes are rated A-1/P-1
- Interest is payable quarterly in arrears
- Interest rate is 3 month LIBOR + 10 basis points and resets quarterly
- The trust has no unpledged assets so note holders must look to the swap counterparty for payment

Example 6: Taxable Fund

Possible investment in asset backed notes with embedded swaps

- The obligations of the swap counterparty are guaranteed by its parent company, which is not affiliated with the ABS sponsor
- Other short term debt of the swap counterparty and the guarantor has been rated A-1/P-1
- The trust will notify the fund of any change in the guarantor

Example 6: Taxable Fund

Possible investment in asset backed notes with embedded swaps

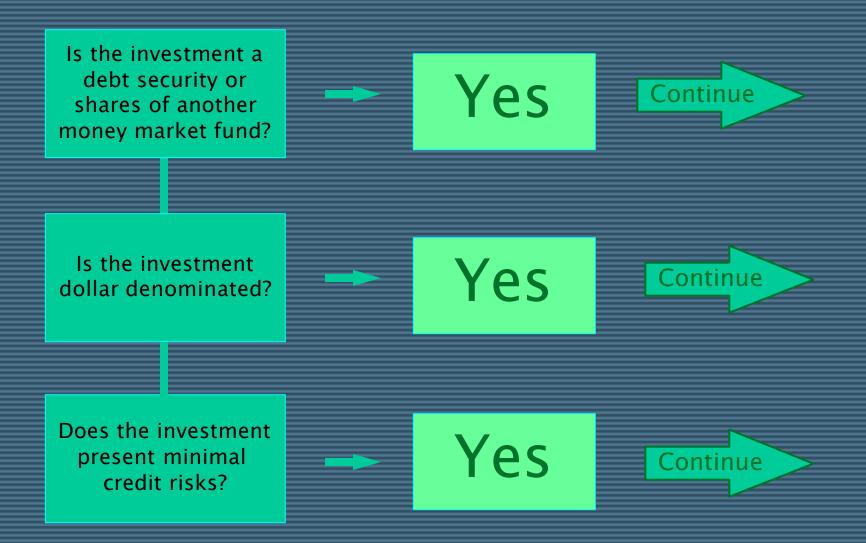
- The trust must make payments to the swap counterparty even if the counterparty does not make reciprocal payments
- If there is an early termination event, the portfolio securities basket is liquidated and note holders are paid first

Example 6: Taxable Fund

Possible investment in asset backed notes with embedded swaps

- The fund is the same as in Example 1
- The fund does not own any other securities issued by the trust or swap counterparty
- The fund has 6% of assets invested in other securities guaranteed by the guarantor
- The fund wants to buy \$4 million of the notes

Threshold Eligibility Questions



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Deciding Whether an Investment is Rated or Unrated

Short Term NRSRO Rating: Has the investment (or any related guarantee) received at least one short term rating from an NRSRO?

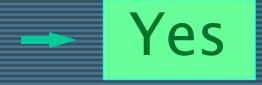
Comparable Short Term NRSRO Rating: If no, has the issuer of the investment or the guarantee received at least one short term NRSRO rating for a comparable short term debt obligation?

Is the investment something other than a rated refunded or other security with a refunding arrangement or guarantee added after the security was last rated?











Deciding Eligibility of Investments with Guarantees or Demand Features

Is (1) the investment a fully collateralized repurchase agreement or (2) is each guarantee associated with the investment either (a) a Government security or (b) issued by a person in a control relationship with the issuer?

If no, as to any guarantee that is being relied on and if the investment was issued after the grandfather date, does that guarantee have at least one NRSRO rating?

If the investment was issued after the grandfather date, has the guarantee provider or another institution agreed to notify promptly the fund if the guarantee is replaced by another provider's guarantee?

Do the investment and any related demand feature or guarantee on which the fund is relying present minimal credit risks?

Yes, guarantor controls counterparty

Continue

N/A: guarantee need not be rated

Yes

Continue

Yes



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Deciding Eligibility of Investments with Conditional Demand Features

Is there minimal risk that the fund will be unable to exercise the demand feature?

(a) Can the conditions readily be monitored by the fund or are they tax-related or (b) will the fund be notified of the occurrence of a condition and the opportunity to exercise the demand feature?

Is the underlying security rated by the requisite NRSROs within the top 2 short term or long term NRSRO rating categories or, if unrated, determined to be of comparable quality?

Is the demand feature itself an eligible security?

N/A: Demand feature is unconditional





Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?



Yes, 2 out of 2



1ST TIER
but subject
to issuer
diversification



N/A: Rated



N/A: Rated 1 st tier

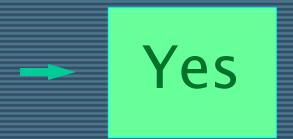


N/A: Rated 1 st tier

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Special Credit Eligibility Determinations

If the investment is an asset backed security that was issued after the grandfather date and is not backed exclusively by municipal securities, does it have at least one NRSRO rating?



Continue

If the investment or its guarantor has a long term, but not a short term, NRSRO rating, at least one long term rating is below the 3 highest longterm rating categories, and the investment originally had a maturity of over 397 days, does it have long term ratings from the requisite NRSROs within the 3 highest rating categories?



N/A: Shortterm rating



Determining the Issuer of Asset Backed Securities

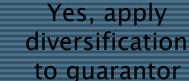
Does the primary asset backed security ("ABS") have any 10% obligors? Does any 10% obligor that is an ABS have any 10% obligors? Yes, swap counterparty is a 10% obligor & issuer of 100% of the note



The special purpose trust is a co-issuer of 100% of the note



Is the ABS or other security issued by any 10% obligor subject to a demand feature or guarantee?





Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



Yes, each issuer is only 4% of total assets



3 Day First Tier Securities
Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: Only 4% of assets

Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?

If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?



No, guarantor = only 10% of assets



->

N/A: 25% basket not available

->

N/A: all

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Determining the Maturity of Securities

Type of Security

Variable rate government security

Floating rate government security or short term floating rate security

Long term floating rate security with demand feature

Long term variable rate security with demand feature

Maturity of Security

Period until next interest rate reset

One day

Period until next demand date

Longer of period until next interest rate reset or demand date

Short term variable rate security with no demand feature



Earlier of period until next interest rate reset or demand date



Determining Compliance with Maturity Limits

Does the investment have a remaining maturity of 397 days or less?

Yes, maturity is 90 days

Continue

If the fund buys the investment, will the fund still have a dollar-weighted average maturity of 90 days or less?

Yes

Continue

If the investment has an adjustable rate but not a demand feature, upon reset of the interest rate, can the market value of the investment reasonably be expected to approximate its amortized cost value?

Yes

Continue

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Eligibility Conclusion

Taxable fund can buy up to \$4 million of variable rate, asset backed notes with embedded total return swaps and no demand feature

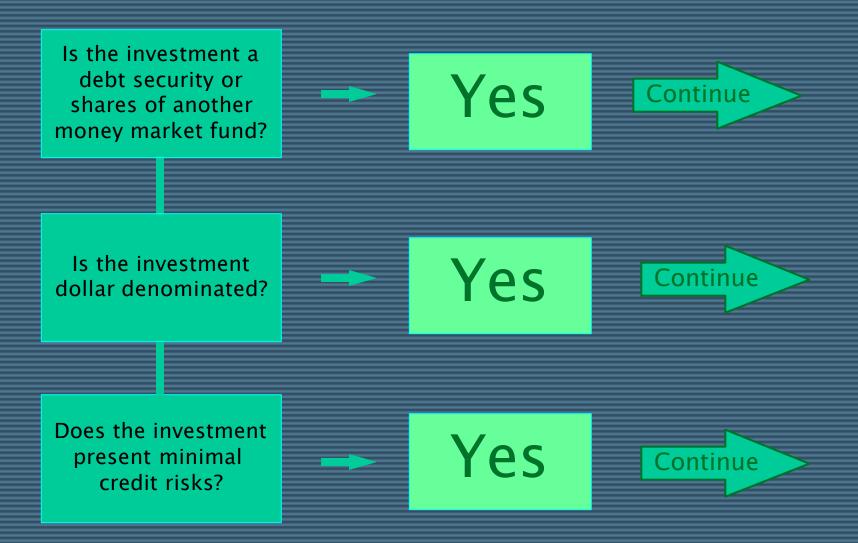
Proposed purchase of State of Prosperity oneyear notes maturing on 12/31/01

- A salesperson from ABC Dealer tells you on 11/28/00 that she is taking orders on that day for the deal, which will settle on 12/5/00
- The expected ratings (to be confirmed at closing) are MIG1/F1+
- Half of the deal is taxable and the other half is tax-exempt
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- The interest rate on notes is fixed at the U.S. market rate for 1 year municipal notes of comparable quality
- Principal and interest are payable in U.S. dollars
- The notes do not have any demand feature or guarantee

- National Tax-Free Fund has an average maturity of 50 days
- National Tax-Free Fund has \$100 million of total assets and wants to invest \$2 million in the notes
- National Fund has already invested 2% of assets in Prosperity issues

Threshold Eligibility Questions



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Deciding Whether an Investment is Rated or Unrated

Short Term NRSRO Rating: Has the investment (or any related guarantee) received at least one short term rating from an NRSRO?

Comparable Short Term NRSRO Rating: If no, has the issuer of the investment or the guarantee received at least one short term NRSRO rating for a comparable short term debt obligation? - Yes

RATED

N/A

Is the investment something other than a rated refunded or other security with a refunding arrangement or guarantee added after the security was last rated?

-

Yes



Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?

Yes, 2 out of 2

→ 1ST TIER

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?

N/A: Rated

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?

N/A: Rated 1st tier

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?

N/A: Rated 1st tier

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Special Credit Eligibility Determinations

If the investment is an asset backed security that was issued after the grandfather date and is not backed exclusively by municipal securities, does it have at least one NRSRO rating?



N/A: Not an ABS



If the investment or its guarantor has a long term, but not a short term, NRSRO rating, at least one long term rating is below the 3 highest longterm rating categories, and the investment originally had a maturity of over 397 days, does it have long term ratings from the requisite NRSROs within the 3 highest rating categories?



N/A: Shortterm rating



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



Yes; issuer is only 4% of total assets



3 Day First Tier Securities
Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: Only 4% of assets

Determining Compliance with Maturity Limits

Does the investment have a remaining maturity of 397 days or less?



NO

Trade-12/31: 33 Year 2001: 365

Maturity: 398



If the fund buys the investment, will the fund still have a dollar-weighted average maturity of 90 days or less?



YES, if the fund invests only 2% of assets

If the investment has an adjustable rate but not a demand feature, upon reset of the interest rate, can the market value of the investment reasonably be expected to approximate its amortized cost value?



N/A: notes have a fixed rate

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Eligibility Conclusion

Tax-free fund cannot buy State of Prosperity notes on 11/28/00, but can buy them on 11/29/00

- Same notes as in Example 7, except that the ratings did not come through at the closing and the notes are unrated
- State of Prosperity does not have a short term rating for other securities comparable in quality and priority to the notes
- Fund's portfolio manager says that the notes are equivalent in quality to securities rated A-1/P-1/F-1

Threshold Eligibility Questions

Is the investment a debt security or shares of another money market fund?

Is the investment dollar denominated?

Yes

Continue

Yes

Questionable

Does the investment present minimal credit risks?

-

No credit
rating at closing
suggests
material risk



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Deciding Whether an Investment is Rated or Unrated

Short Term NRSRO Rating: Has the investment (or any related guarantee) received at least one short term rating from an NRSRO?

Comparable Short Term NRSRO Rating: If no, has the issuer of the investment or the guarantee received at least one short term NRSRO rating for a comparable short term debt obligation?

Is the investment something other than a rated refunded or other security with a refunding arrangement or guarantee added after the security was last rated?







N/A

Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?

No, unrated

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?

Questionable given no credit rating at closing



Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?

No, unrated

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?

Questionable given no credit rating at closing



Special Credit Eligibility Determinations

If the investment is an asset backed security that was issued after the grandfather date and is not backed exclusively by municipal securities, does it have at least one NRSRO rating?



N/A: Not an ABS



If the investment or its guarantor has a long term, but not a short term, NRSRO rating, at least one long term rating is below the 3 highest long-term rating categories, and the investment originally had a maturity of over 397 days, does it have long term ratings from the requisite NRSROs within the 3 highest rating categories?



N/A: 1 year maturity



Eligibility Conclusion

Tax-free fund can buy State of
Prosperity notes only if it satisfactorily
resolves minimal credit risk and
comparable quality issues

Possible investment in tax-exempt tender option bonds, which are issued by a trust holding:

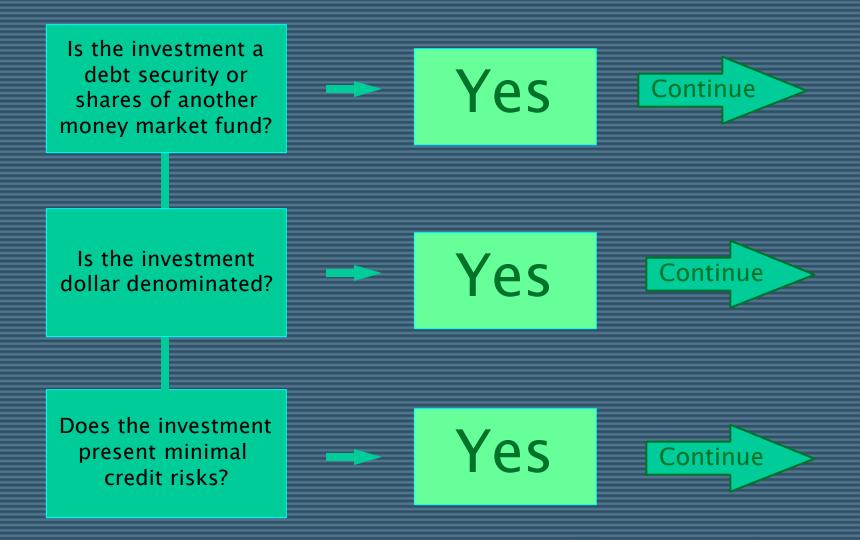
- A 5-year bond issued by Total Health Hospital
- Obligation of German Bank (which has comparable short term debt rated A-1/P-1) to cover a failed remarketing
- The tender option bonds have ratings from Moody's only; these are P-1 (short) & A1 (long)

- Other bonds issued by Total Health Hospital are rated A+ by S&P
- The tender option bonds are remarketed weekly, which resets the interest rate
- The trust will notify the fund of any change in the guarantor

- The fund is the same as in Example 6 and wants to buy \$4 million of bonds
- The fund does not own any other securities issued by the hospital but has invested 10% of assets in securities guaranteed by German Bank plus 12% in securities guaranteed by Fred's Bank

- German Bank's obligation to cover a failed remarketing will terminate if any of the following occurs:
 - A payment default by the hospital
 - Bankruptcy of the hospital
 - Determination of taxability
 - Downgrade of hospital's bond ratings to below Baa3/BBB-
 - A final judgment for an amount exceeding insurance coverage by \$10 million or more against the hospital

Threshold Eligibility Questions



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Deciding Whether an Investment is Rated or Unrated

Short Term NRSRO Rating: Has the investment (or any related guarantee) received at least one short term rating from an NRSRO?

Comparable Short Term NRSRO Rating: If no, has the issuer of the investment or the guarantee received at least one short term NRSRO rating for a comparable short term debt obligation? - Yes

RATED

N/A

Is the investment something other than a rated refunded or other security with a refunding arrangement or guarantee added after the security was last rated?





Deciding Eligibility of Investments with Guarantees or Demand Features

Is (1) the investment a fully collateralized repurchase agreement or (2) is each guarantee associated with the investment either (a) a Government security or (b) issued by a person in a control relationship with the issuer?

If no, as to any guarantee that is being relied on and if the investment was issued after the grandfather date, does that guarantee have at least one NRSRO rating?

If the investment was issued after the grandfather date, has the guarantee provider or another institution agreed to notify promptly the fund if the guarantee is replaced by another provider's guarantee?

Do the investment and any related demand feature or guarantee on which the fund is relying present minimal credit risks?

N/A: No guarantee

Yes



Deciding Eligibility of Investments with Conditional Demand Features

Is there minimal risk that the fund will be unable to exercise the demand feature?

(a) Can the conditions readily be monitored by the fund or are they tax-related or (b) will the fund be notified of the occurrence of a condition and the opportunity to exercise the demand feature?

Is the underlying security rated by the requisite NRSROs within the top 2 short term or long term NRSRO rating categories or, if unrated, determined to be of comparable quality?

Is the demand feature itself an eligible security?



Questionable due to excess \$10 million judgment condition



No, excess \$10 million judgment condition can't be monitored



->

No, issuer has only 1 rating: A+ (long term)



Yes

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Deciding Whether an Investment is First Tier or Second Tier

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's highest short term rating category?

Yes, 1 out of 1

→ 1ST TIER

If unrated, is the investment a Government security, shares of another money market fund, or of comparable quality to securities in the highest short term NRSRO rating category?

N/A: Rated

Have the requisite NRSROs rated the investment, its issuer or its guarantor in each NRSRO's second highest short term rating category?

N/A: Rated 1st tier

If unrated, is the investment of comparable quality to securities in the second highest short term NRSRO rating category?

N/A: Rated 1st tier

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Special Credit Eligibility Determinations

If the investment is an asset backed security that was issued after the grandfather date and is not backed exclusively by municipal securities, does it have at least one NRSRO rating?



N/A:Backed only by municipal securities



If the investment or its guarantor has a long term, but not a short term, NRSRO rating, at least one long term rating is below the 3 highest longterm rating categories, and the investment originally had a maturity of over 397 days, does it have long term ratings from the requisite NRSROs within the 3 highest rating categories?

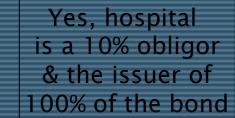


N/A: Shortterm rating



Determining the Issuer of Asset Backed Securities

Does the primary asset backed security ("ABS") have any 10% obligors? Does any 10% obligor that is an ABS have any 10% obligors?





The special purpose trust is a co-issuer of 100% of the bond



Is the ABS or other security issued by any 10% obligor subject to a demand feature or guarantee?



Yes, apply demand feature diversification to German Bank



Diversification of First Tier Securities Taxable and National Tax Free Funds

If the fund buys the investment, will 5% or less of total assets continue to be invested in securities (other than a Government security or a security subject to a guarantee by a non-controlled person) issued by the issuer of the investment?



Yes; issuer is only 4% of total assets



3 Day First Tier Securities
Exemption: Is the investment being purchased in reliance on the exemption that allows investments of up to 25% of total assets in the first tier securities of only one issuer for up to 3 business days?



N/A: Only 4% of assets

Guarantees or Demand Features that the Fund is Relying On

If the fund buys the investment, will more than 10% of total assets be invested in securities issued by or subject to demand features or guarantees provided by any one institution?

If yes, (a) is the demand feature or guarantee provided by a person (other than the issuer) in a control relationship with the issuer or (b) will this and other investments that exceed the 10% limit together be more than 25% of total assets?

If the fund buys the investment, will more than 5% of total assets be invested in second tier securities issued, or securities subject to second tier demand features or guarantees provided, by any one institution?

-

Yes, German
Bank = 14%
of assets

Yes, German + Fred's Bank = 26% of assets



N/A: all 1st tier

Determining the Maturity of Securities

Type of Security

Variable rate government security

Floating rate government security or short term floating rate security

Short term variable rate security

Long term floating rate security with demand feature

Maturity of Security

Period until next interest rate reset

One day

Earlier of period until next interest rate reset or demand date

Period until next demand date

Long term variable rate security with demand feature



Longer of period until next interest rate reset or demand date



Determining Compliance with Maturity Limits

Does the investment have a remaining maturity of 397 days or less?

Yes, bond has a maturity of only 7 days

Continue

If the fund buys the investment, will the fund still have a dollar-weighted average maturity of 90 days or less?

->

Yes

Continue

If the investment has an adjustable rate but not a demand feature, upon reset of the interest rate, can the market value of the investment reasonably be expected to approximate its amortized cost value?

N/A: bond has a demand feature



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Eligibility Conclusion

Tax-free fund cannot invest more than 3% of assets in Total Health Hospital tender option bonds with German Bank as liquidity provider

Required Records

- Rule 2a-7 procedures--6 years
- Minutes recording board decisions--6 years
- Credit risk analyses, support for minimal credit risk determination & NRSRO ratings--3 years after last review
- Determinations that adjustable rate securities without demand feature will reset at amortized cost--3 years

Required Records

- For asset backed securities, information about 10% obligors--3 years
 - Identities, % of qualifying assets & % of fund's total assets
 - Any determination that an asset backed security is unlikely to have any 10% obligors
- Determinations that a fund is not relying on a demand feature or guarantee for quality, maturity or liquidity--3 years

Downgrades

- The adviser must determine whether a security still presents minimal credit risk (and take appropriate action) if:
 - A first tier security is downgraded
 - An unrated or second tier receives a below second tier short term rating from an NRSRO
- This isn't required if the security is sold within 5 business days and the board is notified

Downgrades

- If a downgrade makes more than 5% of assets issued by or subject to a demand feature from the same second tier issuer:
 - The fund must reduce its exposure to below 5% by exercising the demand feature
 - Unless the board finds that selling the security would not be in the fund's best interest

Default, Ineligibility & Insolvency

- A fund must dispose of a security as soon as practicable, absent a contrary board finding (which may reflect market conditions), if any of the following occurs
 - The issuer defaults
 - The security becomes ineligible
 - The security no longer presents minimal credit risks
 - The issuer or the provider of any demand feature or guarantor becomes insolvent

Default, Ineligibility & Insolvency

- A fund must immediately report to the SEC a default or insolvency affecting more than 1/2% of the fund's total assets, by phone, fax or e-mail, followed by a letter
- A default or event of insolvency is deemed not to have occurred if:
 - The fund has exercised a demand feature and received the principal or amortized cost value of the security
 - The guarantor is still making payments on the security

How To Determine The Eligibility Of Money Market Fund Investments Under Rule 2a-7

April 25, 2000

Pamela Wilson

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