Treasury - Cash, FX and Securities Lending

What are the Roles of the Custodian?

The term Custodian describes a set of services relating to the administration of investments made both within and outside the client's domicile

The role of the Custodian is to:

Treasury	Cash Management
	FX
	Securities Lending

Cash Management Services

Cash Management	Treasury function provides facilities to ensure liquid cash earns daily interest
	Cash Forecasting
	Sweep and Deposit facilities
	Liquidity Funds

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FX Services

FX	Dedicated team to manage automated trade related FX
	Transparent FX programme, using a public benchmark with trades netted across fund managers
	Passive Hedging

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Foreign Exchange – Transparent Execution Proposal

The Custodian offers a transparent Foreign Exchange execution service at a fixed, pre-agreed margin against an independent public benchmark

Transparent execution:
The Custodian net FX requirements by currency pair across all purchase and sale trades, with netting rules applied to all funds across all appointed managers
The Custodian commit to pricing all FX trades at the pre-agreed margins around an independent public benchmark – currently WM Reuters price – at the specified fixing times across all freely convertible currency pairs
The service is flexible and is tailored to meet client's specific requirements

Exclusions: Where currencies are subject to exchange control regulations, The Custodian's Sub-custodian in the relevant centre will execute FX trades

Foreign Exchange – Transparent Execution Proposal

If the Custodian offers a transparent Foreign Exchange execution service at a fixed, pre-agreed margin against an independent public benchmark

Transparency benefits:
Optimising netting possibilities reduces annual FX turnover and implied costs
Guaranteed execution at a public benchmark allows all rates to be audited independently if required
Removes the need for third party currency payments, which by their nature incur additional costs and increase associated risks of late payment or non-receipt of funds
Netting of trades and settlement dates for multiple funds avoid paying bid/offer spread

Foreign Exchange Transparency Service – Benefits

Bespoke solution

The ability to specify execution criteria down to the individual fund level (e.g. currency/counterparty restrictions can be altered depending on individual fund/fund manager requirements)

Pricing transparency

Ability to demonstrate transparency (against a public benchmark) in line with fund mandates
Cost control/reduction and budgeting as FX costs are agreed at a specified margin
Netting of trades and settlement dates – across multiple external and internal managed funds – avoid paying bid/offer spread

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Foreign Exchange Transparency Service – Benefits

Focus upon core competencies

Fund managers can focus on core competencies, managing underlying client funds to generate alpha (e.g. equity/fixed income trading), rather than using resources to execute 'non-core' transactional FX

Reduction in operational costs

The service eliminates any further investment in IT relating to FX trade management
Trade processing costs are reduced
Potential to reduce (non-core) execution headcount/allocate resources more effectively

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Securities Lending

Securities Lending

- Fully Indemnified agency programme
- Segregated client specific programme
- Risk averse- no cash collateral
- No losses

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What Is Securities Lending?

A temporary transaction that **transfers title** of securities from the owner of the asset to another entity in return for a fee

Driven by the borrower's need to satisfy a delivery obligation – either for a **short sale** or to facilitate an operational need **(e.g. failing trade)**

Securities lending trades are executed under the terms of a **securities lending agreement** and are virtually always **collateralised**

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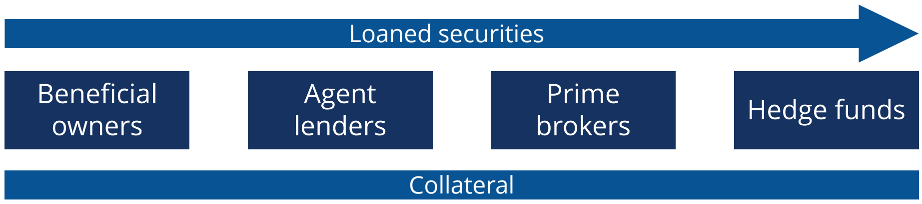
What Is Securities Lending?

Collateral is provided on a transfer of title or pledge basis

Original owner of asset maintains economic performance of asset as well as all of the rights of ownership, **EXCEPT for voting rights**

The objective is to generate **incremental revenue for custody clients**



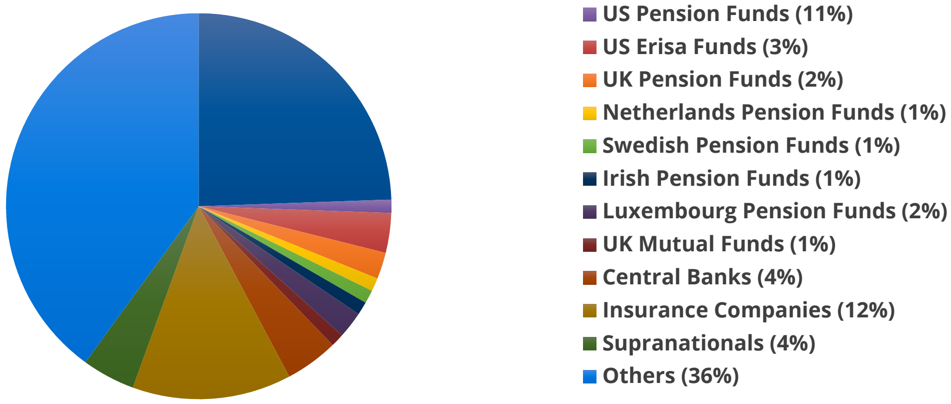
Why Lend Securities?

Global Institutional Lenders by type
To generate additional returns from idle portfolio assets
To offset custody fees
For some fund types it is virtually a requirement – Performance enhancement – To offset management fees – Index funds or ETFs require lending revenues in order to reduce tracking error

It's all about the money: £$€¥

Why Lend Securities?

Sales



Lending Services - Trading

Trading	
	Loan trading, Bloomberg, trading platforms, email, telephone
	Trading desk monitors all loans against market to ensure performance is optimised

Lending Services - Collateral

Collateral

- Daily Loan and Collateral mark-to-market
- Daily margins calls to agreed haircut percentage
- No loans are released until collateral and margin received from Borrower
- Collateral eligibility and concentration limits, borrower limits, NAV limits, etc. are all controlled using the Custodian's stock lending system

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Lending Services - Processing

Processing

- Recalls management
- Corporate actions processing
- Daily reporting
- Fee billing

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