



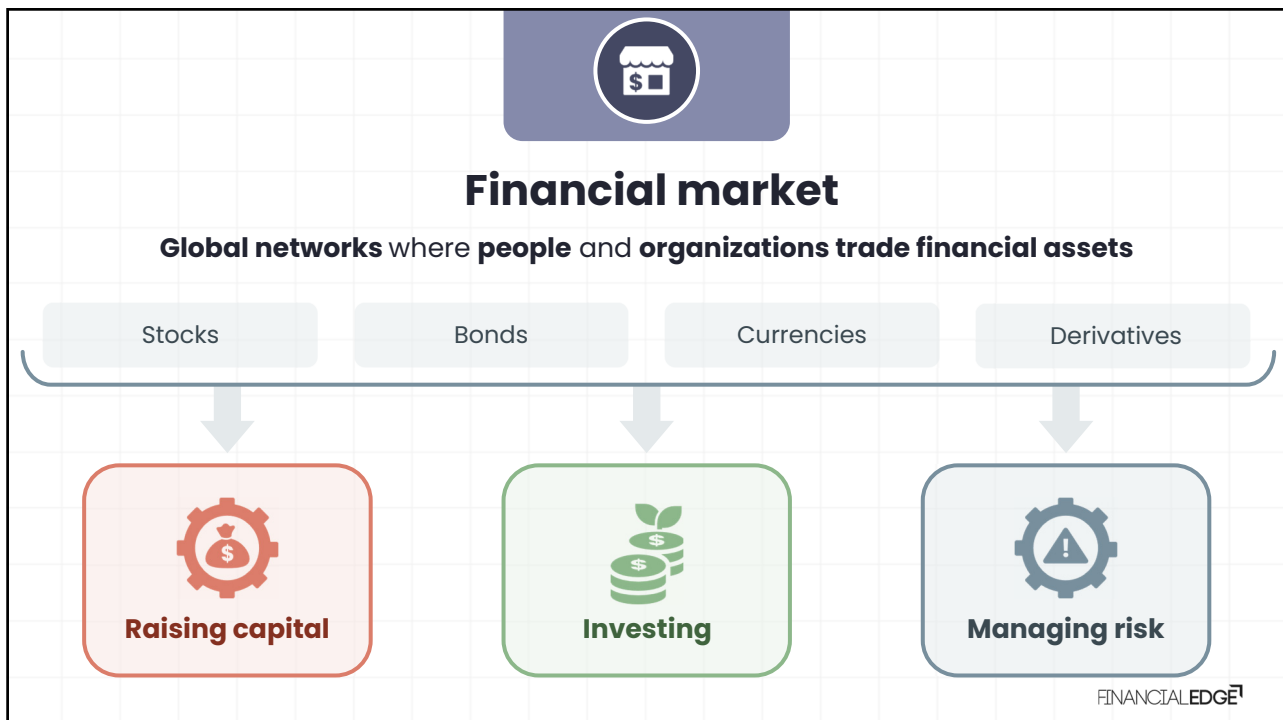
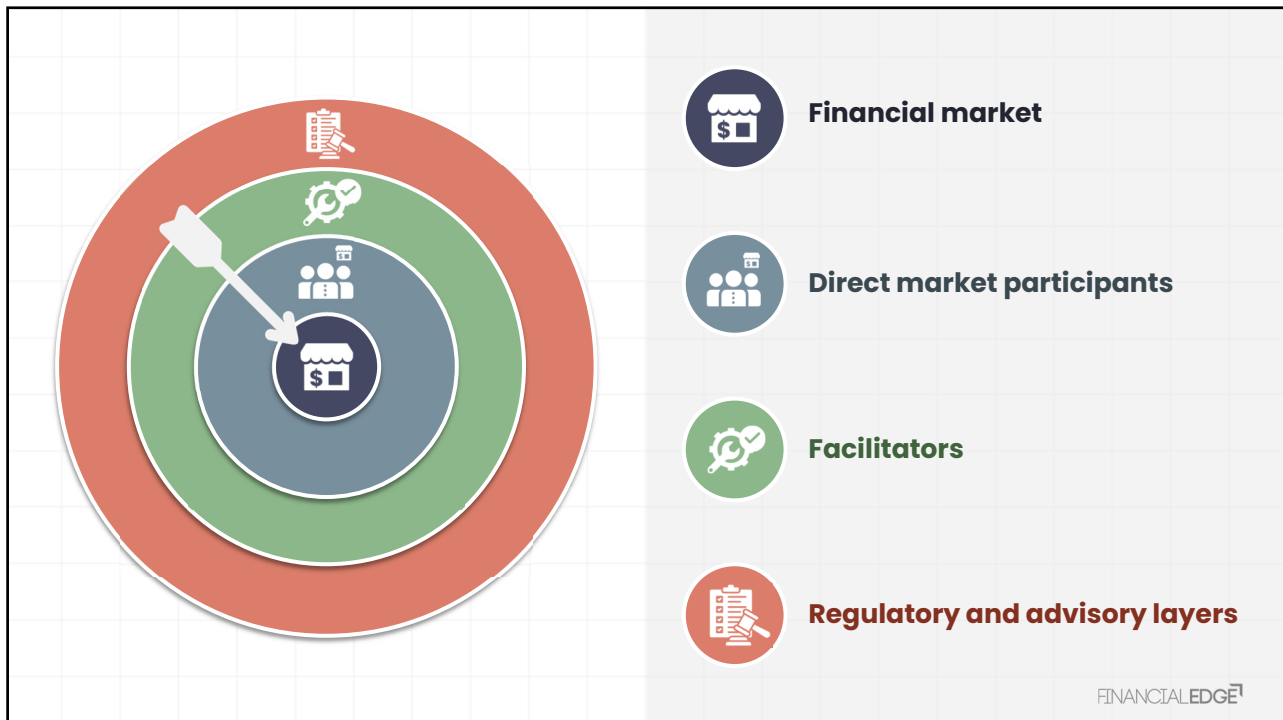
Market Participants Overview

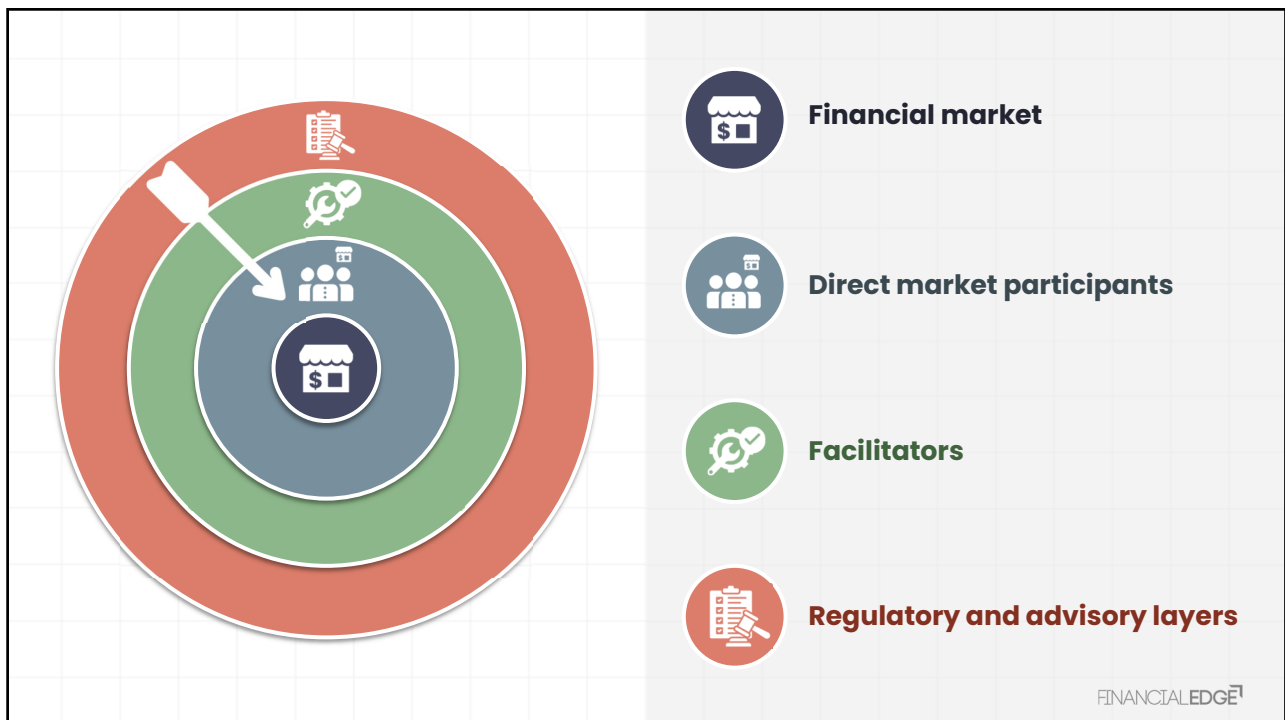
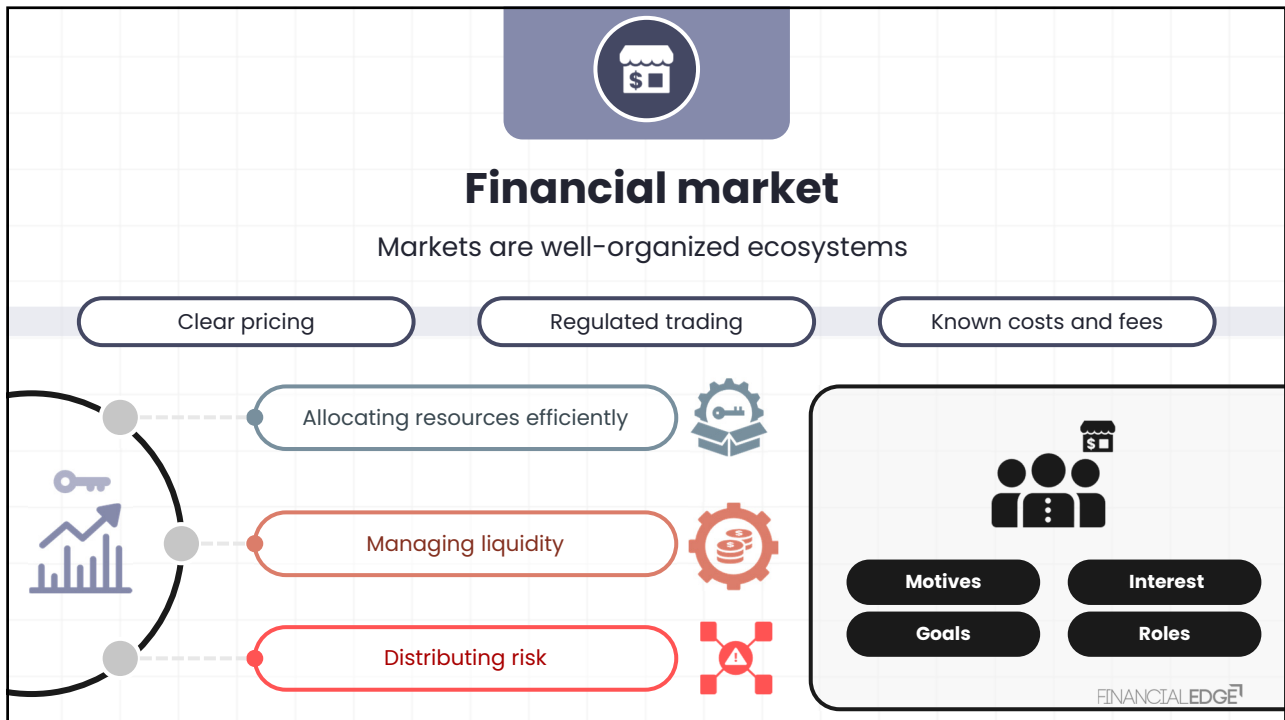
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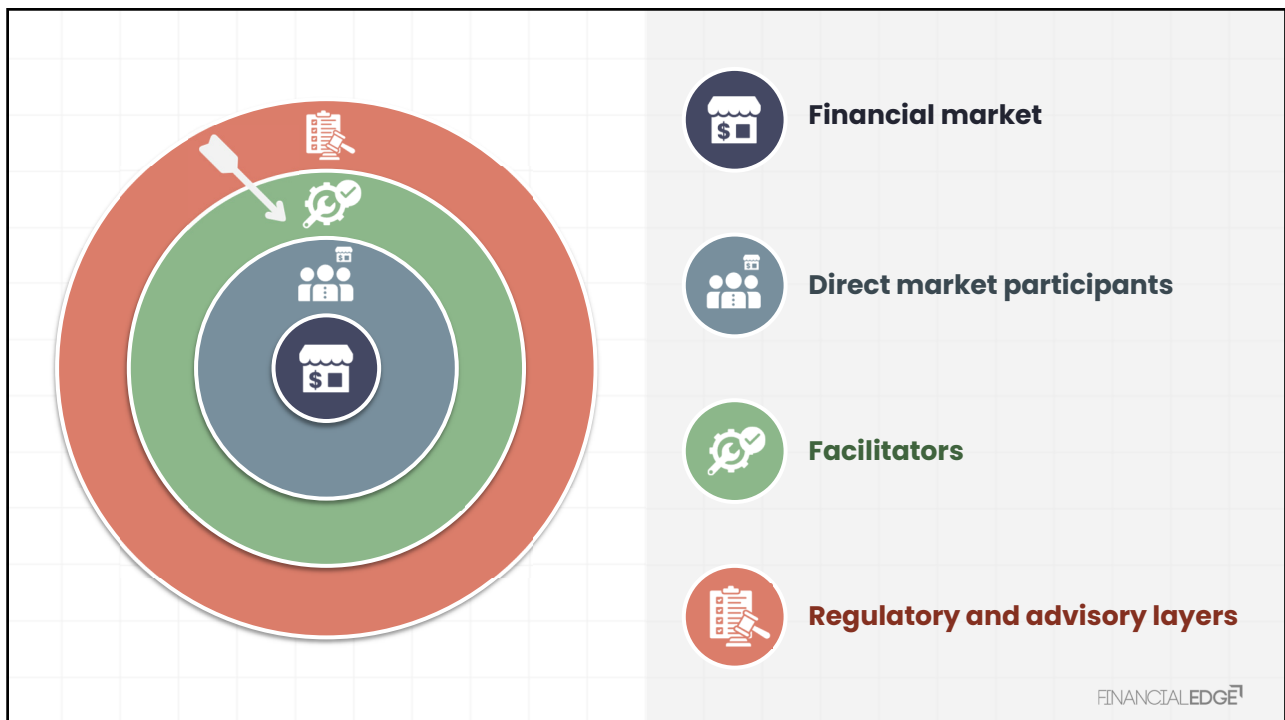
The graphic features a stylized storefront with a grey awning. Inside the window, there is a pie chart on the left and a bar chart on the right. Below the window, there are four green banknotes with dollar signs, and a red banknote with a dollar sign and a blue circle is placed in front of them. The entire graphic is set against a light grey grid background.

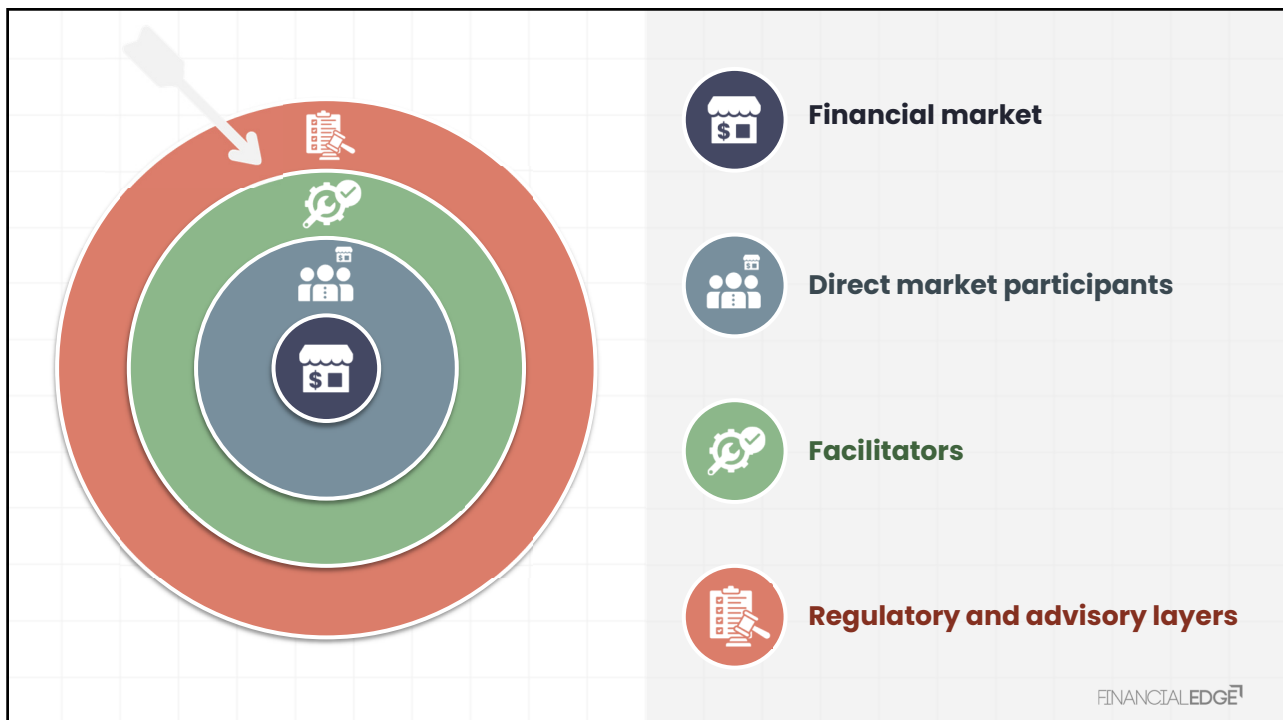
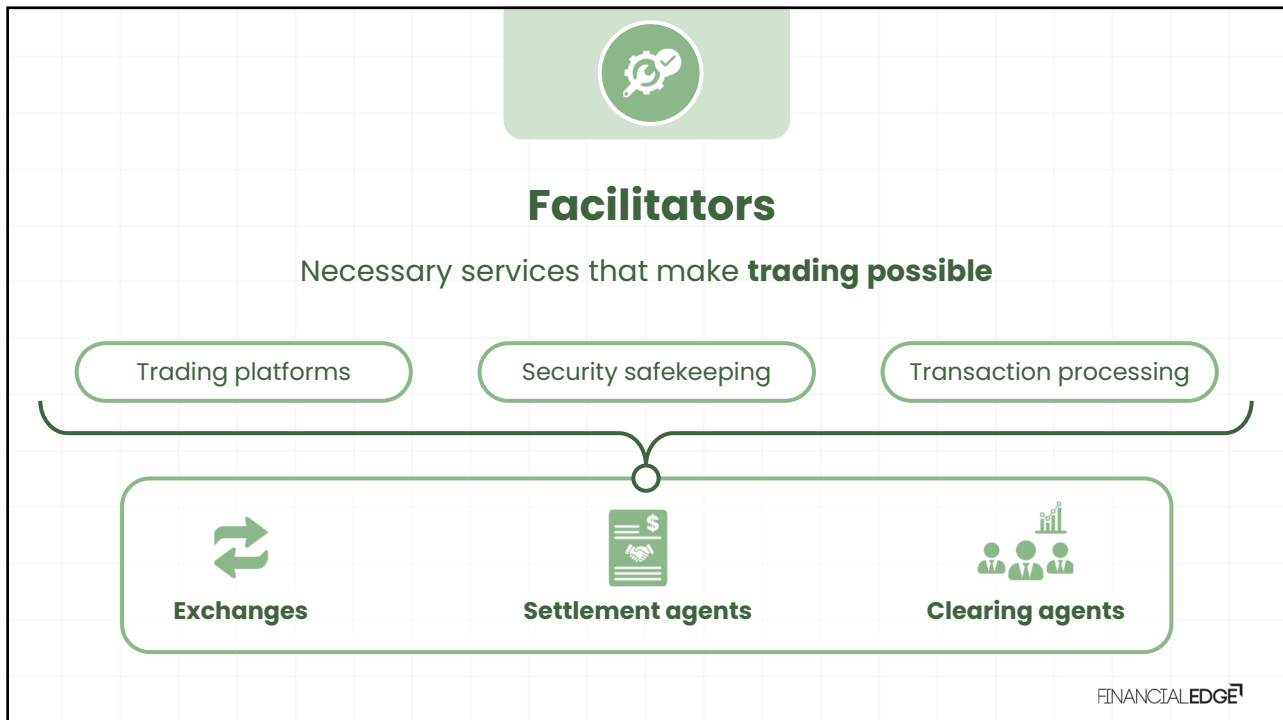
Financial Markets Map

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Regulatory and advisory layers

Guardians of the market



Maintain
market integrity



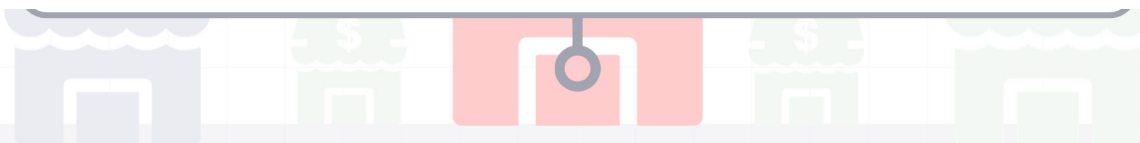
Offer guidance
and analysis



Enforce compliance
with financial
regulations

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Direct Market Participants – Buy Side vs. Sell Side



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Buy Side

Firms and individuals who use **financial instruments** either for their own needs or **on behalf of their clients**



Sell Side

Firms and **entities** that create or help to issue these **financial instruments** and **distribute** them to the **buy side**

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Buy Side



Retail / Individuals

Personal milestones



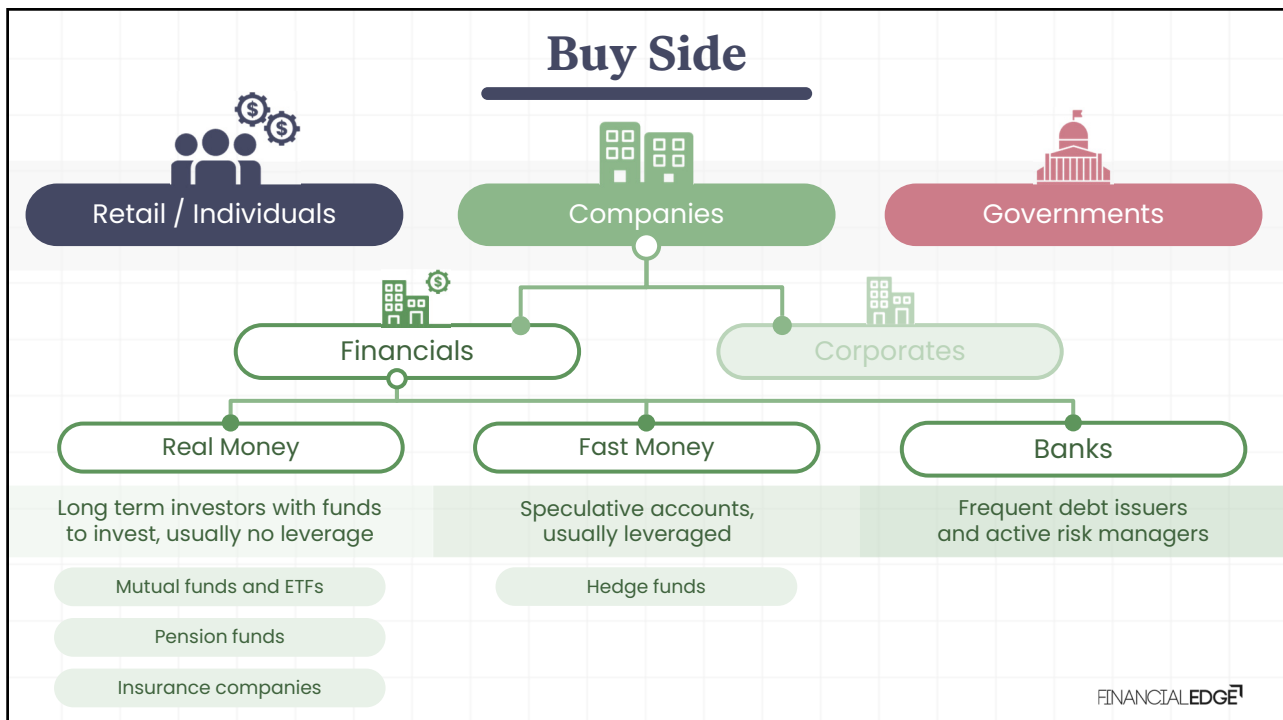
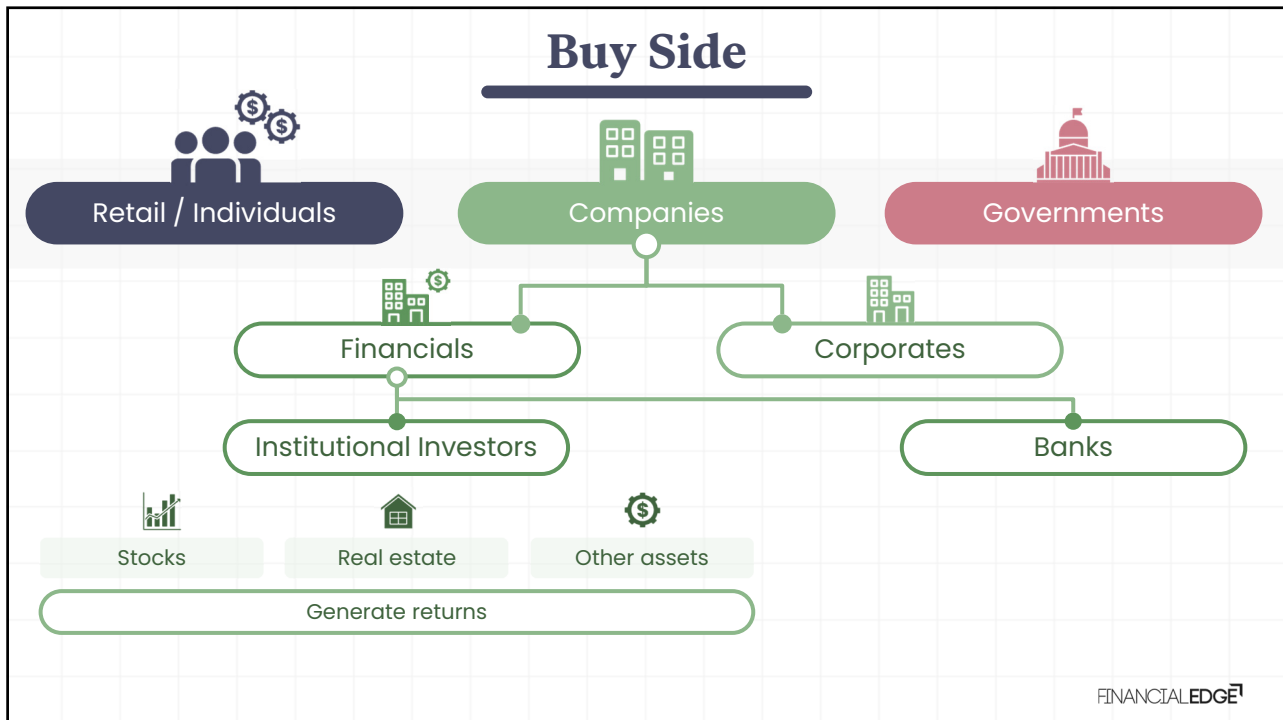
Governments

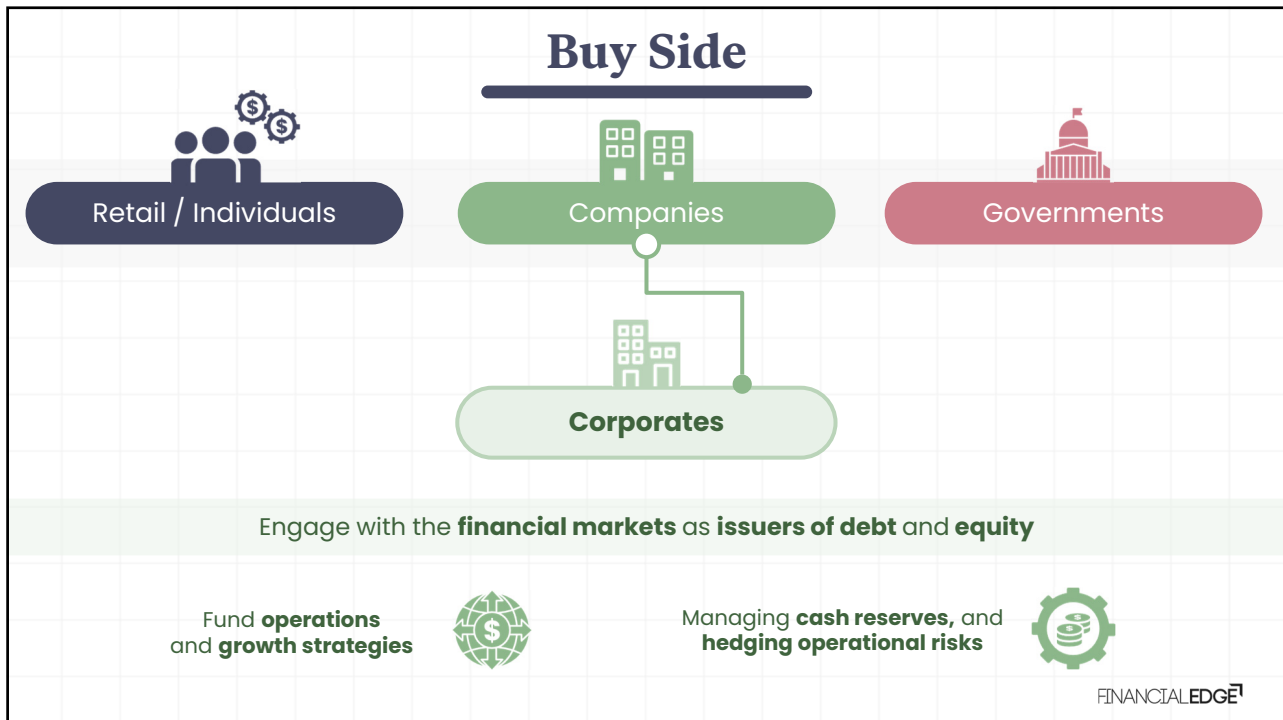
Issuers of debt

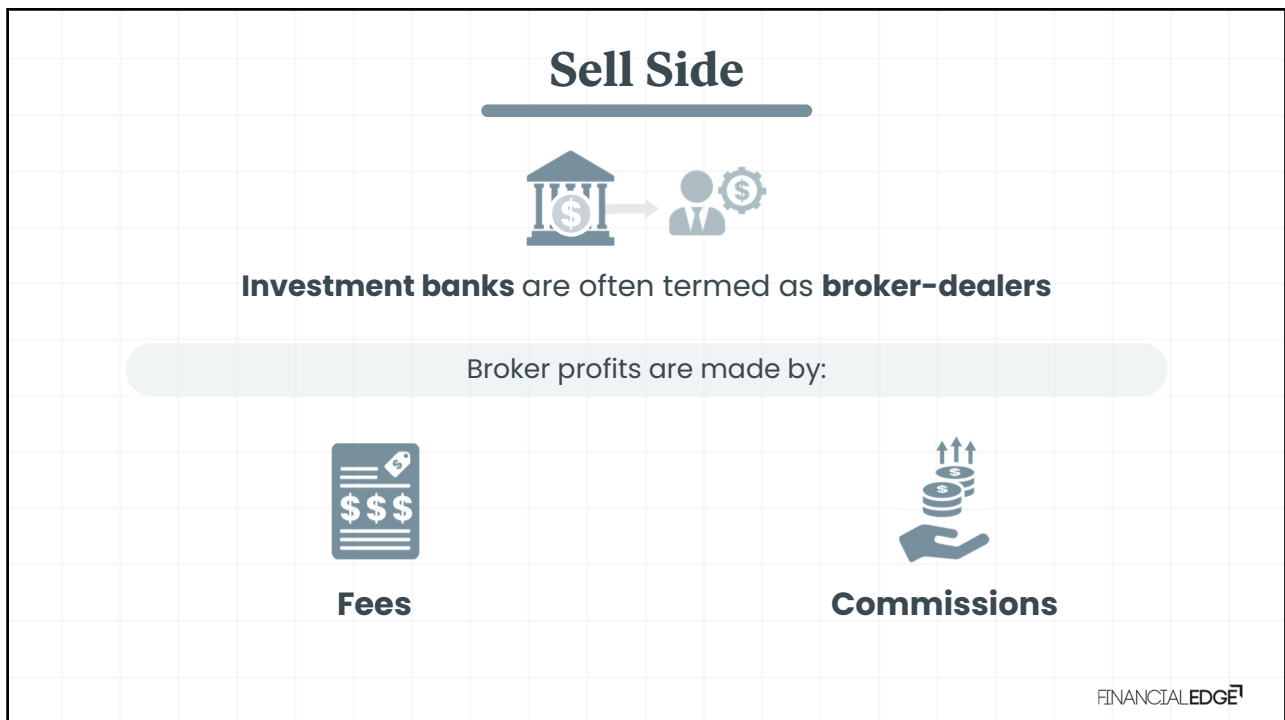
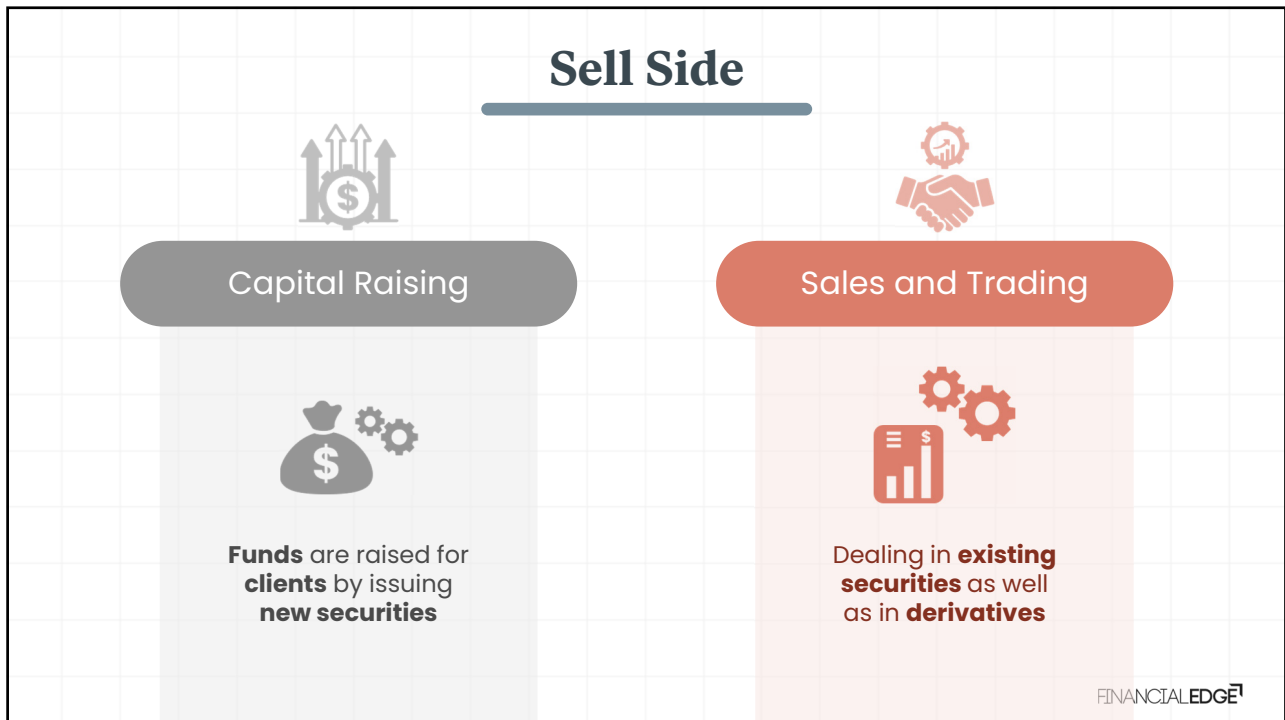
Managers of
currency reserves

Holders of large
investment portfolios

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Sell Side

As a dealer, the firm acts as a **principal in the transaction**



Trading securities from its own inventory **with clients**

Dealer profits are made by **taking the difference** between **purchase** and **sales price**



If **purchase** and **sale** do not occur simultaneously



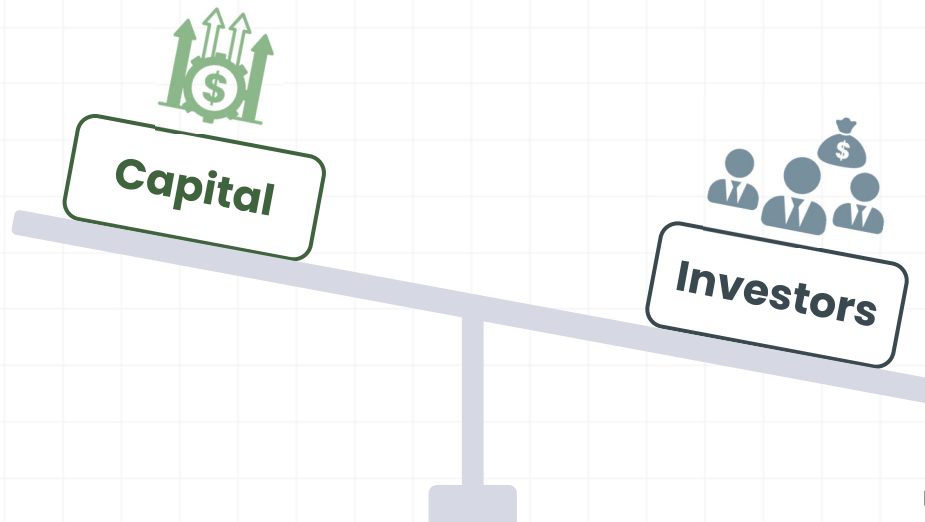
Dealer firm is exposed to an **adverse change of the market price**

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Investing

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It's a balancing act

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Allocate resources with the **expectation of generating an income or profit**

Produce return through **income and/or price appreciation**



Stocks



Bonds



Real Estate



**Other
Investments**



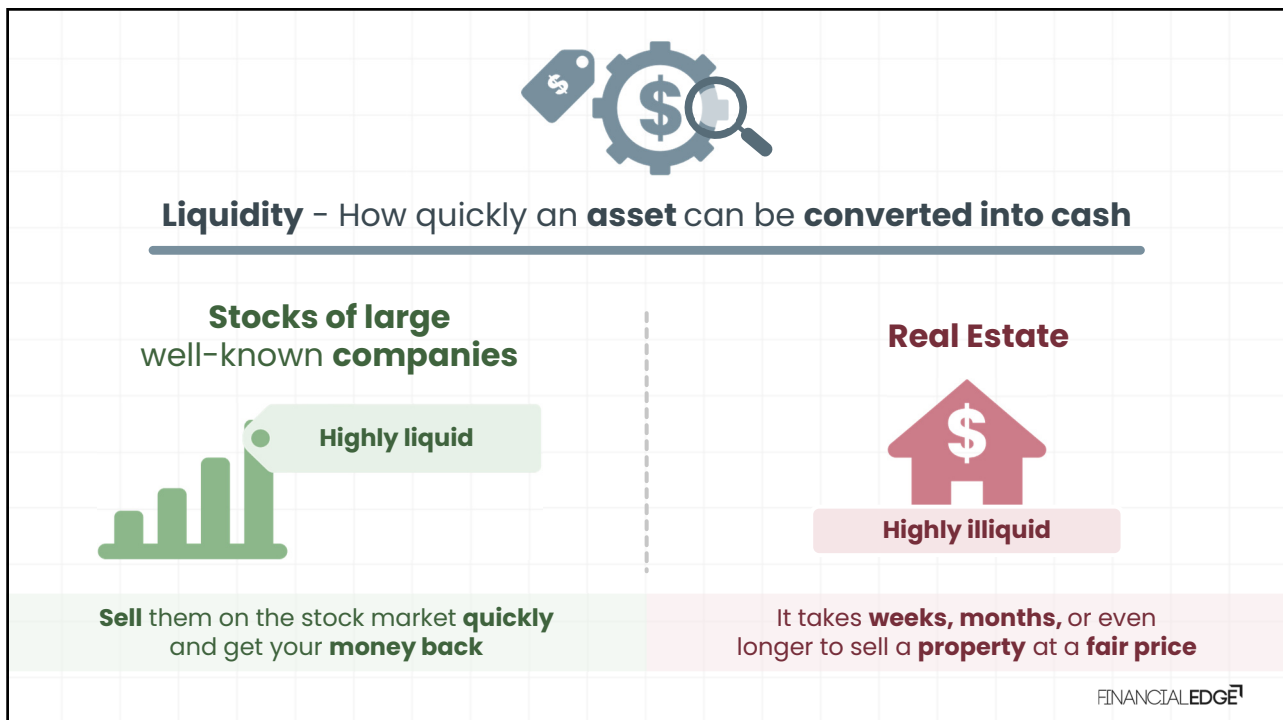
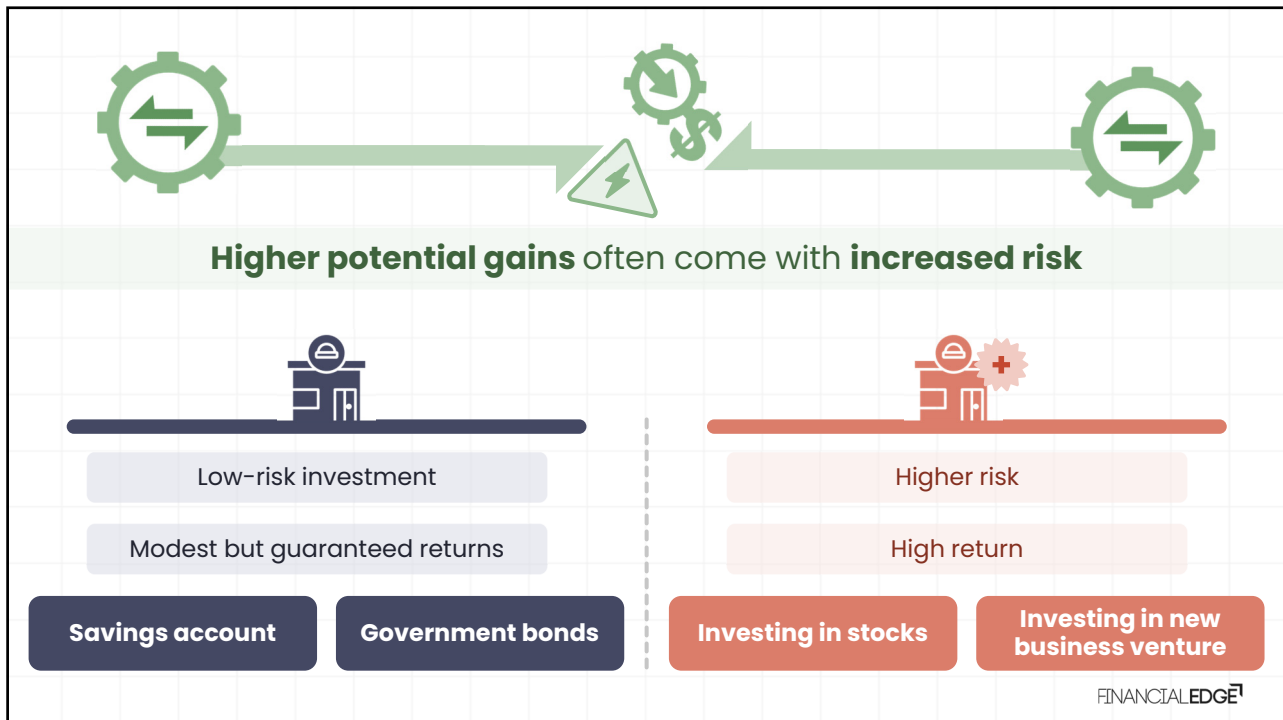
A key **challenge** that **investors** face is to balance **their growth aspirations** with the **risk of a loss**

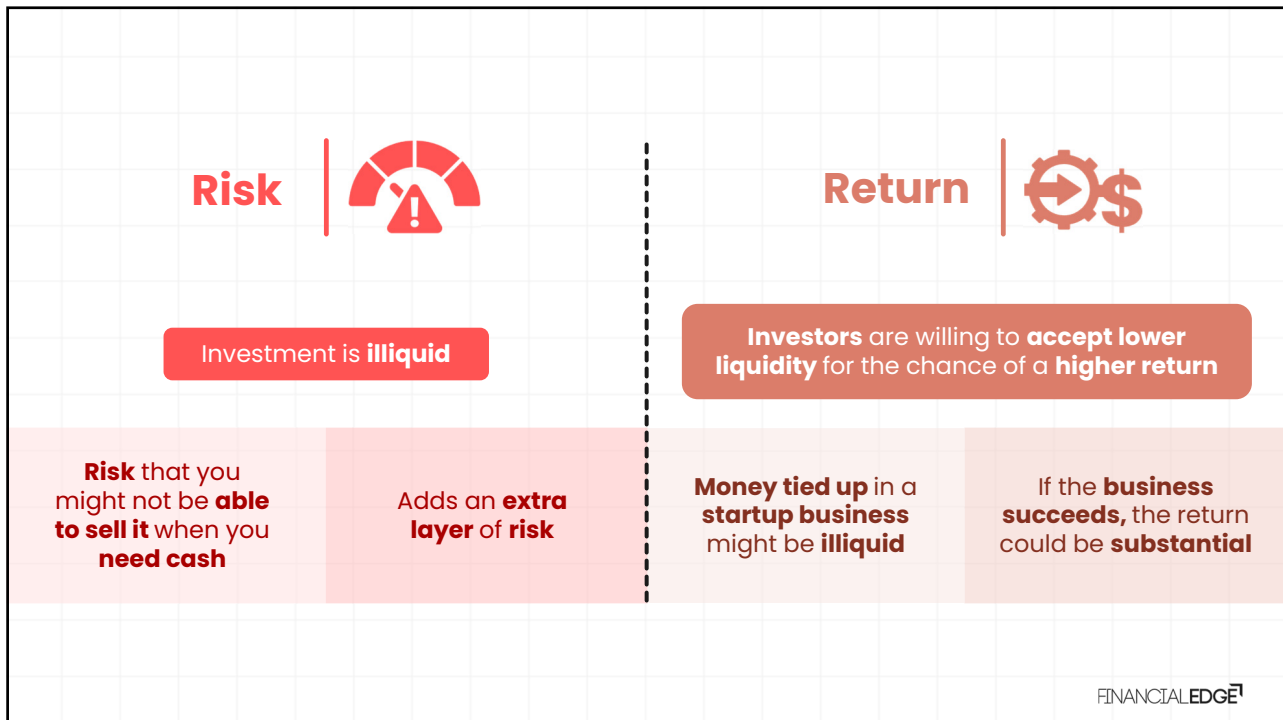


Mitigate risks through **diversification**

Spreading investments across **different asset types** to cushion against **market volatility**

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Time Horizons

Near term cash needs

Hold more liquid assets

Lower volatility

Little or no near-term cash needs

Longer investment horizon

Hold more volatile and less liquid assets

Capture higher average returns



Saving to buy a house next year



University endowment



Pension fund



Sovereign wealth funds



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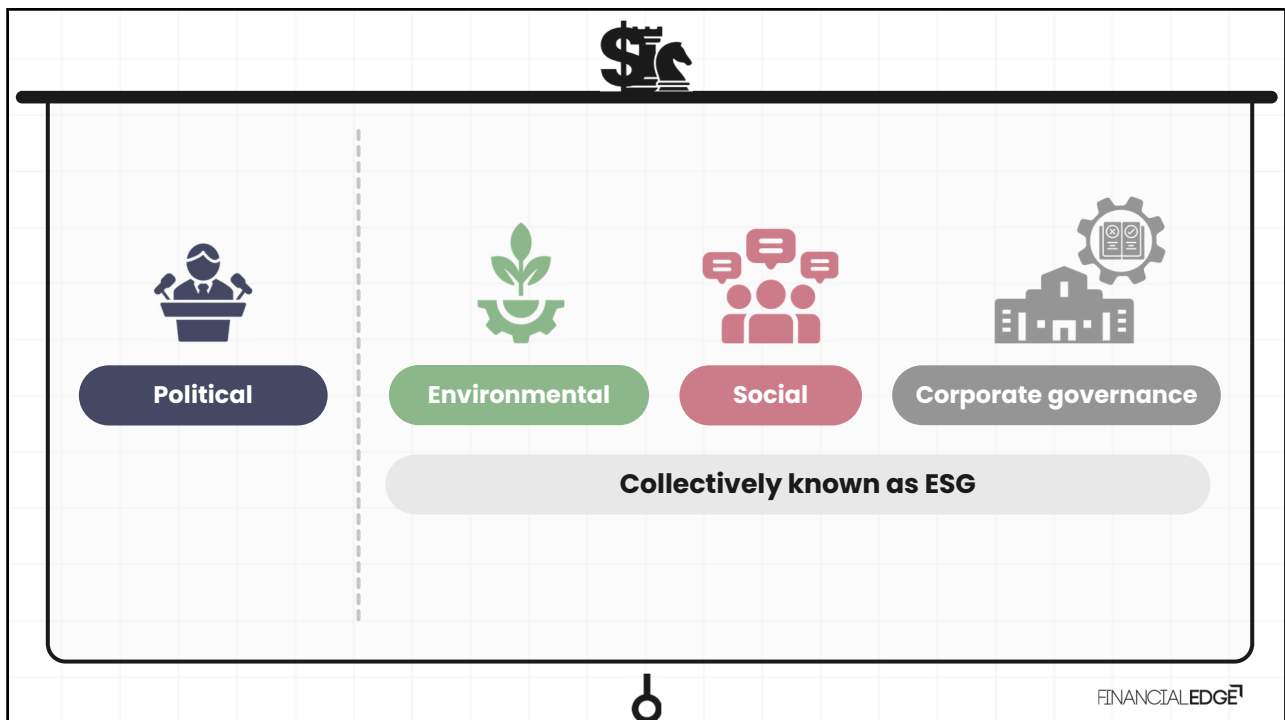
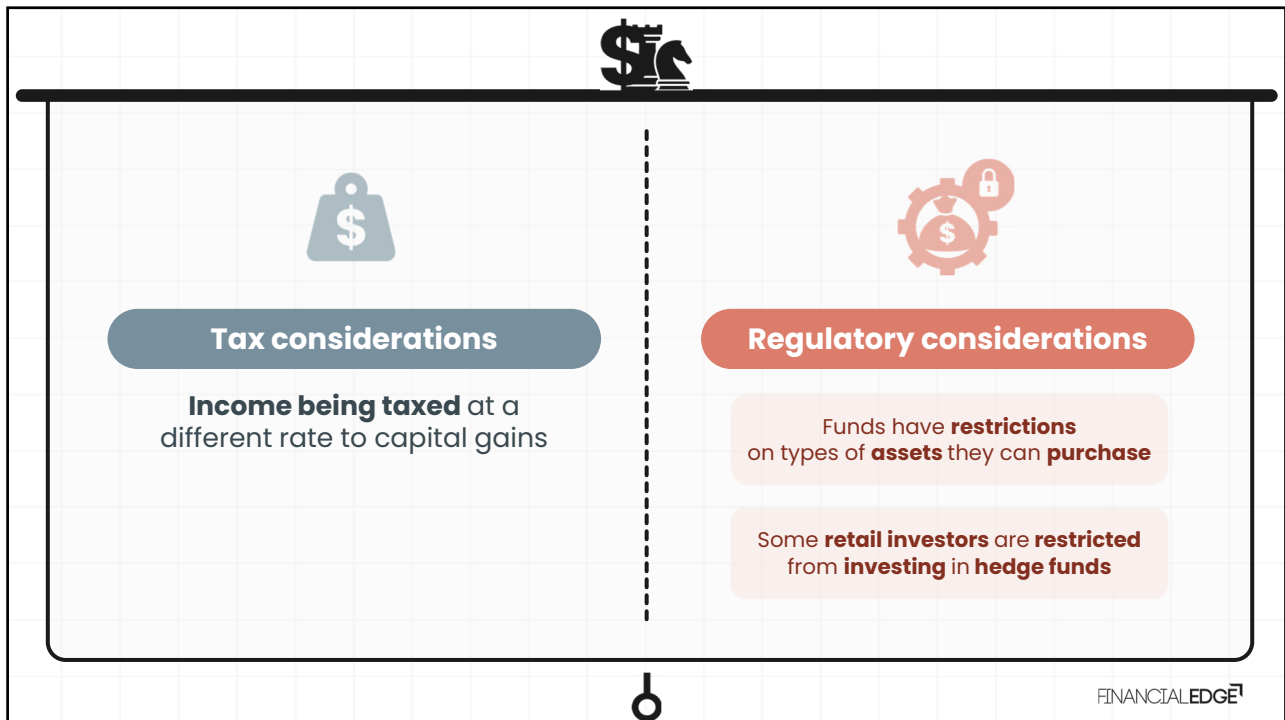
Risk spectrum

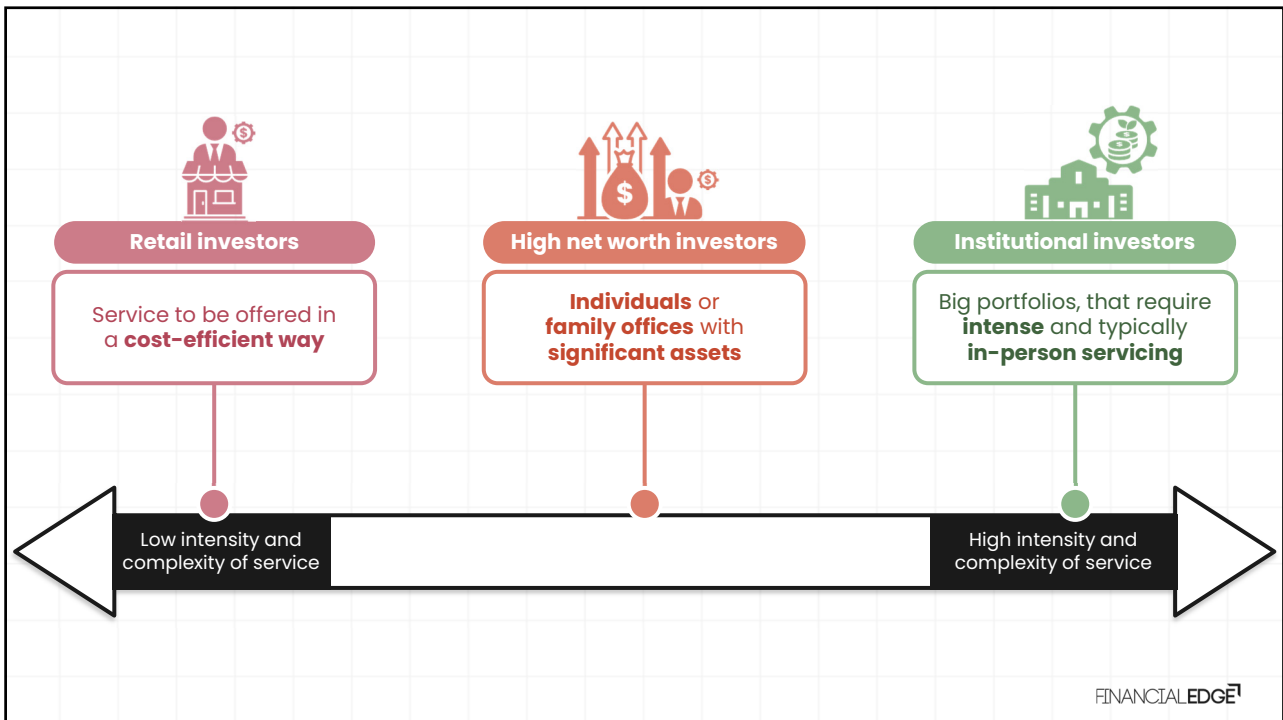
Risk tolerance

Investment horizon

Need for liquidity

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Investors Institutional and Retail - Pension Funds

Institutional Investors



Pension Funds



**Insurance
Companies**



Endowments



**Sovereign
Wealth Funds**

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Pension Funds



Driven by the **nature of their obligations** to the **underlying pension owners**



Present value of **future payments**



Stretch far into the **future**

Discount rates

Inflation

Mortality

Fund also needs some immediate liquidity



Reflect payments to **current retirees**

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Pension Funds

Driven by the **nature of their obligations** to the **underlying pension owners**

Asset and liability management

Pension funds will mostly **invest in long-term assets**



Higher returns



Meet long term obligations

Invest in some **short-term assets**



Meet payments to **current retirees**

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Portfolio of **assets**



Pension fund **obligations**

Long-term

The immediate need for **liquidity** is **limited**



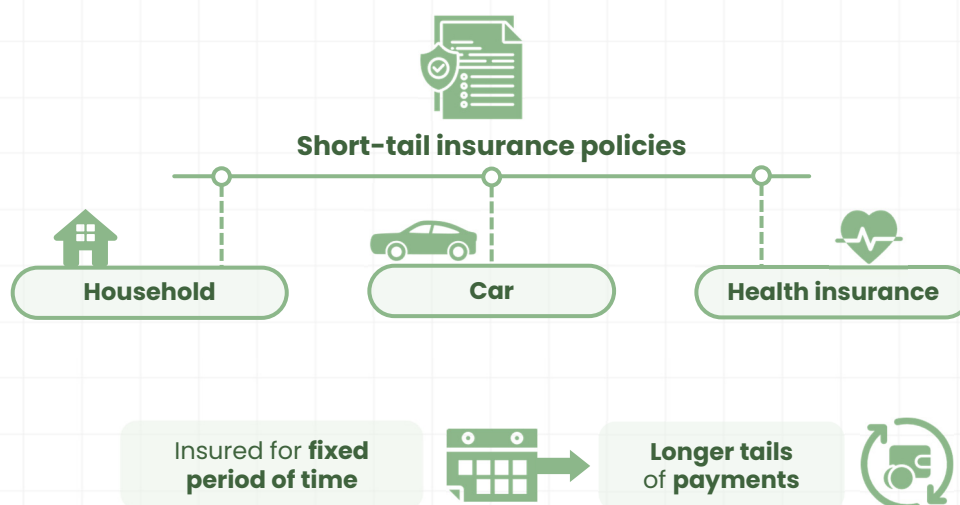
Returns on the portfolio are **exempt from tax**

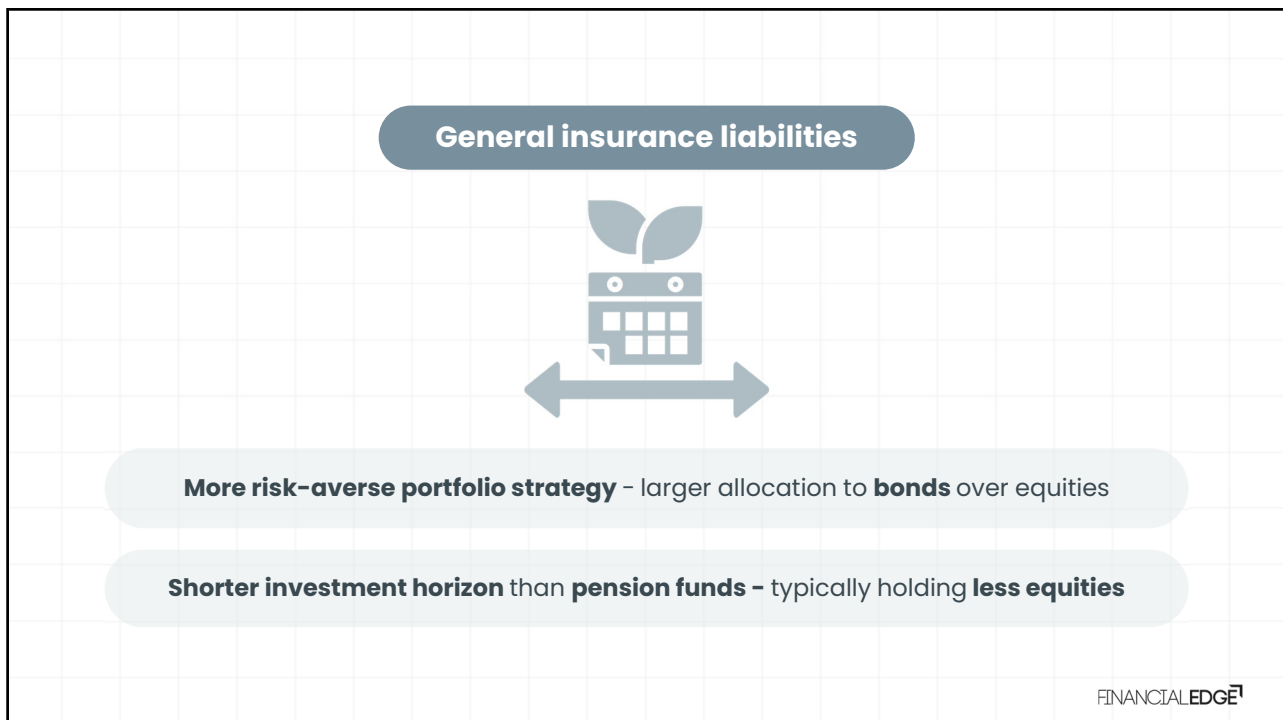
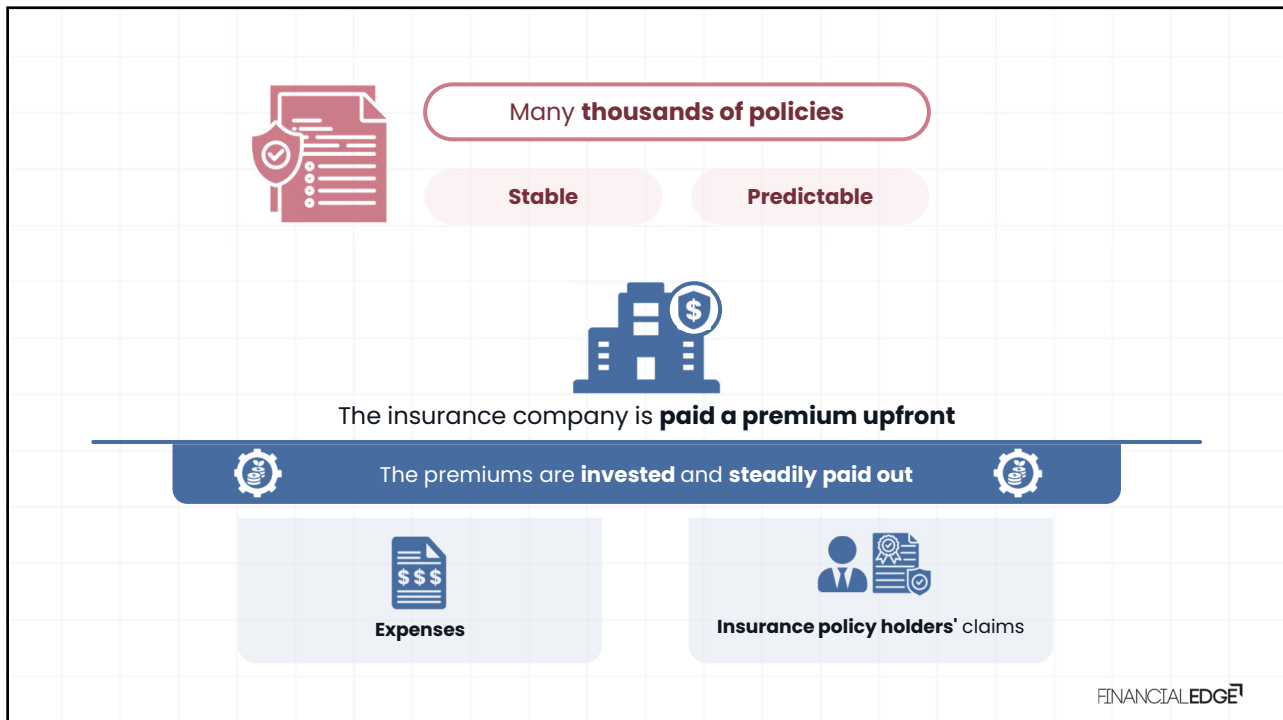
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Investors Institutional and Retail - Insurance Companies

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Insurance Companies

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Investors Institutional and Retail - Endowments

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Endowments

Assets provided by **donors**

Generate **stable returns**



Fund the **institutions operation**

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Most endowments have a **long-term investment horizon**

Harvard's Endowment – 2 competing goals



Fund the operating budget

Stable and predictable distribution



Maintain the long-term value of endowment assets

After accounting for inflation

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High allocation

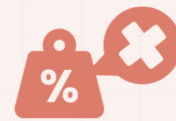
Equities

Alternative assets



Liquidity

Fund the
operational
activities of the
institution



In many cases,
endowment returns
are **tax exempt**

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Investors Institutional and Retail - Sovereign Wealth Funds

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Sovereign Wealth Funds

State-owned **investment fund**



Stocks



Bonds



Real Estate



Investment alternatives

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Sovereign Wealth Funds



Saving fund

Reserved for **future generations**.
With a very long-time horizon

Longer time horizon than stabilization funds

Invest in a **wide range of assets**

Little need for **liquidity**



Stabilization funds

Smooth out the **volatility** of
government tax revenues

Shorter investment horizon than saving funds

Invest in a **wide range of assets**

Will need **liquidity** during a
downturn in the **economic cycle**

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Investors Institutional and Retail – High Net Worth Individuals

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High Net Worth (HNW) Individuals

Warrant more **intense customer service**



Institutional Investors



HNW Investors



Retail Investors

Wide variety in **requirements**

EXAMPLES OF POTENTIAL TAX CONSIDERATIONS



Tax on **capital gains vs income**

Tax rates in **different jurisdictions**

Inheritance tax

**Timing implications
of tax year dates**

High net worth client



Establish their
investment horizon



What **cash needs** they
have in the **future**



Personal **tolerance**
for risk



Tax **considerations**
they might have

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Private clients



Client's current
situation



Their **goals**



Investment policy

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The High Net Worth Market

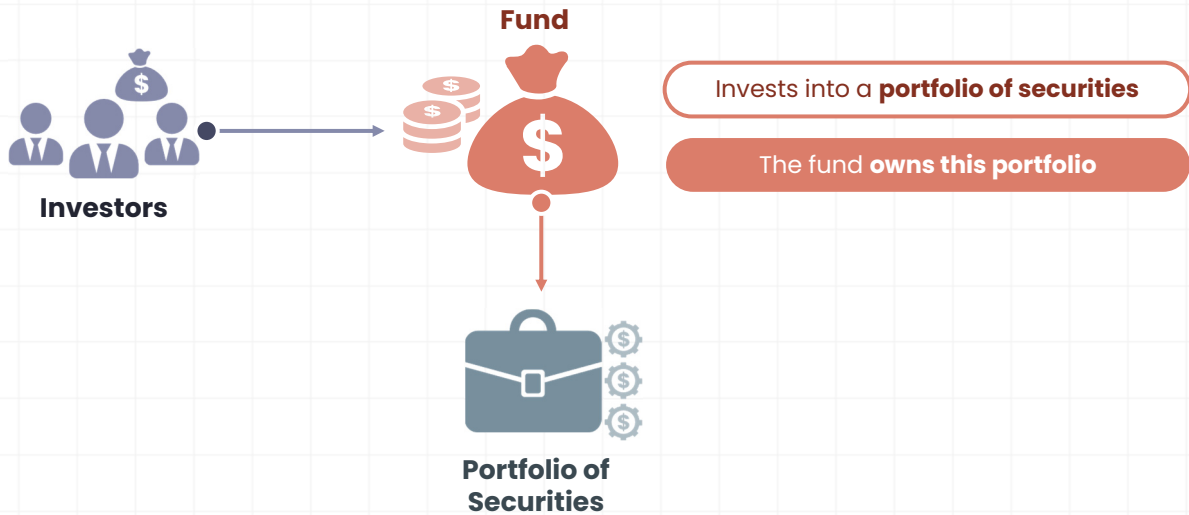
Name of Tier	Investable Asset Range
Ultra-high-wealth market	>\$20m
High-wealth market	\$10–20m
Wealth market	£5m–\$10m
Affluent market	\$2m–\$5m
Mass-affluent market	\$500k–\$2m
Middle market	\$100–\$500k
Mass market	<\$100k
TOTAL	

Source: Adapted from the Cerulli Report, "US Retail Investor Advice Relationship 2015" p.55 Data sources for the table: U.S. Federal Reserve, U.S. Census Bureau, and Cerulli Associates

The **mass market** has the **smallest total investable assets**

Investment Funds

Fund is legally separate from the **fund management company** which has **set the fund up**

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Act as the **investment manager** of the **fund**

Decisions regarding the
investments held in the **portfolio**

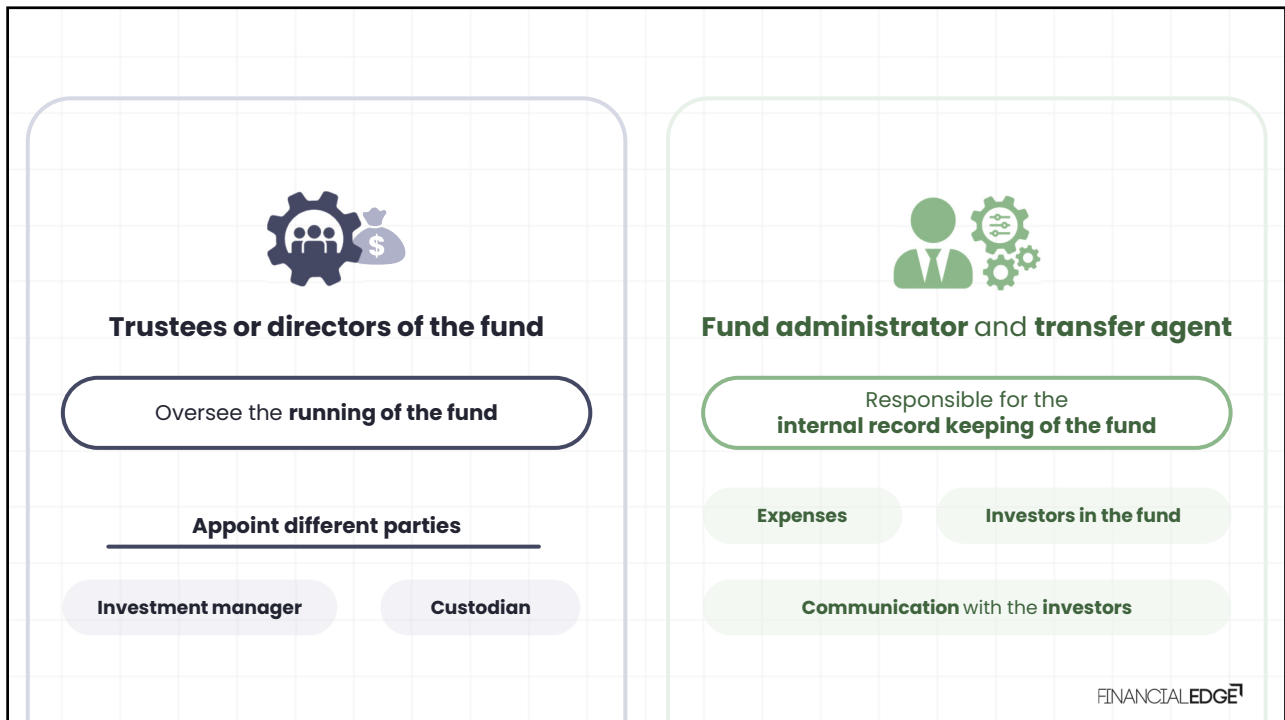


Custodians

Responsible for looking
after **the assets in the portfolio**

Make sure the **investments**
are owned by the **fund**

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Passive Management



Active Management

Passive Management



Aims to **generate the same return** as a **benchmark** or an **index**

Holding a **portfolio** of the **same securities** in the same **weights** as the **benchmark**

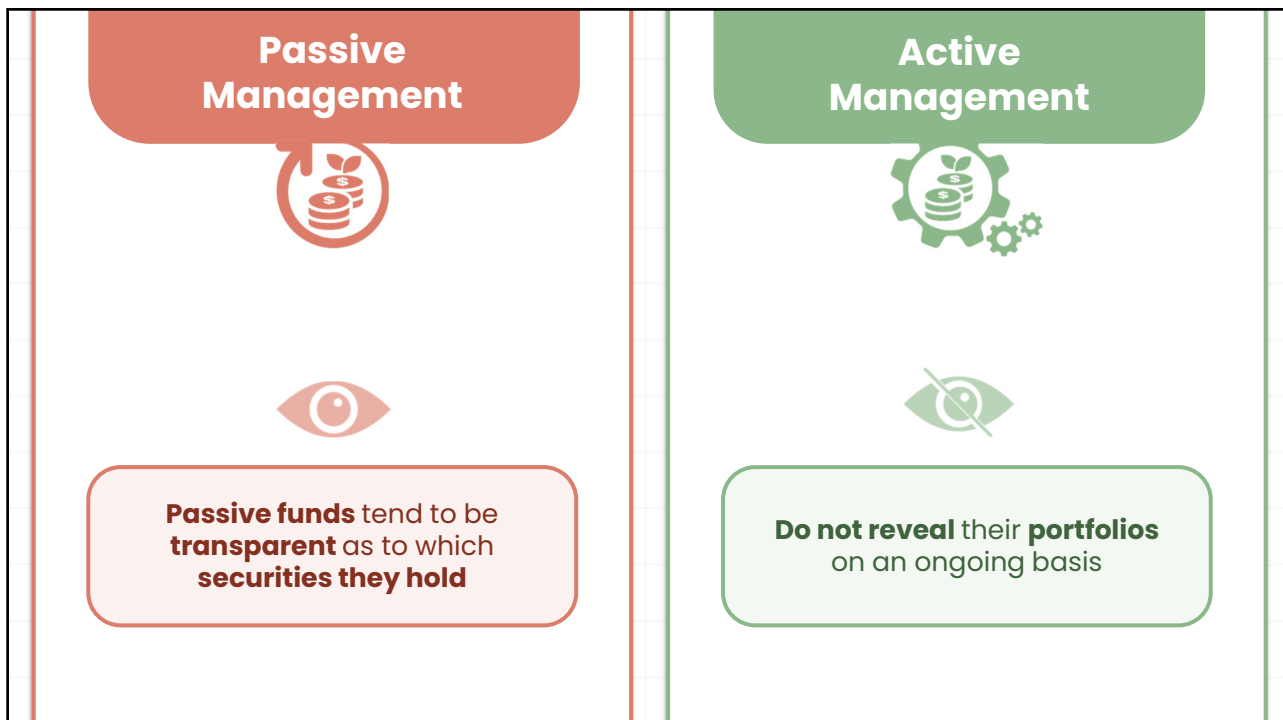
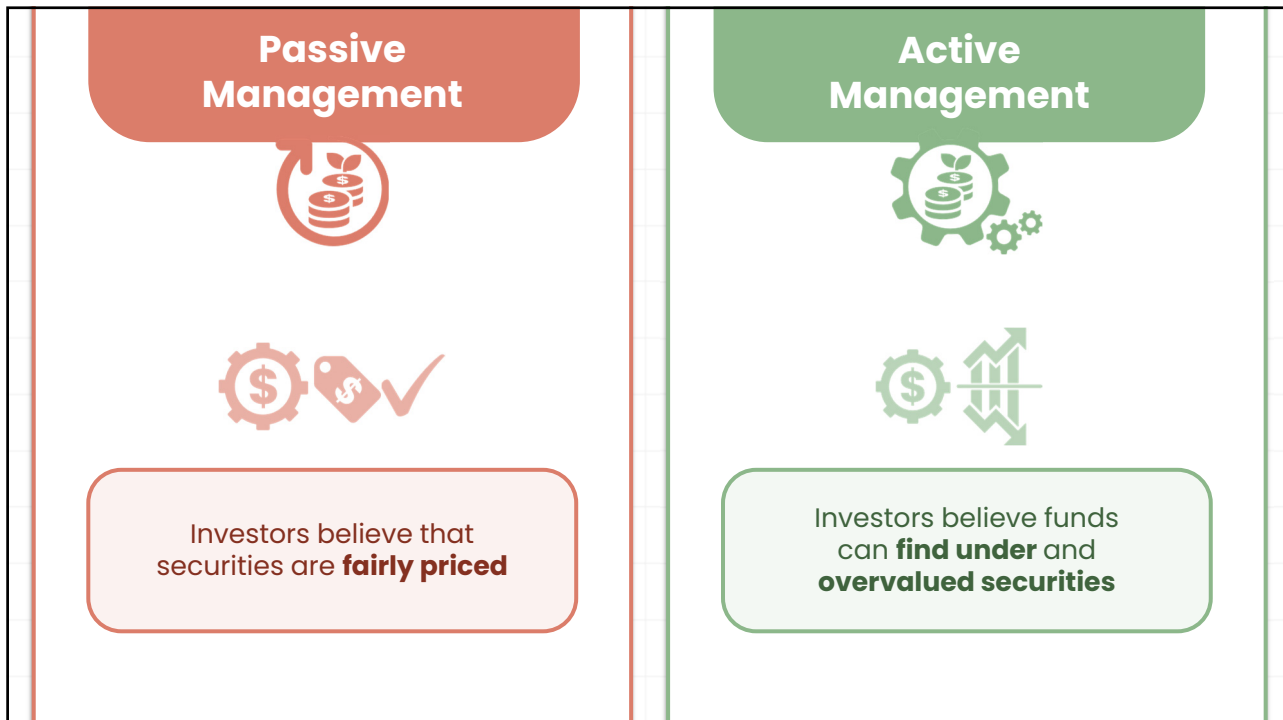
Active Management

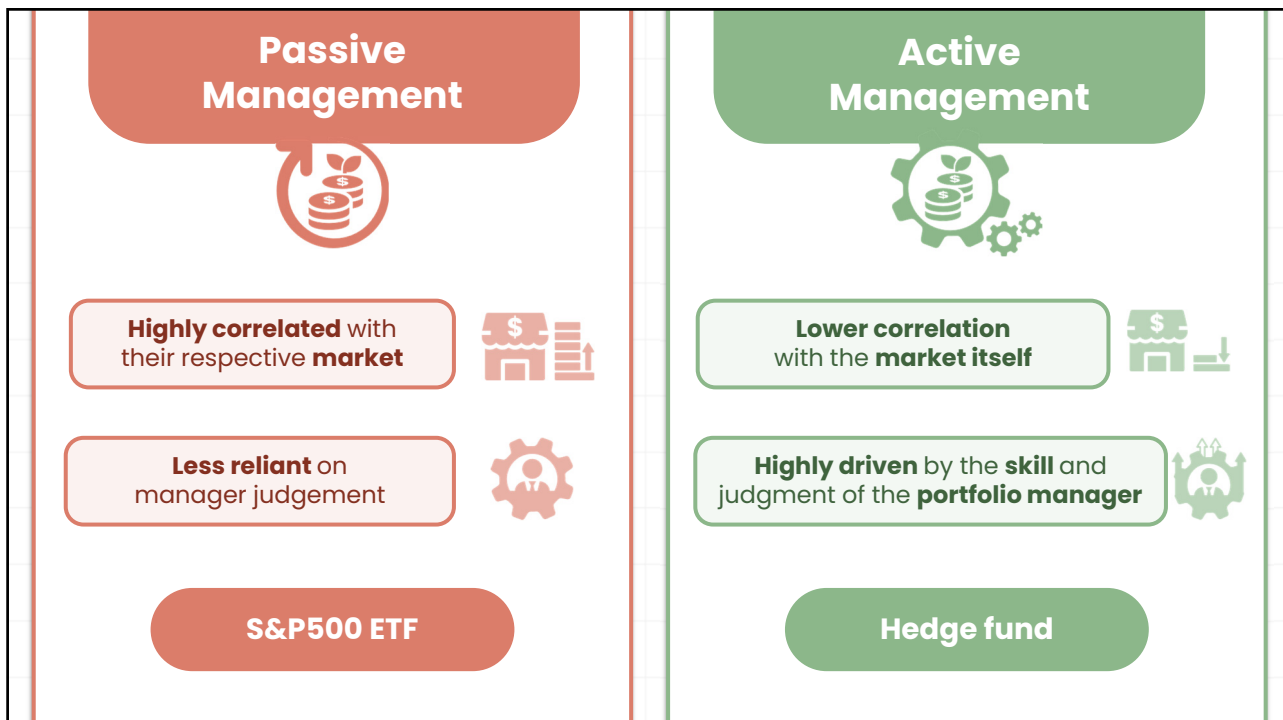
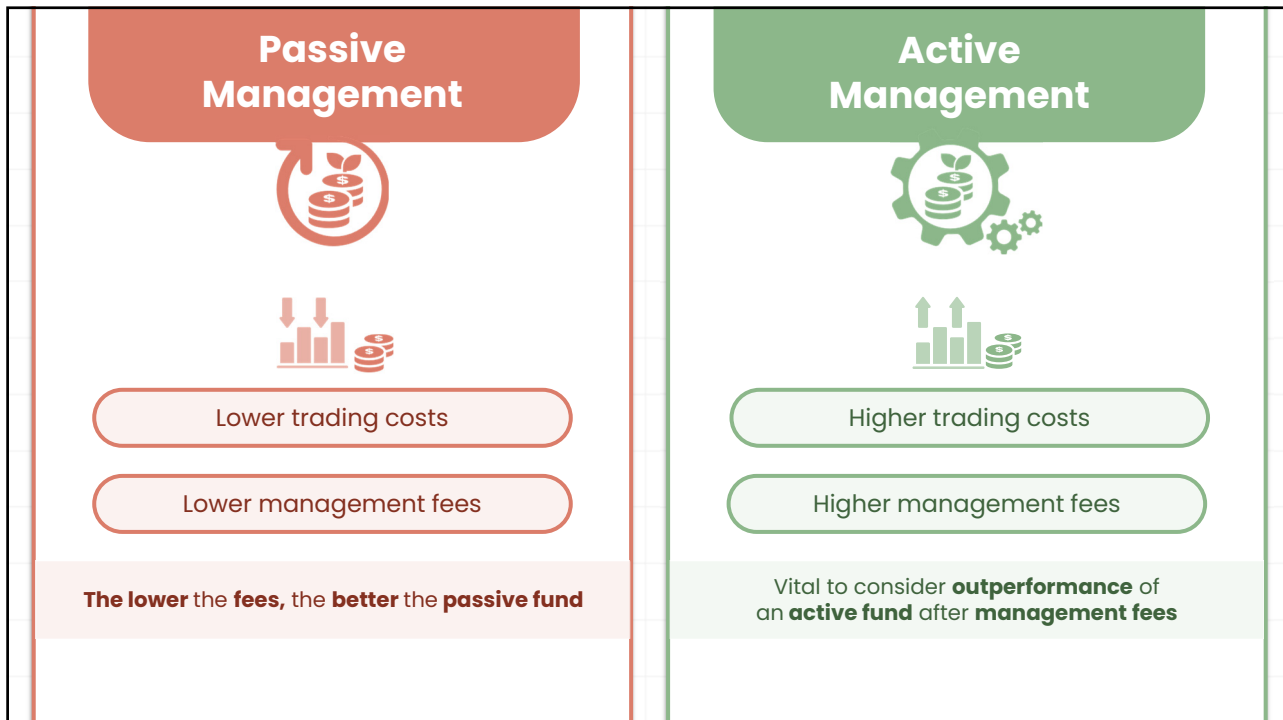


Trying to **generate better returns** than the **benchmark**

Generating **alpha**

A fund that **generates more** than could have been **achieved through a passive fund**



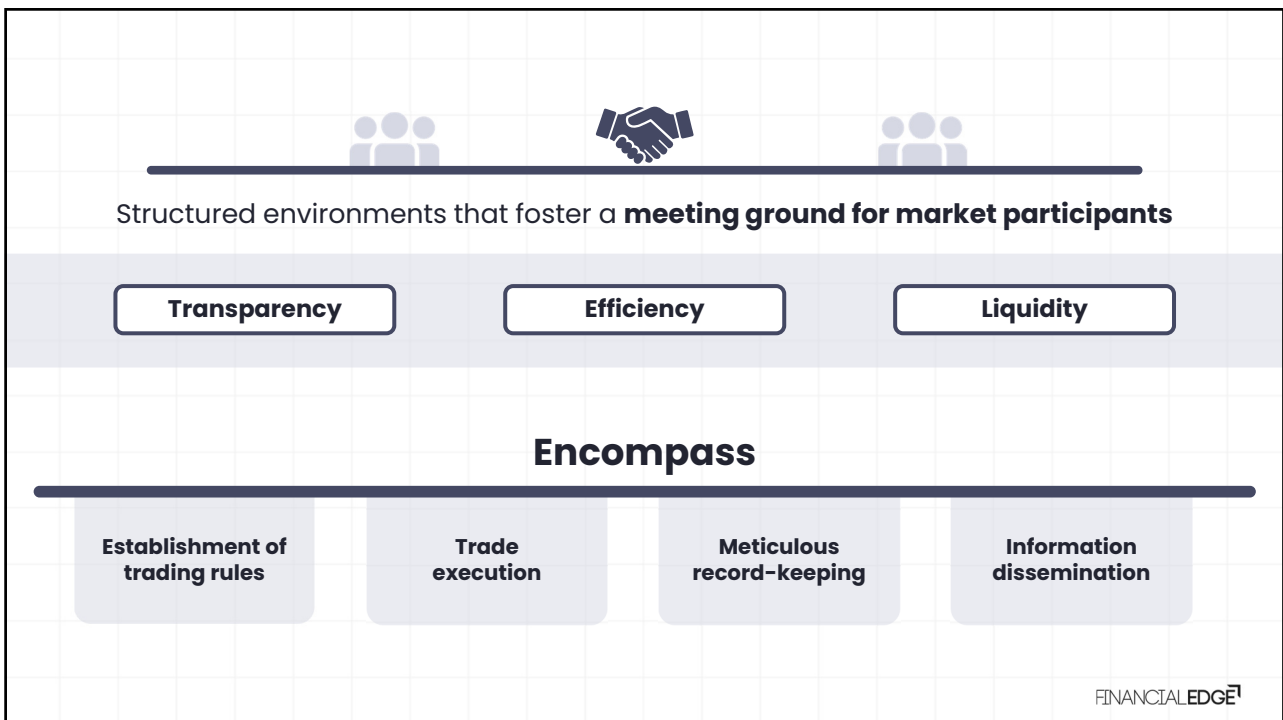
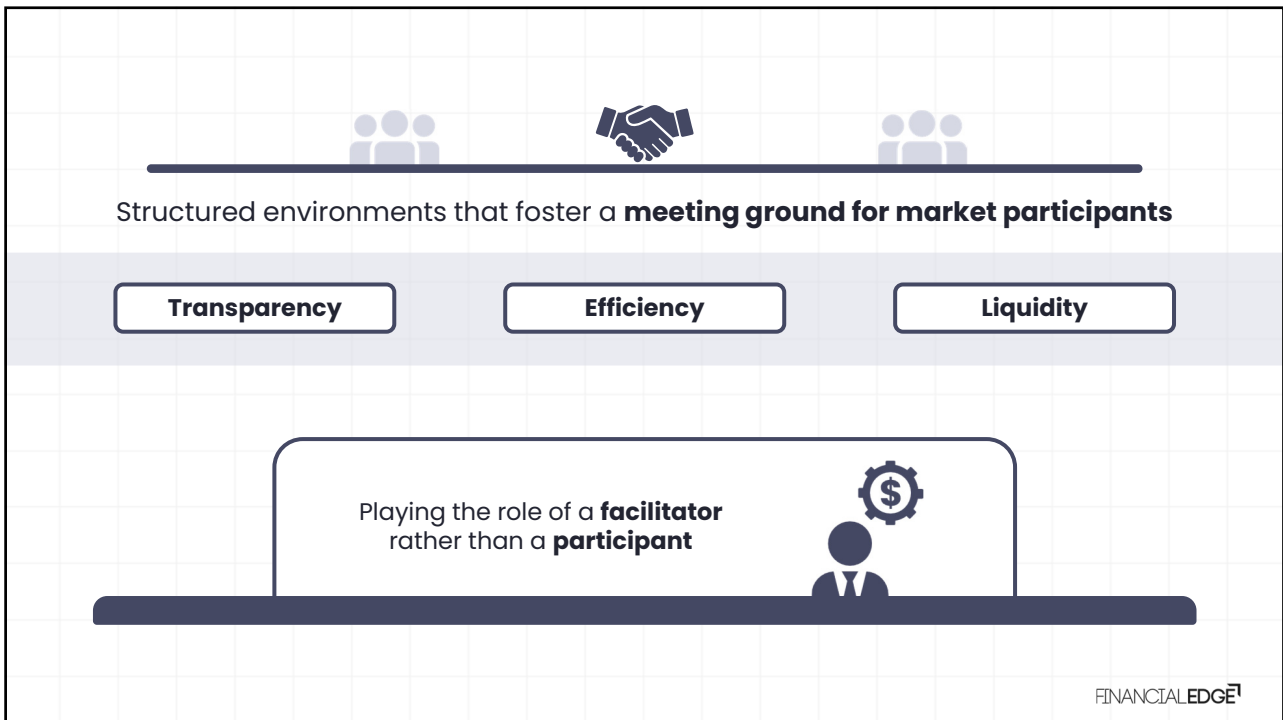


Facilitators – Exchanges

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Exchanges

**Stocks****Bonds****Commodities****Derivatives****Buyers and sellers**FINANCIALEDGE⁷



Key Functions of Exchanges

Price Discovery



Liquidity



Regulation



Information
Provision



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Key Functions of Exchanges

Price Discovery



Liquidity



Regulation



Information
Provision



Crucial role in determining the **value of financial assets**,
guided by the **market dynamics** of **supply** and **demand**



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Key Functions of Exchanges

Price Discovery



Liquidity



Regulation



Information
Provision



Ensure a constant
availability of securities



Enabling **market players** to **buy**
and **sell** with **relative ease**

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Key Functions of Exchanges

Price Discovery



Liquidity



Regulation



Information
Provision



Ensuring **fair trading practices**



Safeguarding investor interests

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Key Functions of Exchanges

Price Discovery



Liquidity



Regulation



Information
Provision



Rich source of **market data**



Price quotes



Transaction volumes

Crucial for investors to make **well-informed decisions**

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New York Stock
Exchange (NYSE)

Array of stocks



Chicago Mercantile
Exchange (CME)

Commodities

Derivatives



NASDAQ

High-tech stocks



Sophisticated electronic systems where **trades are executed across a network**



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Facilitators – Clearing and Settlement Agents

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Clearing



Settlement

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Clearing



Verify and **reconcile** the transaction details



Ensure all the necessary paperwork
and procedures are in place

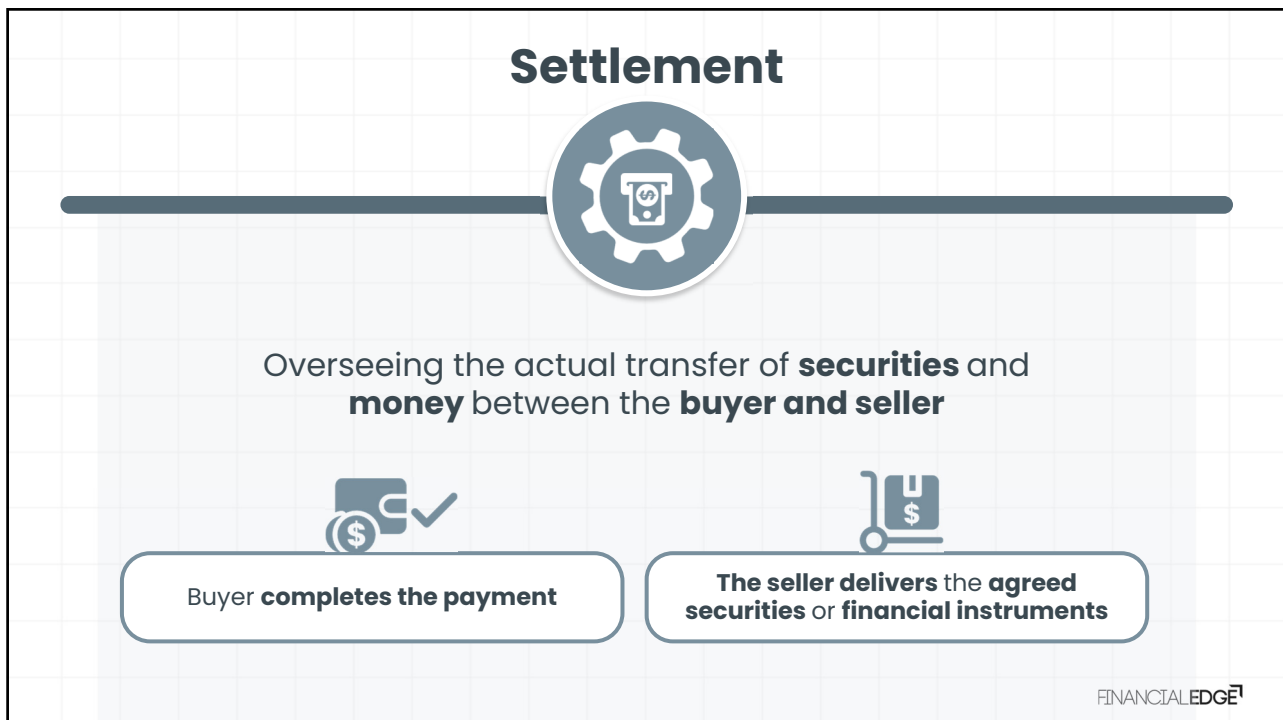
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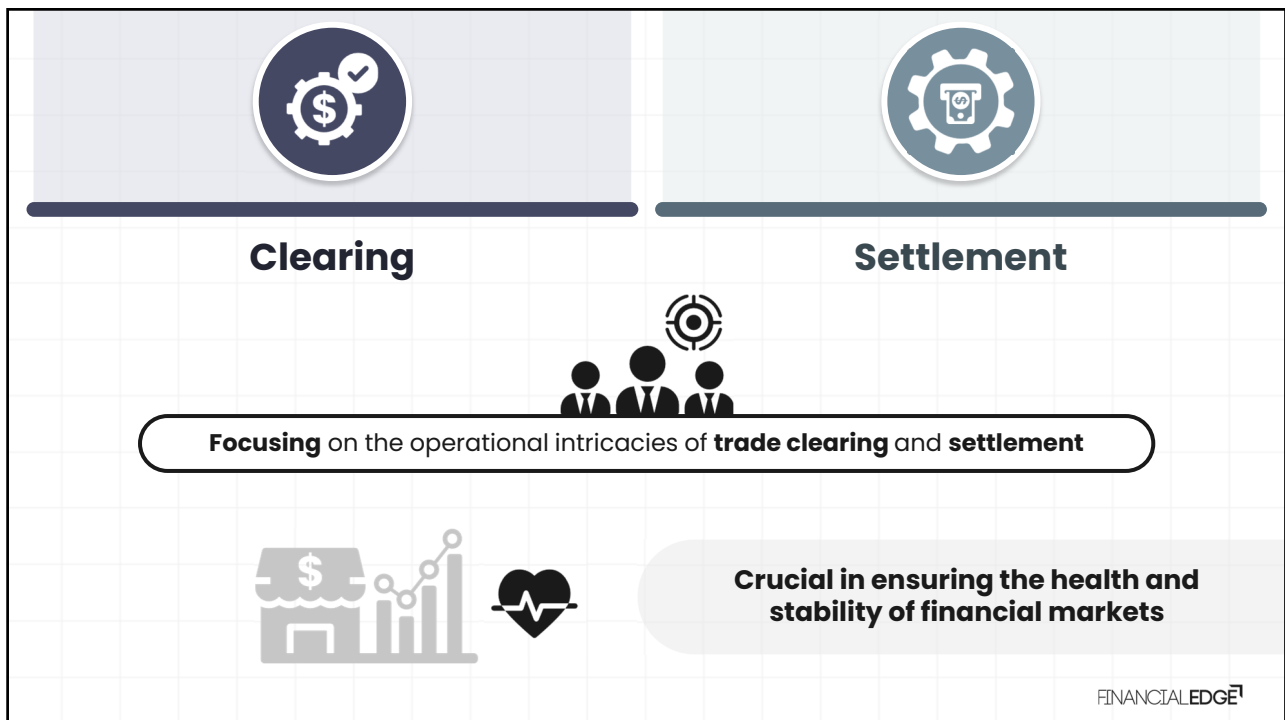
Clearing

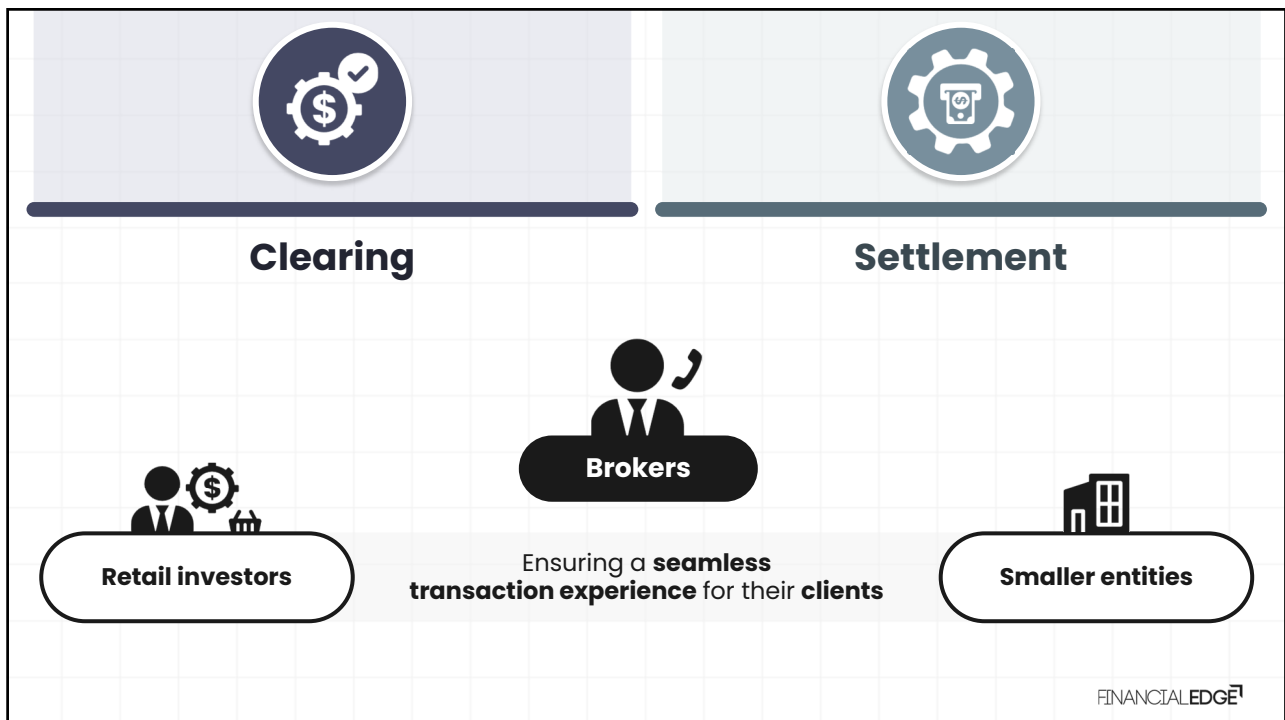
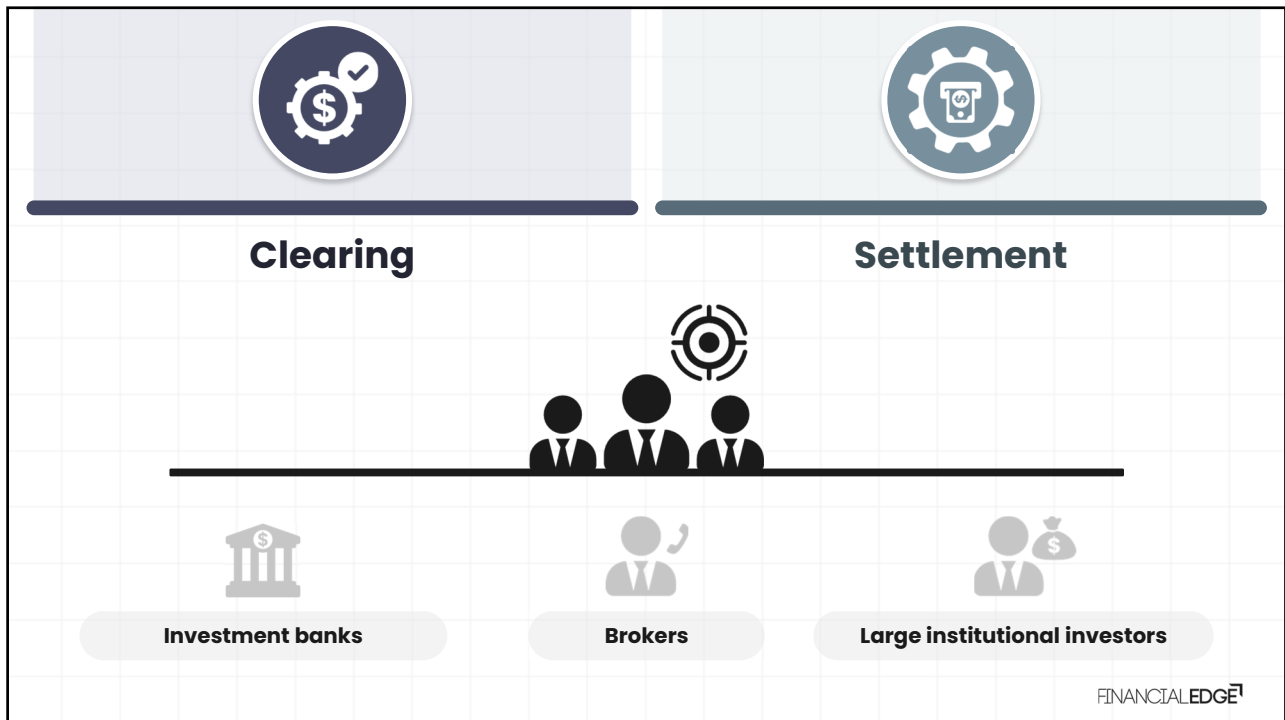


National Securities Clearing Corporation (NSCC)

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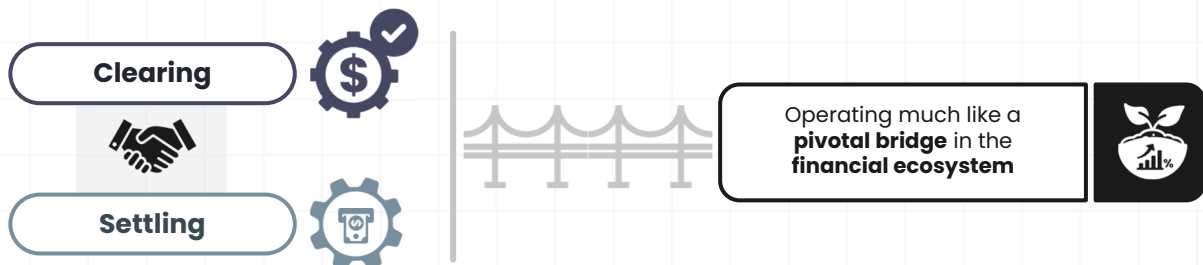


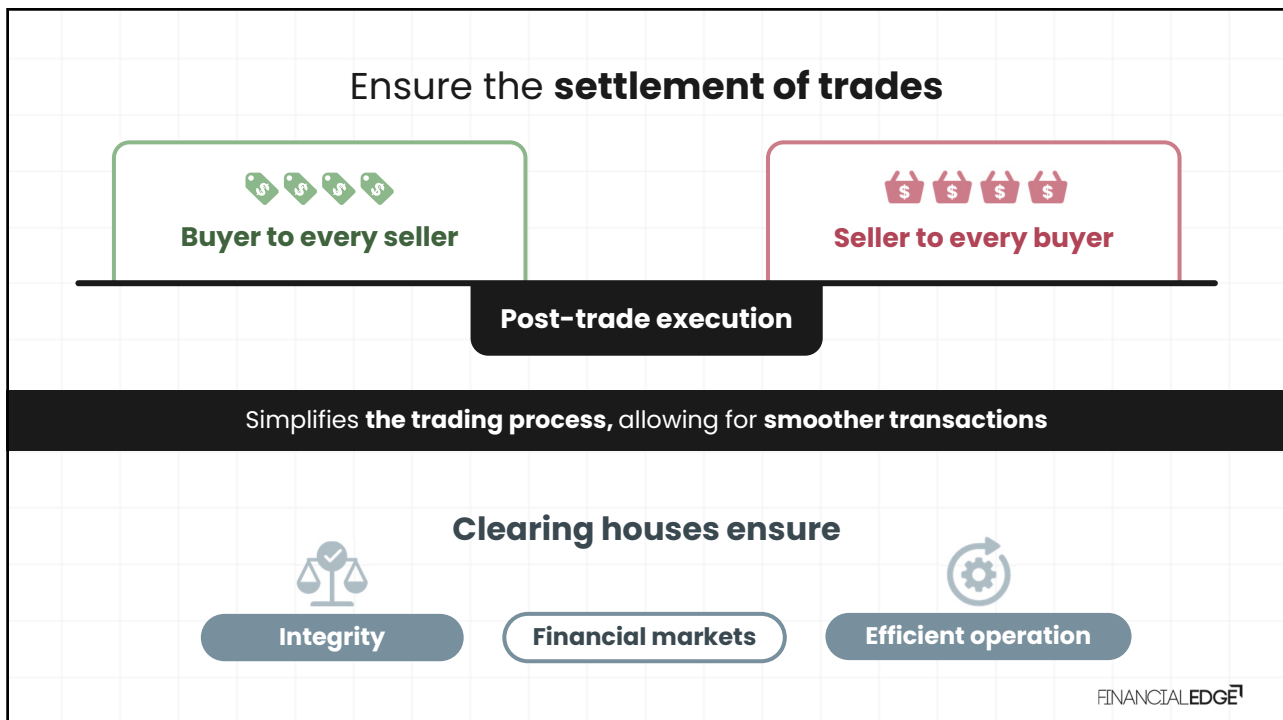
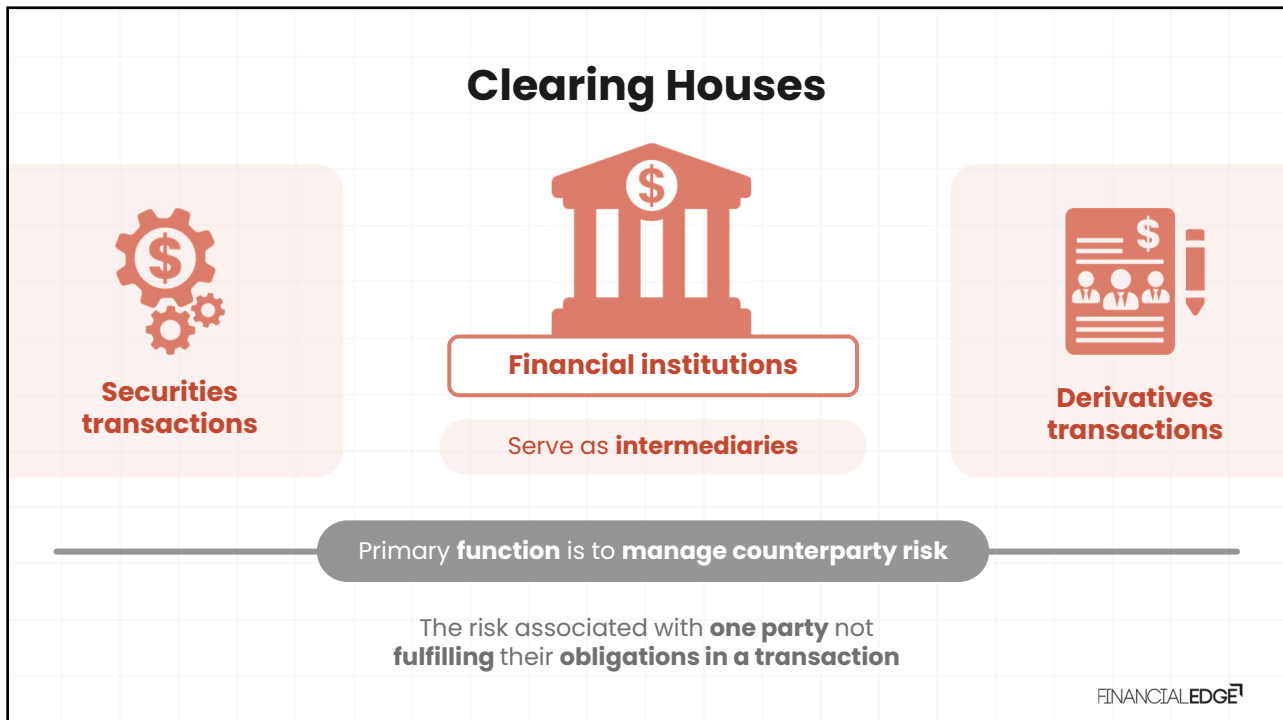
Facilitators – Clearing Houses

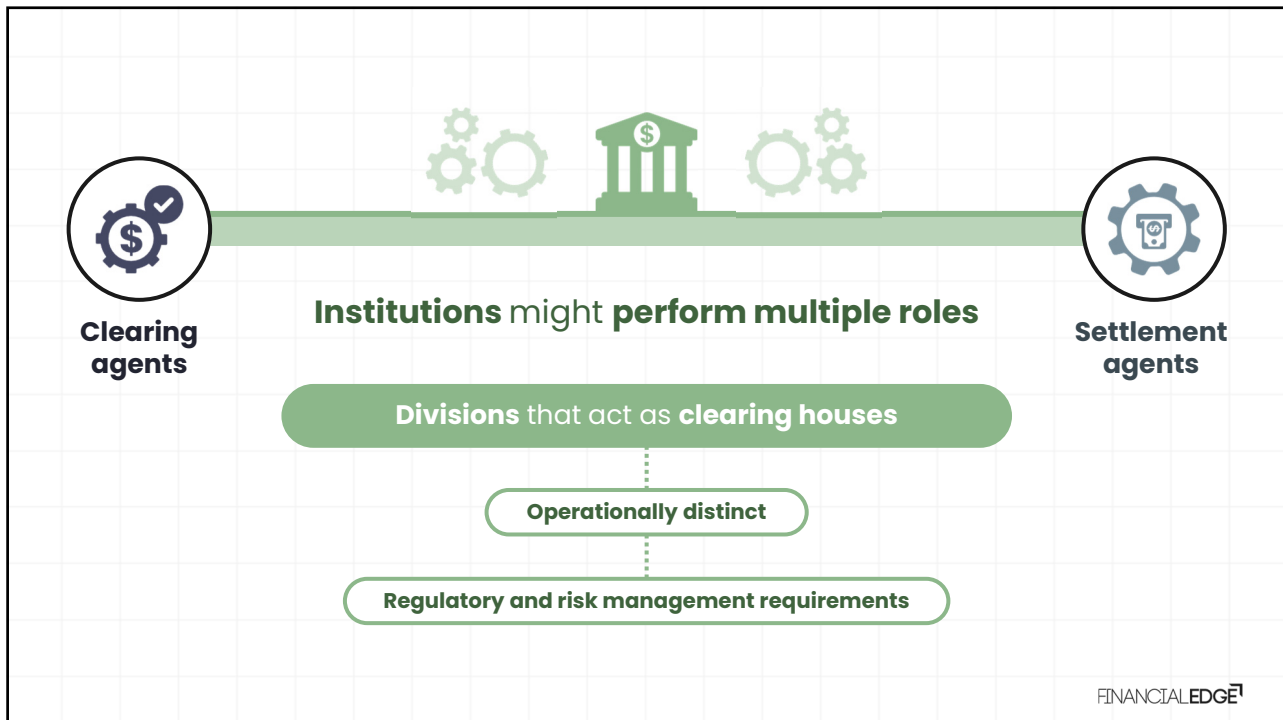
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Clearing Houses

Also known as **central counterparties (CCPs)** in certain market

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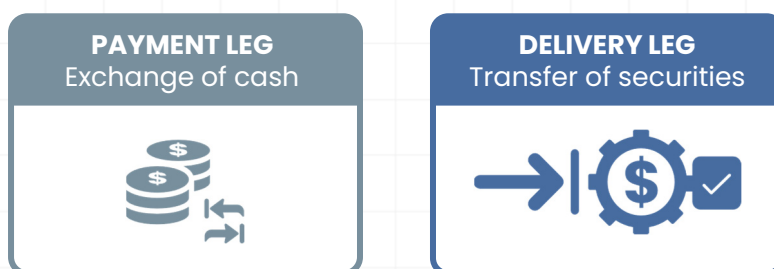




Facilitators – Central Securities Depositories

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Settlement Process of **Securities Transactions**



Where are these **securities** stored?

**Development of Central
Securities Depositories (CSDs)**

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Central Securities Depositories (CSDs)


Stocks

Tangible paper certificates
known as **bearer securities**


Bonds


Costs

Challenges in managing documents


Risks

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Central Securities Depositories (CSDs)

Depository Trust Company (DTC)



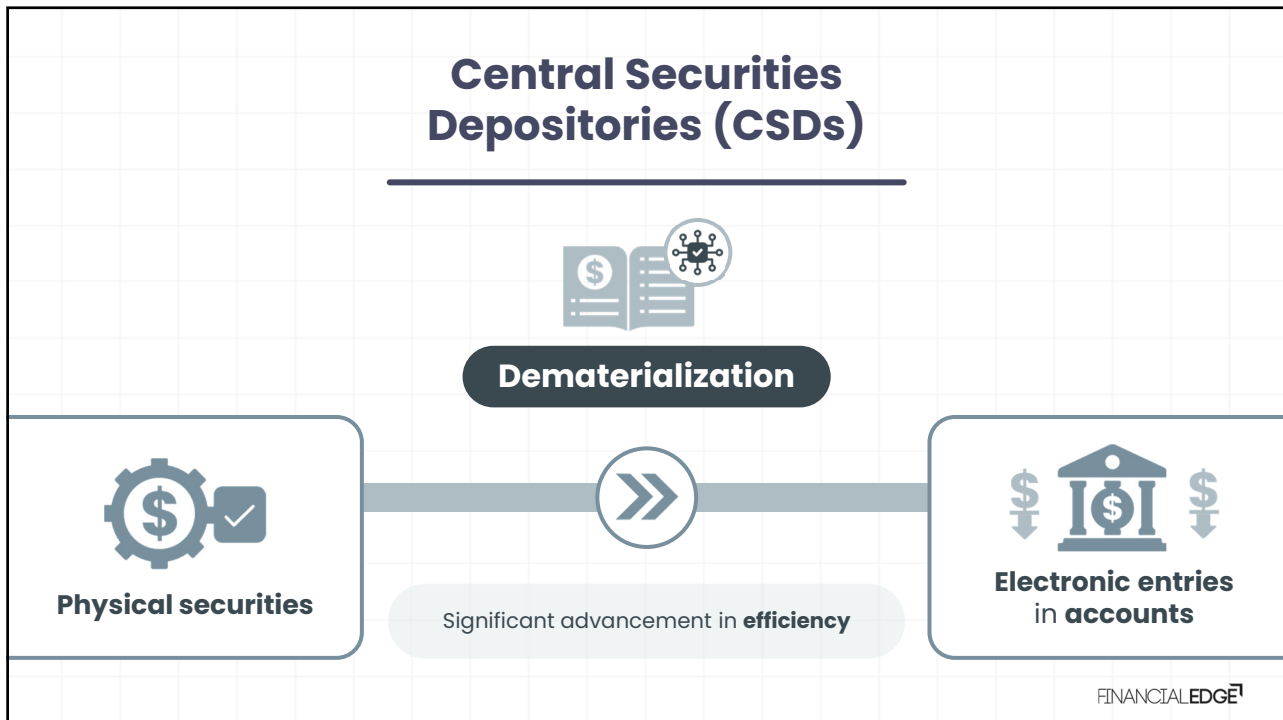
Role was to **immobilize these paper certificates**

Centralized **storage system**

Eliminated the need for **physical transfers** during **trade settlements**

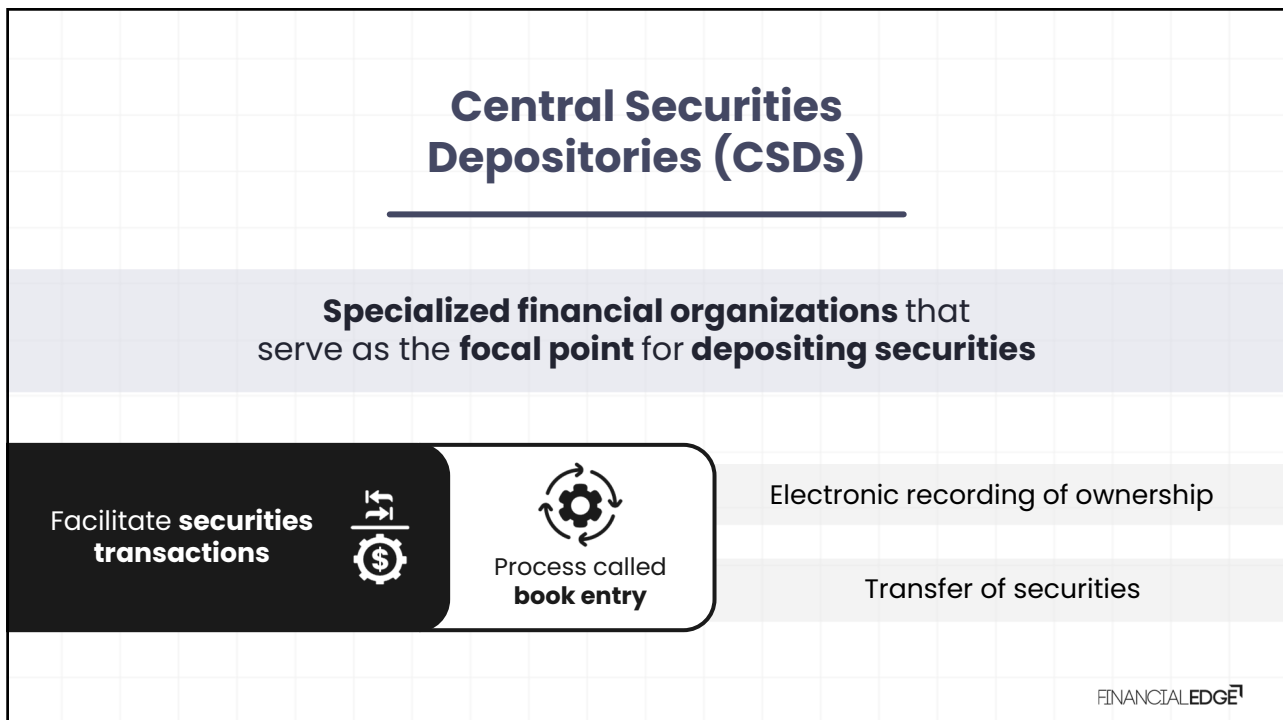
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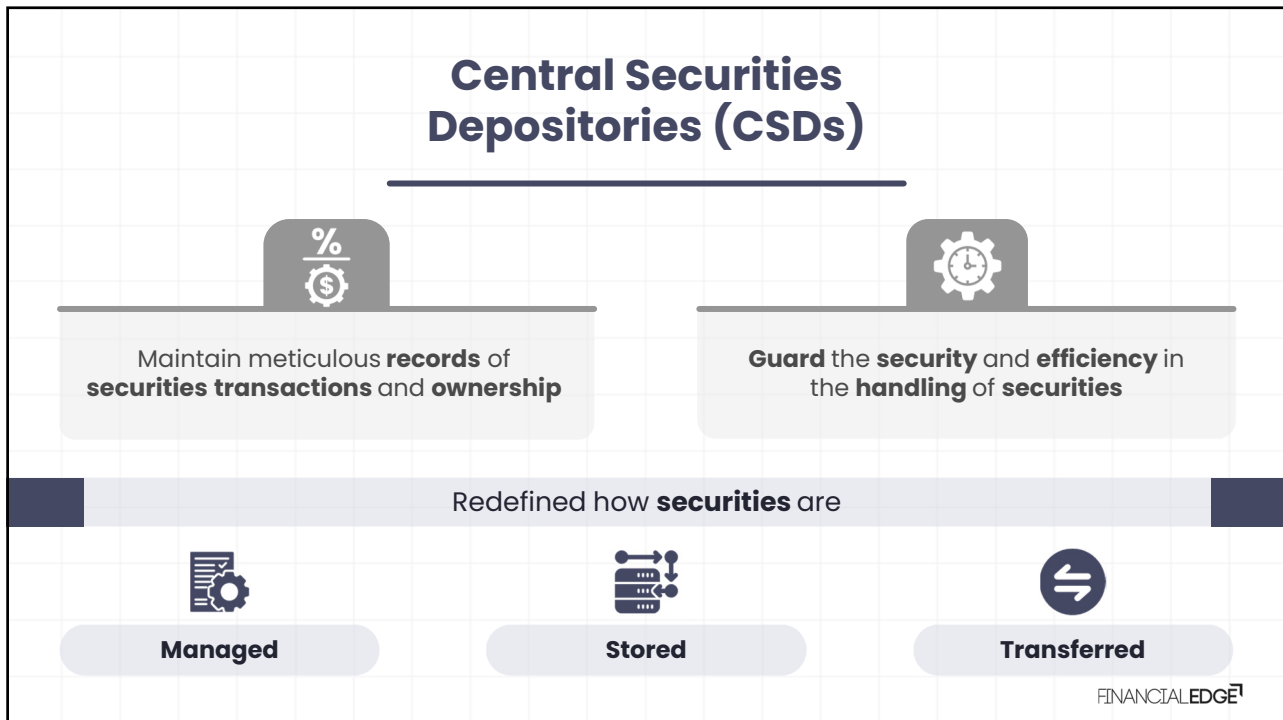
Central Securities Depositories (CSDs)



Central Securities Depositories (CSDs)

Specialized financial organizations that serve as the **focal point** for **depositing securities**





Central Securities Depository (CSD)

Crucial players in the world of
financial investments



Direct interaction is typically **limited to:**



Investment banks

Custodians



Brokers

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Custodians

Holding and **safeguarding** financial assets for individuals or institutions



Bonds



Stocks



Mutual funds



Currencies



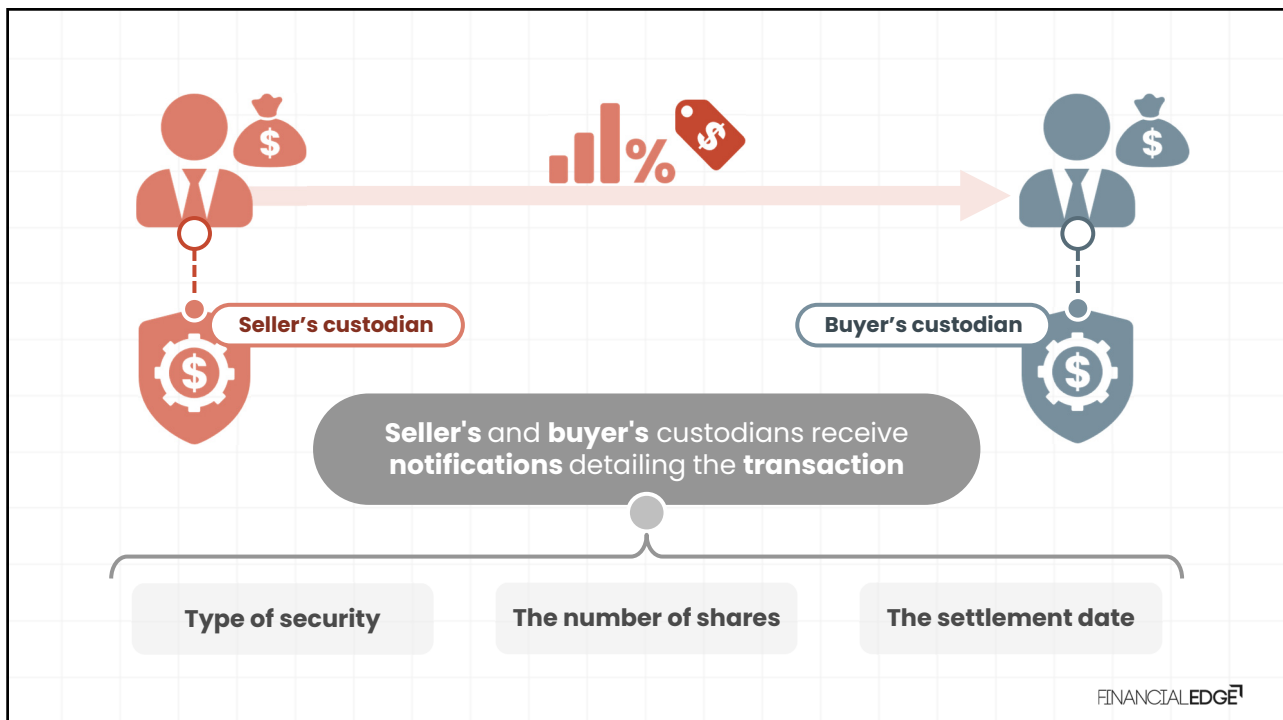
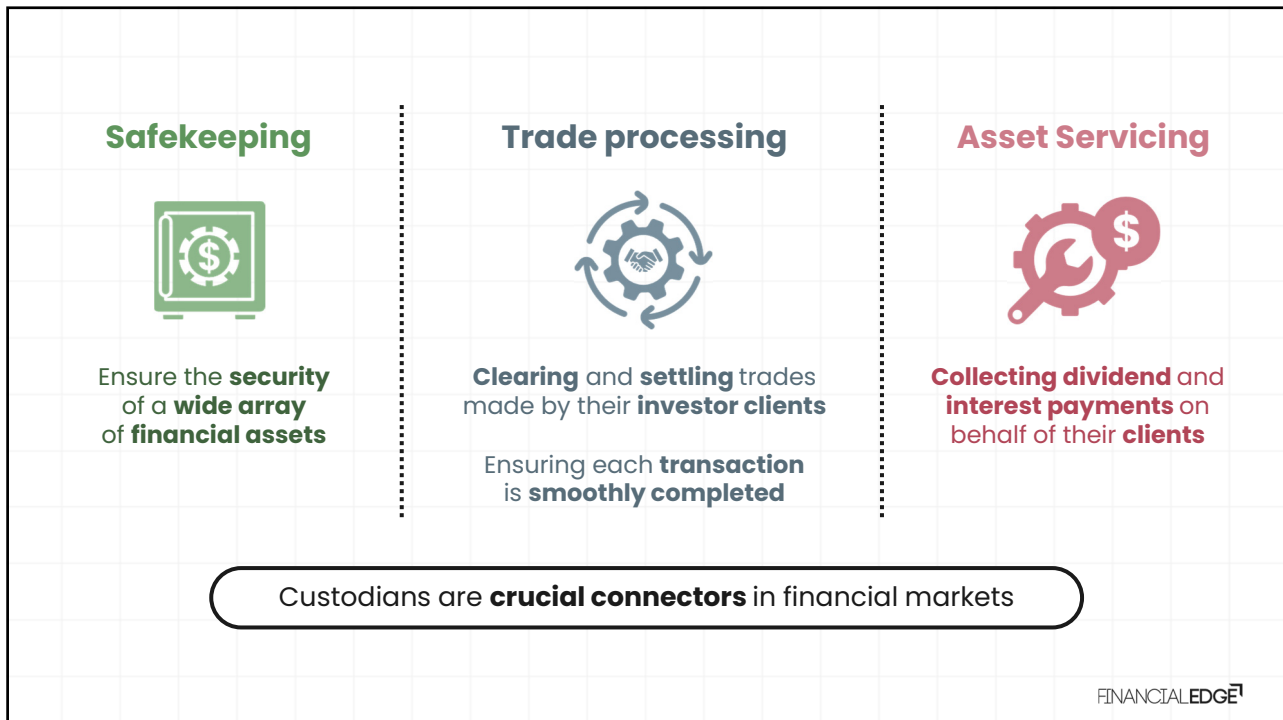
Clients range

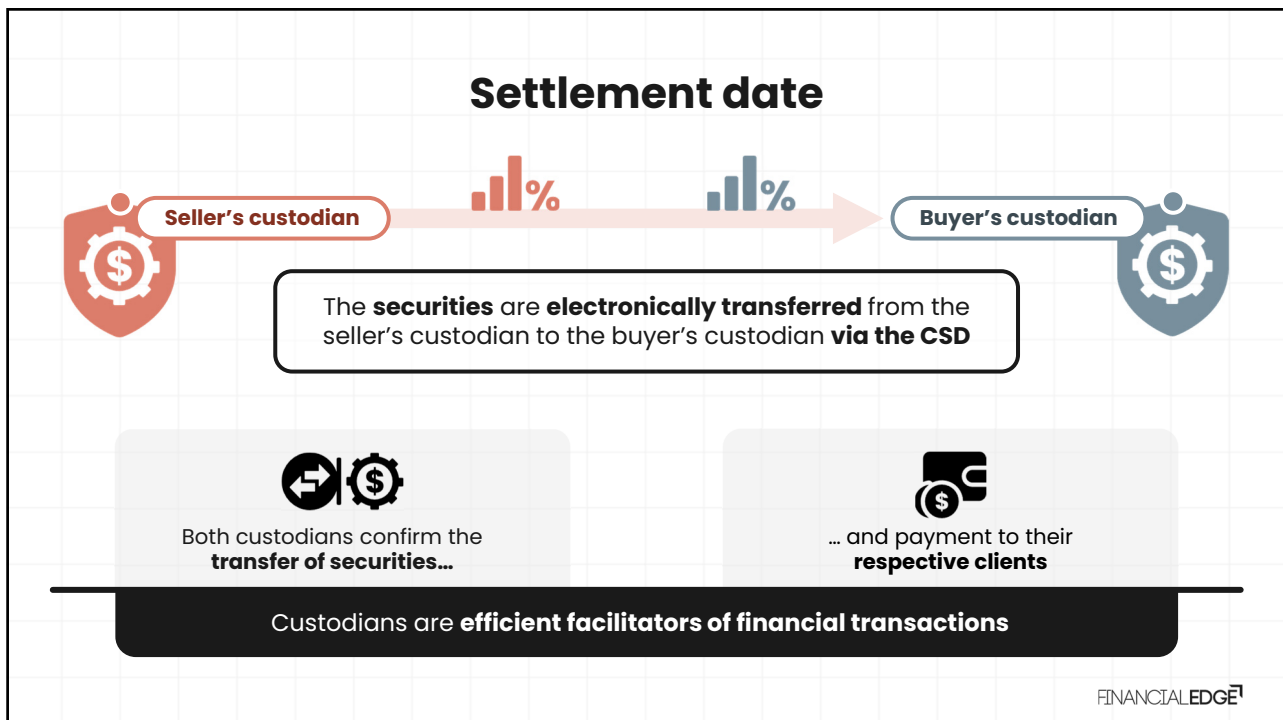
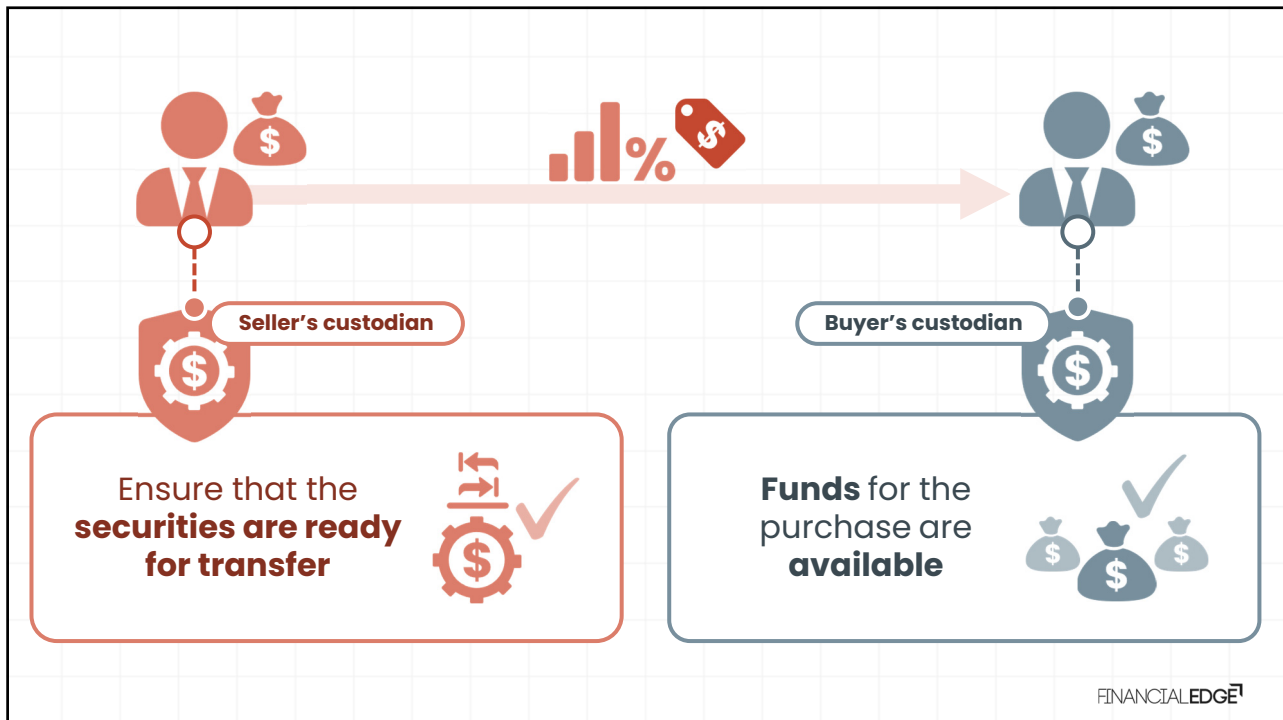
Mutual funds

Pension funds

Individual investors

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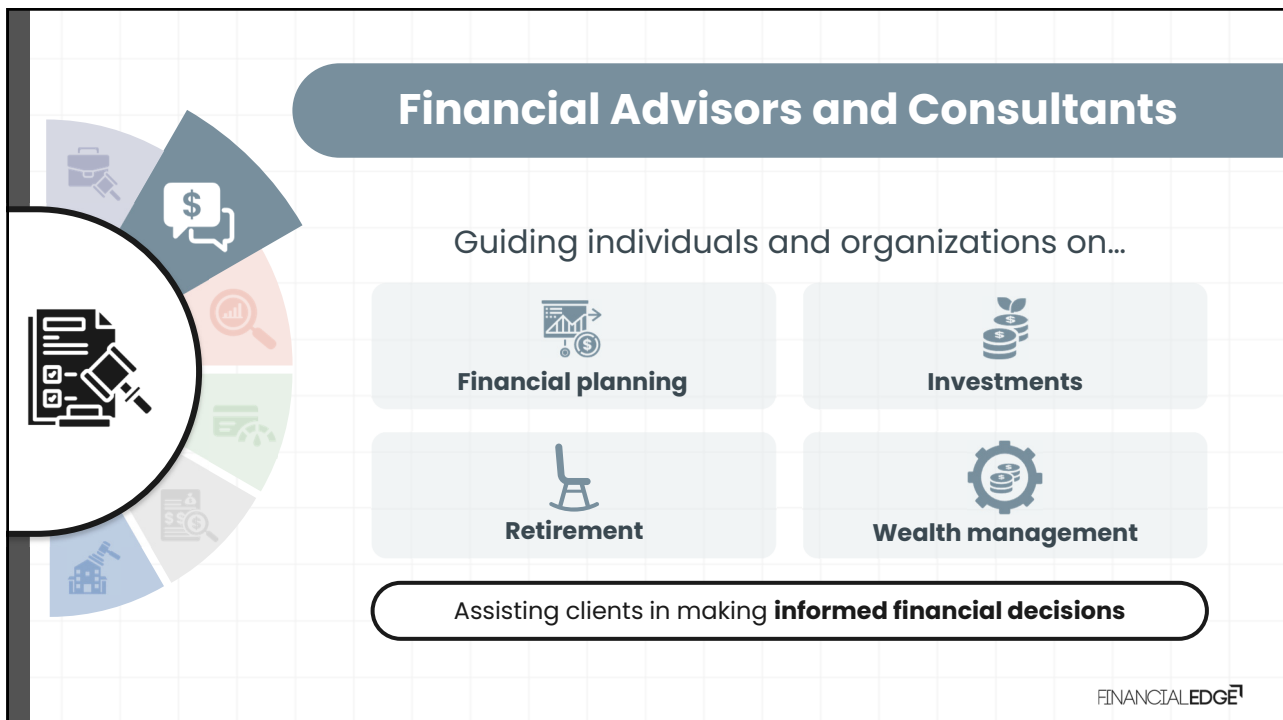
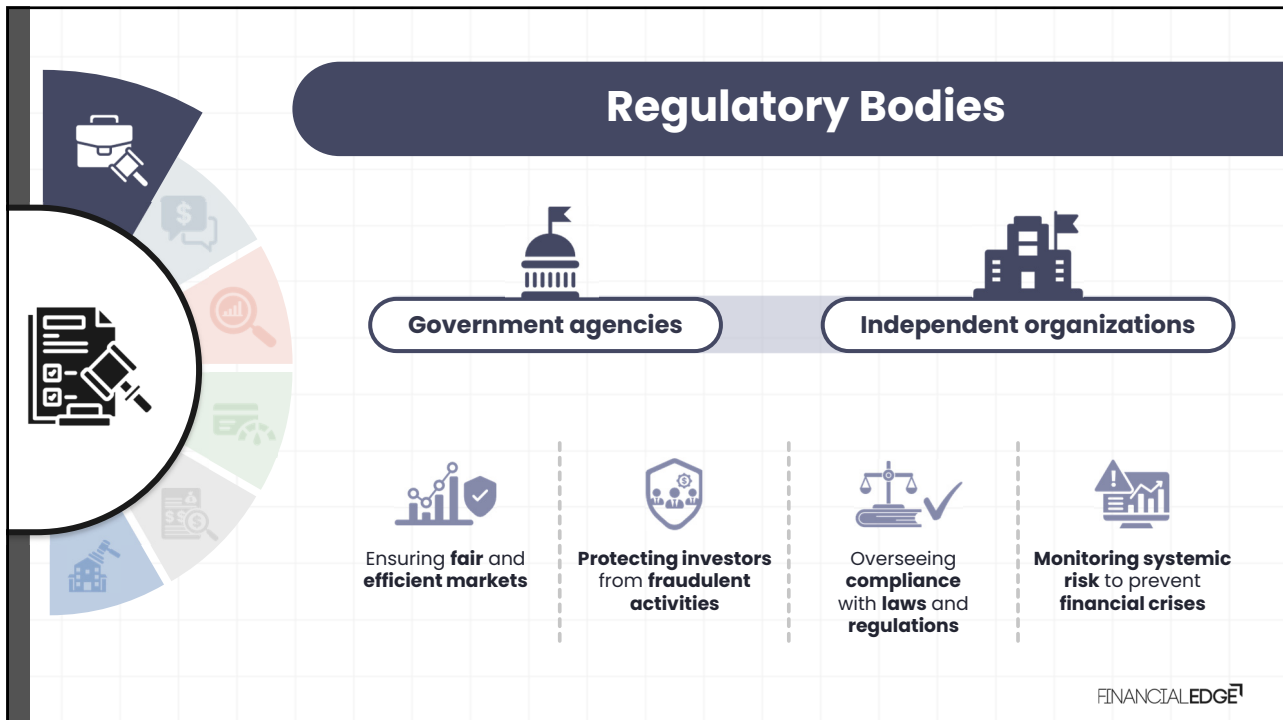


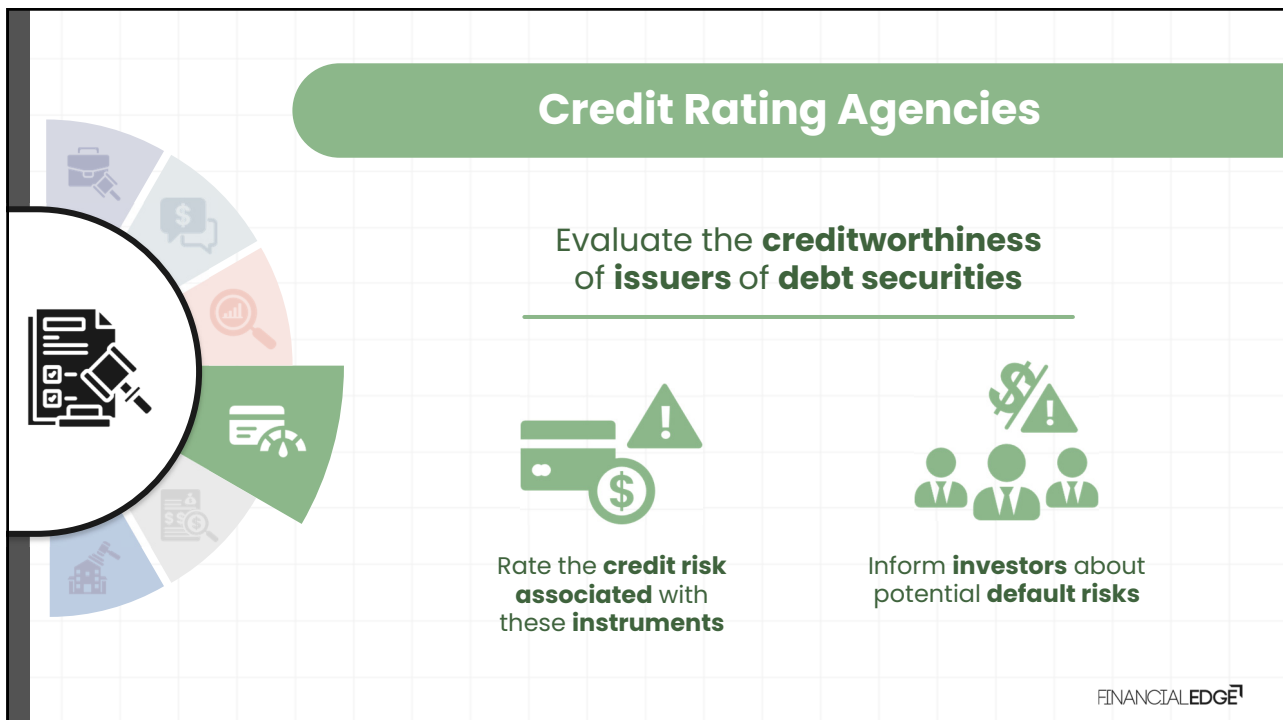
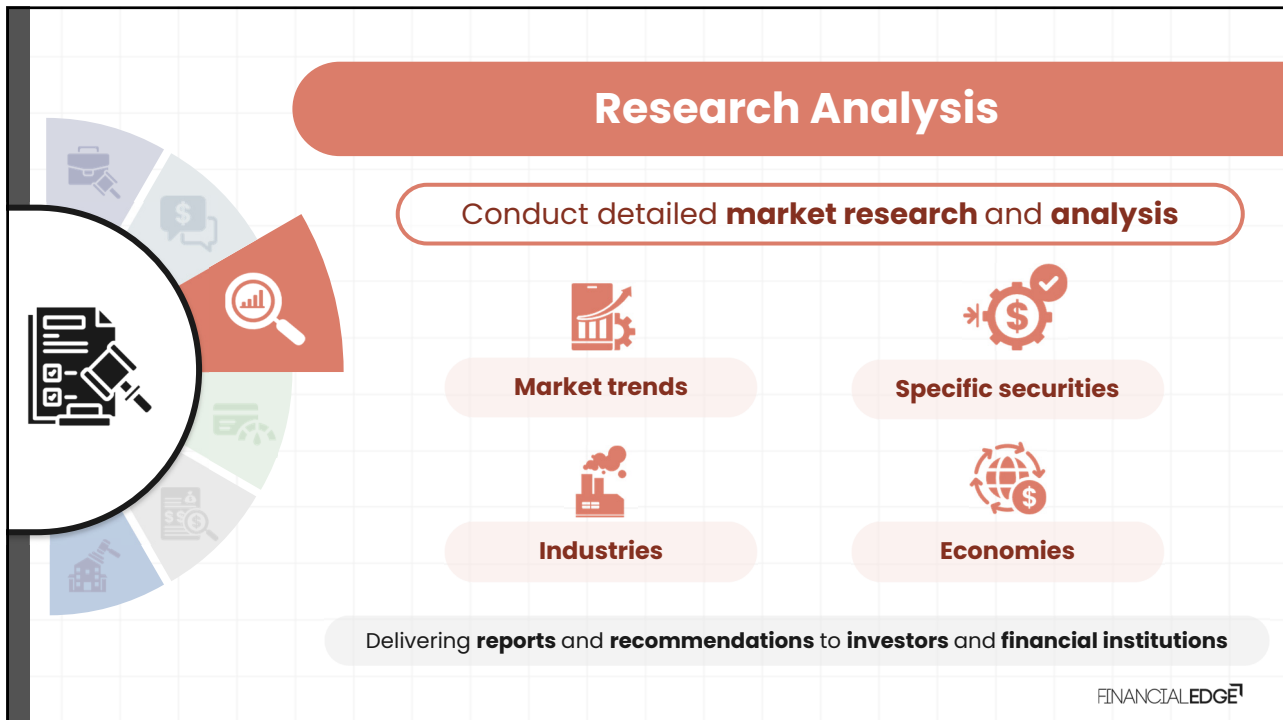
The Regulatory and Advisory Layer

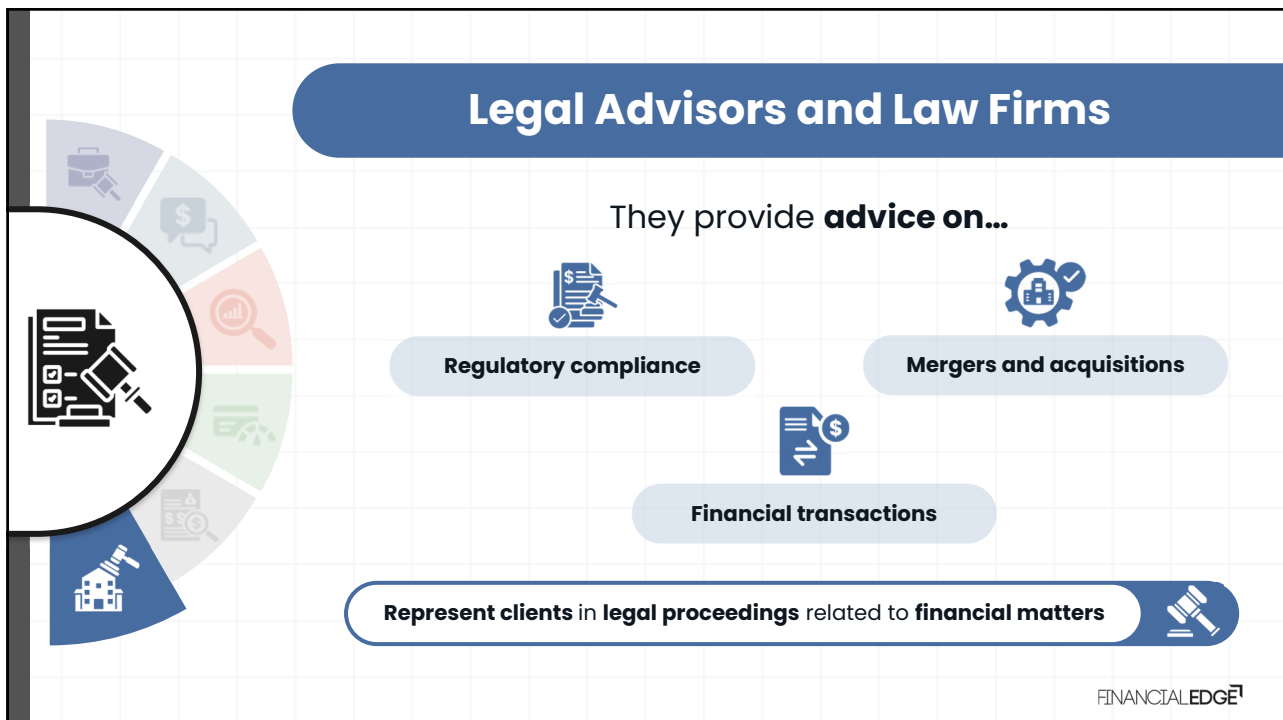
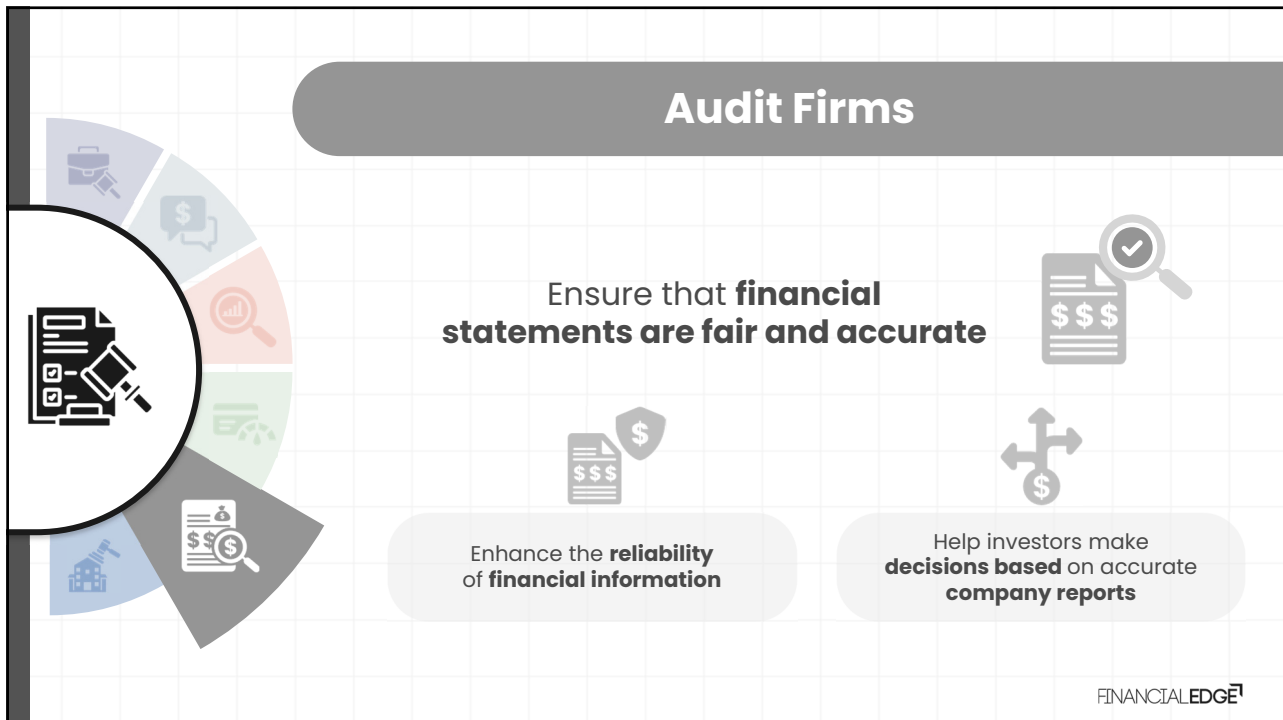
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Regulatory and Advisory Layer

Integrity**Transparency****Smooth functioning of market ecosystem**FINANCIALEDGE⁷







Legal Advisors and Law Firms

Regulatory and advisory layer
is a **network of entities**

Stability

Reliability

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