UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

RECEIVED
APR 24 2014
OFFICE OF THE SECRETARY

ADMINISTRATIVE PROCEEDING
File No. 3-15625

---x

In the Matter of

AMBASSADOR CAPITAL
MANAGEMENT, LLC and
DEREK H. OGLESBY,

Respondents.

---x

RESPONDENTS' PRE-HEARING BRIEF

TABLE OF CONTENTS

I. TABLE OF AUTHORITIES i

II. INTRODUCTION 1

III. STATEMENT OF FACTS 1

A. ACM'S low-risk investment strategies for AMMF 3

B. AMMF's stable net asset value 4

C. Compliance 4

D. Standard & Poor's rating of AMMF 5

IV. ACM DID NOT MAKE ANY MISREPRESENTATIONS OR VIOLATE ANY RULE 5

A. Alleged Misrepresentations 5

1. ACM did not deceive the Board regarding its Eurozone holdings in August and November 2011 6

2. ACM did not misrepresent its compliance with Rule 2a-7's diversification requirement on October 3, 2011 8

3. ACM did not deceive the Board by allegedly failing to disclose that it purchased portfolio securities without making the required minimal credit risk determinations, or by allegedly failing to disclose that it exceeded its internal maturity restrictions 10

B. The alleged violations of Rule 2a-7 12

1. ACM was in substantial compliance with Rule 2a-7's issuer diversification rule 12

2. AMMF complied with Rule 2a-7's requirement of written stress testing procedures and performed appropriate stress tests 14

V. CONCLUSION 15

TABLE OF AUTHORITIES

STATUTES

15 U.S.C. § 80a-30 1

15 U.S.C. § 80a-34 1

15 U.S.C. § 80a-35 1

17 C.F.R. § 270.2a-7 .... *passim*

17 C.F.R. § 270.22c-1 1

17 C.F.R. § 270.31a-1 1

17 C.F.R. § 270.38a-1 1

I. INTRODUCTION

In its Order Instituting Proceedings ("OIP"), the Securities and Exchange Commission ("SEC" or the "Commission") alleges that Ambassador Capital Management ("ACM") and Derek Oglesby engaged in six violations of the securities laws and of various rules promulgated by the Commission. The allegations all involve the Ambassador Money Market Fund ("AMMF" or the Fund"), a fund managed by ACM. The allegations fit into two broad categories: allegations concerning misrepresentations to the Board of Trustees of the Fund, and allegations concerning Rule 2a-7.[1] Rule 2a-7 addresses requirements that must be satisfied for an investment company to call itself a money market fund and to use the amortized cost accounting method.

We respectfully submit that there were no misrepresentations because the challenged statements were accurate, and that ACM, Mr. Oglesby, and the Fund complied with Rule 2a-7.

II. STATEMENT OF FACTS

Ambassador Capital Management ("ACM") is an employee owned and operated investment advisory company founded by Brian Jeffries in 1998. The only investments it makes are in fixed-income securities. ACM manages individual fixed-income and cash portfolio accounts for public and private sector retirement plans, municipalities, corporations, endowments and foundations. ACM does not currently manage any registered investment companies and has no plans to do so in the future.

ACM has remained in downtown Detroit despite the problems that city has experienced. ACM and its employees are active in the community. ACM's corporate citizenship includes

[1] 17 C.F.R. § 270.2a-7. The OIP alleges that AMC and Mr. Oglesby committed certain violations related to Sections 31(a), 34(b), and 35(d) of the Investment Company Act, and Rules 22c-1, 31a-1, and 38a-1 promulgated under that Act. Because liability for each of these alleged violations depends on establishment of a violation of Rule 2a-7, they are not separately addressed here.

sponsoring financial industry internships for disadvantaged high school students. Its employees volunteer with charitable and religious organizations in the Detroit area.

The Ambassador Money Market Fund was established in 2000. Because Michigan public law limits the securities in which its municipalities may invest, municipalities seeking to manage their cashflows are limited in the investments which they are permitted to make. AMMF met this need by making low-risk investments that provided a competitive return.

Brian Jeffries, the President and Chief Executive Officer of ACM, has extensive experience in managing fixed-income securities. Before founding ACM Mr. Jeffries served as a portfolio manager at Munder Capital Management, where he was responsible for the management of fixed-income portfolios valued at over $1 billion, and as a fixed income credit analyst for Comerica Bank in its Fund Management Division. He earned a Bachelor of Science degree from Central Michigan University and a law degree from Michigan State University College of Law. Mr. Jeffries is a long-time resident of Detroit who is active in his church, serious about creating opportunities for disadvantaged youth to enter the finance profession, and committed to the well-being and revitalization of his city.

Gregory Prost, the Chief Investment Officer at ACM, has over 28 years of fixed-income management experience. He directs fixed income and research strategy for ACM, manages institutional portfolios on its behalf, and serves as the primary client contact for many of ACM's clients (and, formerly, for AMMF's shareholders). A Chartered Financial Analyst ("CFA"), Mr. Prost graduated from Kalamazoo College with a Bachelor of Arts in Economics, and obtained his M.B.A. from Western Michigan University. Mr. Prost is frequently called upon to provide investment advice to municipalities in Michigan.

Derek Oglesby, the Director of Quantitative Research for ACM, joined the company in 2000 as a junior analyst. In 2010, Mr. Oglesby became the primary portfolio manager for the Fund. Mr. Oglesby received a Bachelor's degree from the University of Central Missouri and, while working full time at ACM, became a CFA and earned an M.B.A. from the Michigan State University Broad College of Business. Mr. Oglesby is 37 years old, a devoted husband, and the father of two children. He is active in his church and his community.

A. ACM's low-risk investment strategies for AMMF

In managing the Fund's investments, ACM was more conservative than Rule 2a-7 required. For example, while Rule 2a-7 permits a money market fund to invest in securities that a nationally recognized statistical rating organization ("NRSRO"), such as Standard & Poor's ("S&P") or Moody's, has rated in one of the two highest categories—First Tier or Second Tier—ACM limited the securities it purchased for the Fund to securities in the highest category (First Tier).

ACM also was very conservative in the maturity of the securities purchased for the Fund. Rule 2a-7 permits a money market fund to invest in securities with a remaining maturity of up to 397 days. Consistent with Michigan law and its own conservative investment strategies, however, ACM caused AMMF to invest in securities with maturities less than half of the permissible limit.

ACM also caused AMMF to maintain liquidity levels well above Rule 2a-7's requirements. As amended in 2010, Rule 2a-7 requires a money market fund to maintain a daily liquidity of 10% of its Total Assets, and a weekly liquidity of 30% of its Total Assets. From 2009 through AMMF's closure in June 2012, the Fund maintained daily and weekly liquidity levels well above those requirements.

ACM further caused AMMF to maintain a portfolio with a weighted average maturity ("WAM") and weighted average life ("WAL") well below the maximums set by Rule 2a-7. As amended in 2010, Rule 2a-7 provides for a maximum WAM of 60 days, and a maximum WAL of 120 days. Even before the 2010 amendment, AMMF's WAM and WAL were far below these limits.

B. AMMF's stable net asset value

Money market funds, as a general matter, aim to maintain a stable net asset value ("NAV") of $1.00 per share. Money market funds that comply with Rule 2a-7 are not required to use mark-to-market pricing and may use amortized cost accounting to price their shares. Although AMMF employed the amortized cost accounting method, it also calculated the mark-to-market price of its portfolio (the "shadow NAV") twice per week.

C. Compliance

Maria De Nicolo was Chief Compliance Officer of AMMF from 2004 to 2012 and Chief Compliance Officer of ACM from approximately 2005 to early 2010. Ms. De Nicolo brought nearly three decades of experience in financial accounting and years of experience in fund compliance to her role. Ms. DeNicolo also was President and part-owner of Fund Services Group ("FSG"), which acted from 2003 until 2012 as the Administrator for the Fund.

FSG was responsible for monitoring the Fund's compliance with the securities laws and regulations, including Rule 2a-7, and for working with Fund counsel to develop policies and procedures designed to ensure that the Fund and ACM were in compliance. FSG conducted daily compliance reviews of ACM's trading activities on behalf of the Fund to ensure compliance with Rule 2a-7. At the end of each trading day, FSG generated a "holdings report," which served as a snapshot of the day's portfolio and provided a blueprint for the next day's trading. FSG calculated AMMF's shadow NAV twice weekly and served as an interface

between the Fund and S&P. Ms. DeNicolo also prepared the materials for the meetings of the Board of Trustees, attended the Board meetings, and provided the Board with quarterly compliance reports.

D. Standard & Poor's rating of AMMF

ACM's careful stewardship of AMMF was formally recognized by S&P. Beginning in 2007 and in every year thereafter throughout the life of AMMF, S&P assigned the Fund the rating of AAAm. This is the highest rating available for money market funds.

AMMF received this recognition each year after undergoing an in-depth examination by S&P, including a review of the Fund's investments and investment strategies, its credit analysis, and its AMMF's compliance with SEC rules and regulations.

III. ACM DID NOT MAKE ANY MISREPRESENTATIONS OR VIOLATE ANY RULE

A. <u>Alleged Misrepresentations</u>

The OIP alleges that ACM deceived the Board about risks in the AMMF portfolio in three ways. First, the OIP alleges that ACM deceived the Board by making false and misleading statements to the Board about AMMF's holdings of ENI, an Italian utility company. Second, the OIP alleges that ACM deceived the Board by making false and misleading statements regarding the issuer diversification of AMMF's portfolio on October 3, 2011. Third, the OIP alleges that ACM deceived the Board by withholding from the Board information regarding ACM's minimal credit risk determinations and maturity restrictions.

ACM and Mr. Oglesby never deceived the Board. The statements regarding the Italian-affiliated securities and the issuer diversification on October 3, 2011, were not false or misleading. Nor were there any material omissions, because ACM always made minimal credit

risk determinations before purchasing securities, and because its internal maturity restrictions were non-binding guidelines used in deciding which securities to purchase on a given day.

1. ACM did not deceive the Board regarding its Eurozone holdings in August and November 2011.

The OIP alleges that Mr. Oglesby deceived the Board about risks in the AMMF portfolio by making false and misleading statements to the Board at its August 8, 2011 and November 14, 2011 meetings regarding AMMF's exposure to institutions located in Italy.

On August 8, 2011, during the course of a presentation by ACM on the Fund's response to the ongoing Eurozone crisis, the Fund's Board was informed that ACM was "trying to stay away from Greece, Spain, and Italy."[2]

At the next Board meeting, on November 14, 2011, ACM continued to discuss the situation in Italy with the Board. According to the OIP, Mr. Oglesby told the Board at that meeting that AMMF

> [had] limited exposure to European markets, including that the [AMMF] has no assets issued in the Greek marketplace and had minimal second-hand exposure to the Italian market (and that the asset in question would be off the books of [AMMF] as of mid-November, after which time [AMMF] would have no exposure to the Italian market).

The OIP alleges that these statements, taken together, misled the Board as to ACM's exposure to Italian-affiliated issuers of commercial paper in general, and to one security in

---

[2] The OIP alleges that, according to draft minutes, Mr. Oglesby stated:

> The last year has been very tough. Liquidity is better, but as a result, rates are lower, and we have record low interest rates. The short term markets have been hard, and Europe has played a huge roll (sic) in that risk assessment. They [ACM] are trying to stay away from Greece, Spain, Italy and other countries doing poorly in the credit area. Finding gains on the approved list is a challenge. Positioning is being done on long term and short term. They [ACM] are forced to buy European paper, but are picking the better countries: England and Germany.

There were several drafts of these minutes. For example, as acknowledged in the OIP, an earlier draft records the statement "[ACM] is trying to stay out of Italy." A later version revised this statement to "[ACM was] staying out of Italy." The alleged statements highlighted in the OIP, which form the basis of this portion of the allegation, appear in an earlier draft and were substantively revised during the editing process.

particular: ENI, a utility partially owned by the Italian government. The OIP points out that on December 1, approximately two weeks after the November 14, 2011 meeting, ACM resumed purchasing ENI securities.

The statements ACM made to the Fund's Board about the portfolio's exposure to Italy were entirely truthful and accurately described the state of the Fund's exposure to Italy.

At the time of the August 8 meeting, AMMF held securities of three high-quality Italian-affiliated issuers: the asset-backed commercial paper of Arabella and Romulus, and the commercial paper of ENI. In the weeks leading up to and following the August 8 meeting, ACM held these three securities at increasingly shorter maturities, reducing maturities in Arabella from more than 30 days to four days or fewer and in Romulus to seven days or fewer.[3] By the time of the November 14, 2011 meeting, the Fund had not purchased any Arabella or Romulus for nearly a week, and the last remaining ENI holdings were due to mature within four days. As the OIP acknowledges, the latter securities matured on November 18, at which point AMMF had no exposure to the Italian market.

After the Board meeting, ACM continued to watch the markets closely, and during the last week of November market developments led ACM to reassess its opinion of ENI. On November 30, 2011, six central banks took joint action to stabilize European banks. And on December 1, 2011, the head of the European Central Bank announced that the ECB would provide liquidity to the European market. These developments represented a significant change in the market for European banks and, therefore, for European issuers. As a result, Greg Prost and Derek Oglesby concluded that it made sense to resume purchasing ENI securities, and did so for a four-day maturity. Over the coming days, ACM rolled over its ENI holdings at extremely

[3] In general, the longer the maturity of a particular holding, the higher the risk associated with that holding. (To address this, Rule 2a-7 limits any particular holding to a 397-day maturity, and the portfolio's overall weighted average maturity to 60 days.)

short maturities while keeping close watch on the markets. These purchases were disclosed to the Board, which received the Approved List containing ENI and the purchase journals reflecting these purchases in advance of the February 13, 2012 Board meeting.

In addition to disclosing these purchases to the Board at its next scheduled meeting, ACM provided the SEC with updates concerning AMMF's holdings and portfolio in both November and December 2011. As mentioned, AMMF's final ENI holding matured on November 18, 2011, and AMMF held no Italian securities. On November 22, 2011, Mr. Jeffries informed the SEC examiners that as of that date AMMF held no direct exposure to Italy. On December 7, 2011, Mr. Prost updated the SEC regarding AMMF's Eurozone portfolio holdings, including the fact that AMMF had purchased ENI securities, and specifically noted that ENI was an Italian issuer.

ACM clearly did not attempt to conceal that it had resumed purchasing ENI securities, and did not make any misrepresentation to the Fund's Board.

2. ACM did not misrepresent its compliance with Rule 2a-7's diversification requirement on October 3, 2011

The OIP alleges that at the November 14, 2011 Board meeting, ACM falsely stated that no more than five percent of the Fund's assets were invested in the securities of any one issuer on October 3, 2011, when in fact there were ten such holdings. Specifically, the minutes reflect that the Board was informed that "following the maturity of certain securities in the . . . Fund's portfolio on October 3, 2011 . . . , no more than 5% of the assets of the . . . Fund were invested in the securities of any one issuer."

Respondents dispute the SEC's allegation for three reasons: because the statement was not made by ACM, because the statement was not misleading in context, and because any imprecision was immaterial.

The statement made at the November 14 Board meeting related to a redemption that occurred on September 30, 2011, at 11:59 a.m., one minute before the Fund's daily redemption deadline. Due to the redemption, three securities that had been purchased earlier that morning, and that did not represent more than five percent of the Fund's holdings at the time of purchase, grew to over five percent of the Fund's portfolio as a result of the redemption. (Such a rise in percentage of total assets is not a violation of Rule 2a-7.) Shortly after the redemption, Mr. Oglesby drafted a letter stating that the Fund was in compliance with Rule 2a-7's diversification requirement as of October 3, 2011, the next business day after the September 30 redemption. That letter was entirely accurate.

Neither Mr. Prost nor Mr. Oglesby made the alleged statement to the Board at the November 14 meeting. According to the minutes, Mr. Prost and Mr. Oglesby had left the meeting before these statement was made. In addition, the alleged statement is recorded in a section of the minutes relating to 2a-7 compliance—a regularly occurring segment of the Board meetings that was led by Ms. DeNicolo in her capacity as Chief Compliance Officer of AMMF and as AMMF's Administrator, and for which Mr. Prost and Mr. Oglesby always left the meetings. The minutes' attribution of the statement to ACM thus appears to be in error.

Nor would the statement in context have been misleading. As reflected in the minutes, the topic under discussion when the statement was allegedly made was Rule 2a-7 compliance.[4] Rule 2a-7's issuer diversification rule requires that a holding represent no more than five percent of the total portfolio at time of purchase. But the statement was made immediately after

[4] The SEC apparently believes that this discussion was about so-called "passive breaches," or holdings that totaled more than 5% of net assets as the result of redemptions that increased the post-purchase percentages of individual holdings. But such holdings do not violate Rule 2a-7's diversification rule because that rule applies at the time of purchase. Indeed, Rule 2a-7 does not address the issue of post-purchase changes in holding percentages, and does not require money market funds to take any action should a holding percentage rise above 5% due to redemptions in the portfolio. Because "passive breaches" are not in fact violations of Rule 2a-7, it is highly unlikely that such events were the subject of discussion at the time the allegedly misleading statement was made.

directing the Board's attention to the daily compliance review summary prepared for the Fund by FSG, which specifies that FSG reviews portfolio diversification "[i]mmediately after the acquisition of [the] security." The Board would therefore not have viewed the statement as referencing positions that grew to over five percent as a result of the September 30 redemption, as was the case with each of the positions referenced in paragraph 44 of the OIP, because those positions would be irrelevant to the question whether the Fund was in compliance with Rule 2a-7.

Further, any imprecision was immaterial, because the Fund was in fact in compliance with Rule 2a-7's diversification requirement on October 3, 2011, just as it was on September 30, 2011. Because the statement occurred during the portion of the meeting designed to update the Board on the Fund's compliance with 2a-7, the Board was not deprived of information that it would have found material to the determination of whether the Fund was in compliance with Rule 2a-7.

3. ACM did not deceive the Board by allegedly failing to disclose that it purchased portfolio securities without making the required minimal credit risk determinations, or by allegedly failing to disclose that it exceeded its internal maturity restrictions.

The OIP alleges that ACM knowingly deceived the Board by withholding from the Board information regarding ACM's determinations of minimal credit risk, and regarding ACM's internal maturity restrictions.

The OIP alleges that ACM failed to disclose to the Board that ACM repeatedly purchased AMMF portfolio securities without making a determination that the securities posed a minimal credit risk. In fact, ACM made a determination that each security it purchased for the fund met the minimal credit risk requirement. In addition, that conclusion was confirmed in a written credit risk report. ACM did not prepare a credit report unless it had determined that the security

in question posed a minimal credit risk. As a result, the existence of a credit report was a written confirmation of ACM's determination that the security posed a minimal credit risk.

It is also a fact that the reports occasionally reflected ACM's views as to relative gradations of risk within the "minimal credit risk" category. Language such as "some risk," "moderate risk," or "slight risk" were designed to address ACM's analysis of those gradations. In 2010 and 2011, ACM associated those gradations with "tier" designations—specifically, Tier 1(A), 1(B), and Tier 1(C). "Tier 1" reflected the minimal credit risk category; the letters (A), (B), and (C) reflected further sub-categorization within that minimal risk category.

When considering a new security for investment, Mr. Oglesby or another member of ACM's staff engaged in an independent analysis of the security, considering "factors pertaining to credit quality" such as the credit's structure, bank support, and history, as well as its NRSRO rating. The staff member's analysis was then presented to ACM's Credit Committee. The Credit Committee reviewed and considered this analysis, and then made its determination as to whether the security presented minimal credit risk. If the Credit Committee determined that the security presented minimal credit risk, this determination was recorded by adding the security to ACM's Approved List.

As demonstrated, ACM did not deceive the Board by failing to disclose its "failures" to comply with Rule 2a-7's requirements of minimal-credit-risk determinations: ACM made the required determinations and maintained the required written records. Accordingly, there was no failure to disclose.

The OIP also alleges that ACM deceived the Board by withholding the fact that ACM regularly exceeded ACM's own internal maturity restrictions on portfolio securities. This allegation reflects a misunderstanding of ACM's analysis and practices.

In 2010, ACM began to use the terms Tier 1(A), 1(B), and Tier 1(C) to refer to its internal gradations of its securities, and in 2011 ACM began to employ a rubric associating these "tiers" with loose maturity guidelines. This rubric was created by ACM for its own internal use—it did not view the guidelines as imposing maturity restrictions, but as providing guidelines for its purchase of securities. In that context, ACM went beyond the requirements of Rule 2a-7 to consider gradations of risk within the category of minimal credit risk. As part of this analysis, ACM sometimes included in its credit reports maturity "restrictions" to be considered when making a particular investment decision, along with other often-fluid factors, such as external ratings, discount rate, liquidity, the makeup of AMMF's portfolio, and overall market conditions. ACM's internal sub-categories and related maturity restrictions were tools that ACM used in evaluating securities that it considered purchasing for the Fund's portfolio. Such tools were the subject of constant rethinking and innovation, and were frequently revised in the normal course of ACM's business.

Because ACM viewed this tier structure as a device for its own use, it never told the Fund's Board about this device. There is, of course, no requirement that every device used by an investment manager in selecting securities for a fund must be explained to the fund's Board. In short, ACM was not obliged to tell AMMF's Board about its tiering analysis.

B. The alleged violations of Rule 2a-7

1. ACM was in substantial compliance with Rule 2a-7's issuer diversification rule

The OIP alleges that ACM caused AMMF to violate Rule 2a-7's issuer diversification rule on six days between February and December 2009.

AMMF appears to have violated Rule 2a-7 on four days,[5] out of more than 240 days of trading that year, by purchasing more than one security that at the time of purchase slightly exceeded the five percent limit, in violation of Rule 2a-7. On all four occasions, the alleged violations were cured within two days. Because these holdings exceeded five percent only slightly, these alleged violations had no material effect on the portfolio.

In addition, the alleged violations arose from a misunderstanding of law, not a disregard for it. During 2009, Ms. De Nicolo, then Chief Compliance Officer of both AMMF and ACM, misunderstood the safe harbor provision of Rule 2a-7. A money market fund is permitted to hold a security that constitutes up to 25% of the portfolio's total net assets at the time of purchase, but the position must be reduced below five percent within three days of purchase.[6]

In 2009, Ms. De Nicolo believed that a fund could hold multiple securities that exceeded five percent of the portfolio so long as these securities together did not exceed 25% of the portfolio. She was mistaken. Nevertheless, consistent with her understanding of the law, which was faithfully and consistently applied, all holdings that were above five percent at the time of purchase were reduced below the five percent limit within two days.

In 2010, FSG revised its compliance practices to reflect the safe harbor provision of Rule 2a-7. There are no allegations in the OIP that AMMF violated Rule 2a-7's issuer diversification rule in 2010, 2011, or 2012.

---

[5] The SEC was notified of five of these six days by ACM itself, by way of a letter from ACM's counsel. ACM later determined that two of those days were in fact in full compliance with the diversification rule, and therefore does not discuss those days in this section.

[6] Rule 2a-7(c)(4)(i)(A) provides:

> Immediately after the Acquisition of any security, a money market fund . . . shall not have invested more than five percent of its Total Assets in securities issued by the issuer of the security; provided, however, that such a fund may invest up to twenty-five percent of its Total Assets in the First Tier Securities of a single issuer for a period of up to three Business Days after the Acquisition thereof; provided, further, that the fund may not invest in the securities of more than one issuer in accordance with the foregoing proviso in this paragraph at any time

To the extent there was a violation of the diversification requirement of Rule 2a-7, it was trivial and was caused by FSG, not by ACM.

2. AMMF complied with Rule 2a-7's requirement of written stress testing procedures and performed appropriate stress tests

The OIP alleges that ACM failed to implement written stress testing procedures as required by Rule 2a-7, and that the stress test conducted by Mr. Oglesby in 2011 omitted certain hypothetical situations required by Rule 2a-7 to be tested (namely, an increase in shareholder redemptions and the effect of a downgrade of portfolio securities).

The applicable portion of Rule 2a-7 requires that the Fund adopt written procedures providing for periodic testing of specified hypothetical events, and providing for a report of that testing to be presented to the Board "at its next regularly scheduled meeting." Rule 2a-7(c)(10)(v). On November 19, 2010, the Board adopted the following resolutions:

> RESOLVED, that, in accordance with Rule 2a-7(10)(v), the Board of Trustees of Ambassador Funds hereby determines that periodic testing of the Ambassador Money Market Fund's ability to maintain a stable net asset value per share based upon specified hypothetical events, including, but not limited to, those stated in part (A) of that Rule, on no less frequent than an annual basis, is both appropriate and reasonable in light of current market conditions, subject to increased frequency of such testing in the event that market conditions change or the Board or compliance and/or portfolio management personnel determine more frequent testing is necessary or appropriate.
>
> FURTHER RESOLVED, that, in accordance with part (B) of such Rule, the first such stress-testing shall be performed in conjunction with the closing of the Ambassador Money Market Fund's books for the fiscal year ended December 31, 2010, with the results of such stress-testing to be presented to the Board at its next scheduled regular meeting of the Board of the Trust.

The resolutions adopted by the Board specifically incorporated the hypothetical situations set forth in Rule 2a-7, and put in place the periodic testing and reporting requirements the Fund was required to adopt. These resolutions satisfied the rule requiring written stress testing procedures.

Further, the stress testing conducted by Mr. Oglesby in February 2011, which was presented to the Board in the presence of Fund counsel, also complied with the Rule. First, contrary to the allegations of the OIP, the test did in fact evaluate the effect of an increase in shareholder redemptions: it tested the portfolio's response to a "fire sale," on the theory that redemptions beyond a money market fund's available liquidity could require a money market fund to sell its holdings at a loss. This hypothetical situation appears on the written stress testing report presented to the Board as "50% of Portfolio Widens by 500 bps," meaning a steep drop in prices for half the securities in the portfolio.

Second, the stress test conducted by Mr. Oglesby included a test of the effect of a default on the portfolio. Although the OIP alleges that the test failed to address the effect of a downgrade on the Fund, that is not required by the Rule: rather, the Fund must test the effect of "a downgrade of *or* default on portfolio securities." Rule 2a-7(c)(10)(v)(A) (emphasis added). Accordingly, a stress test may comply by testing *either* a downgrade *or* a default. The stress test conducted in February 2011 complied with this portion of the Rule by testing the effect of a default.

IV. CONCLUSION

Under ACM's management, AMMF was a low-risk, highly liquid fund that provided a competitive return. No security held by AMMF ever defaulted. In twelve years, no shareholder ever lost any money. AMMF honored each and every shareholder redemption. AMMF retained its AAAm rating, S&P's highest, until the day it closed.

We respectfully submit that the Hearing will establish that the allegations in the OIP are without factual and legal merit. ACM and Mr. Oglesby did not mislead the Board. In fact, the statements to the Board were accurate and not misleading. ACM and Mr. Oglesby did not

violate and or cause AMMF to violate any rules promulgated by the Commission. The charges against ACM and Mr. Oglesby should be dismissed.

Dated: New York, New York
April 23, 2014

Lawrence Iason
Gates S. Hurand
Miriam L. Glaser
Morvillo Abramowitz Grand Iason
& Anello, P.C.
565 Fifth Avenue
New York, NY 10017
Phone: 212-880-9420
liason@maglaw.com

Attorneys for Respondents Ambassador Capital Management and Derek H. Oglesby

Richard H. Marshall, Esq.
Ropes & Gray, LLP
1211 Avenue of the Americas
New York, NY 10036
Phone: 212-596-9006
richard.marshall@ropesgray.com

Attorneys for Respondent Ambassador Capital Management