



The Cornerstone of Good Governance: *The Increasing Importance of Data*

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Context



Shifting Focus

Changes in the macroeconomic environment following the financial crisis and in the regulatory environment have resulted in an increased focus on governance...

Client objectives

Achieving financial growth

- Pressure to lower costs or evolve cost structure
- Low yield environment affecting investment returns and impacting allocations
- Increase in rise of diverse asset classes and strategies to increase alpha



Meeting regulatory requirements

- Enhanced reporting requirements driven by changing regulation
- Increased demands for transparency
- Infrastructure changes need to be implemented and adhered to



Increasing focus on governance

- **Counterparty / credit risk**
- **Investment / interest rate risk**
- **Compliance risk**
- **Fiduciary risk**
- **Business risk**



Focus On Achieving Greater Efficiencies

Active debate about how greater cost savings and operational efficiencies can be achieved from joint working through to full mergers and consolidation.

Professional Pensions

7 May 2013

A national procurement framework for local government pension schemes (LGPS) looking for investment consultancy has been launched... A similar framework for custodian services, the technical advisor for which is Mercer, will be launched in September.

govtoday
Join the debate

22 May 2013

Brandon Lewis, Minister for Local Government, has issued a call for evidence on the future shape and size of local government pension funds.

 LGSS

1 June 2013

Northampton Borough Council is the latest addition to LGSS's growing portfolio of public sector organisations across the East Midlands/East of England, which include Huntingdonshire District Council, Norwich City Council and Olympus Care Services.

 Pensions Week
UK workplace pensions

17 June 2013

Wandsworth
eyes collective
investment lead

Wandsworth Council Pension Fund has set its sights on leading a London-wide collective investment vehicle to drive down costs, rather than a forced merger, pensions committee documents have revealed.

Collective Investment Vehicles to Deliver Greater Efficiencies

Consolidating schemes and pooling assets into a collective investment vehicle can provide significant benefits, including cost savings, access to best-in-class asset managers, enhanced governance and risk management.

Vehicles under consideration:

- Collective investment funds
- New authorised contractual scheme (ACS)



What will the governance models look like for the different solutions at the pooled level and the participant scheme level?



How will all stakeholders have the necessary transparency and oversight over their assets etc.?



How will you get the information and reporting you need, when you need it and to the required level of detail?



How will you have the operational infrastructure in place, if your investments are managed in-house?

Focus On Implementing New Governance Arrangements

Introduction of the new scheme in 2014 will have significant implications for the governance and regulation of schemes but some details still remain unclear.



The Local Government Pension Scheme 2014

- Changing role of the regulators remain unclear - The Pensions Regulator (TPR), Department for Communities and Local Government and HM Treasury
- Changes to scheme rules e.g. investment guidelines resulting in greater complexity
- Compliance with the new regime will require adjustments from all funds as you have to deal with the governance and administration challenges
- Heightened expectations to achieve greater efficiencies and cost savings

How will you demonstrate the necessary transparency and oversight?

How will you have oversight over changing investments?

Will you have access to the necessary reporting and information?

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Today's Governance Issues



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Answering Key Questions







Answering Key Questions





Answering Key Questions





Answering Key Questions





Answering Key Questions





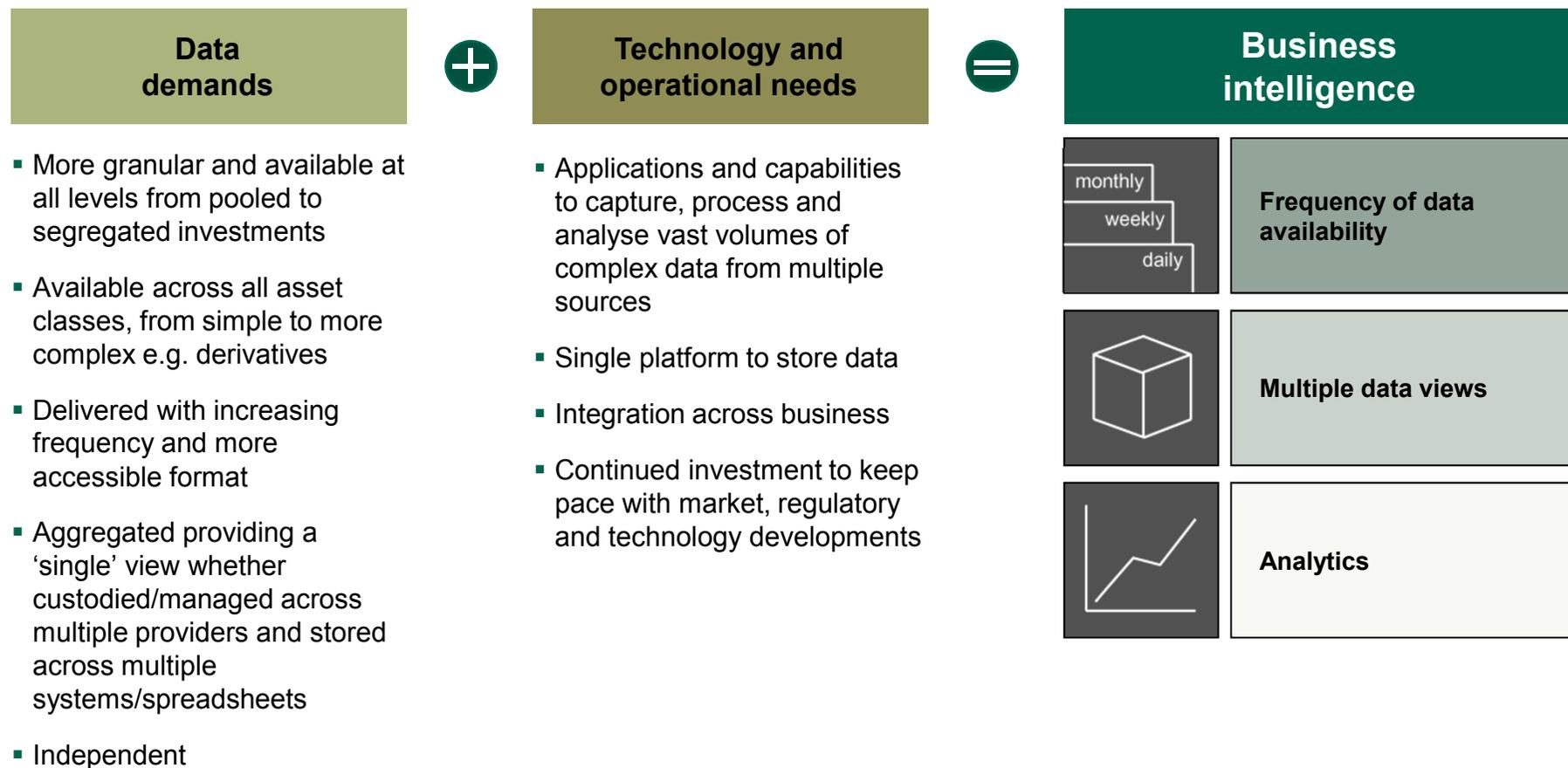
Answering Key Questions



Data Underpinning Good Governance

Good pension scheme governance is crucial to your success in achieving greater efficiency and financial growth. It requires the necessary infrastructure to capture and aggregate the type of information required, at the necessary frequency with the tools for detailed analysis.

Infrastructure needed and output generated



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Our Response



An Introduction to Institutional Governance Services

Helping institutional investors achieve stronger governance and transparency through a suite of product and data solutions developed by Northern Trust's Retirement Solutions Practice.



Institutional Governance Services enables institutional investors to access, aggregate and analyse wide-ranging data for assets serviced by Northern Trust as well as third-parties. Solutions are developed around clients' unique information requirements from acting as their custody accounting book of record through to investment book of record, where our data is their primary source for market management. A variety of tools enable them to analyse and use this information from having transparency in pooled mandates right through to the underlying security detail to highly sophisticated risk analytics such as customised scenario analysis.

Delivering more than independent, accurate and timely data...

Technology, tools and talent turning information into meaningful insights for more informed decision-making and stronger governance

Technology - global operating model supporting around-the-clock data provision and analysis

Tools - powerful reporting tools to easily aggregate, manipulate and analyse data

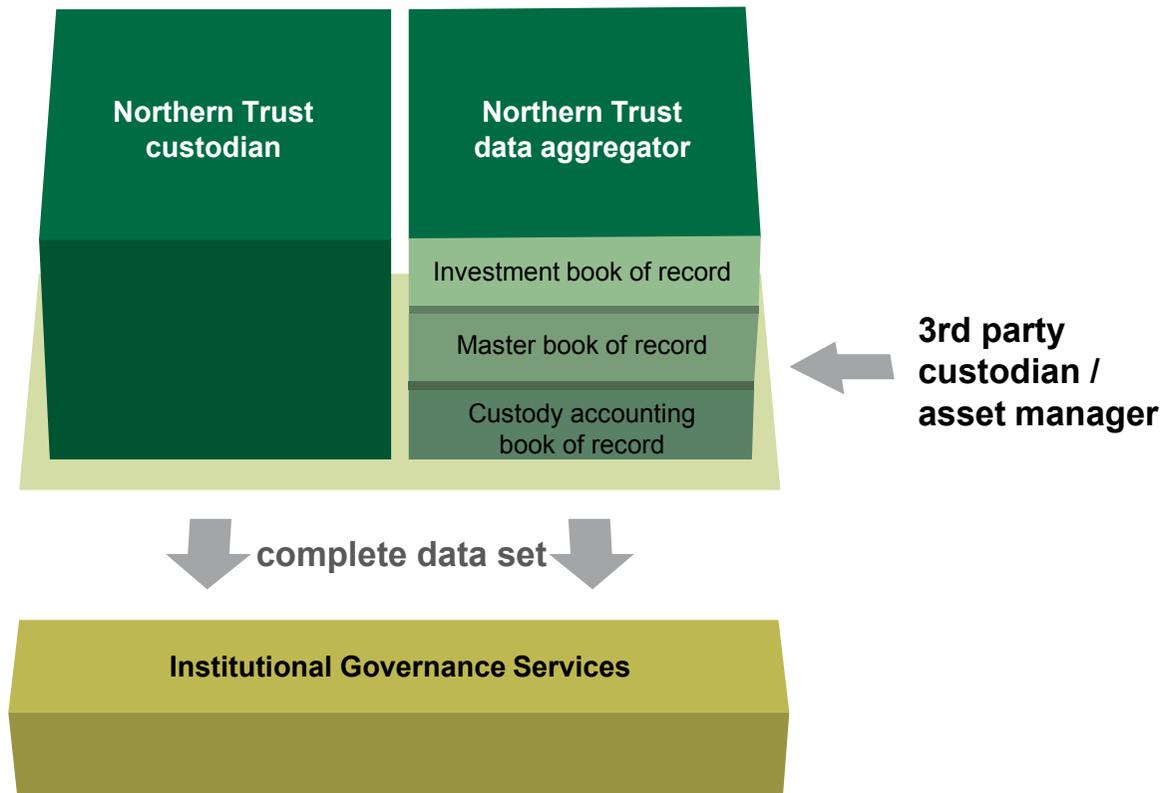
Talent - dedicated experts to create unique solutions and provide meaningful insights



A Single Source for ALL your Data

A single source of data for assets serviced by Northern Trust as well as third-parties.

Solutions based on your information requirements, including the type, frequency and level of detail.

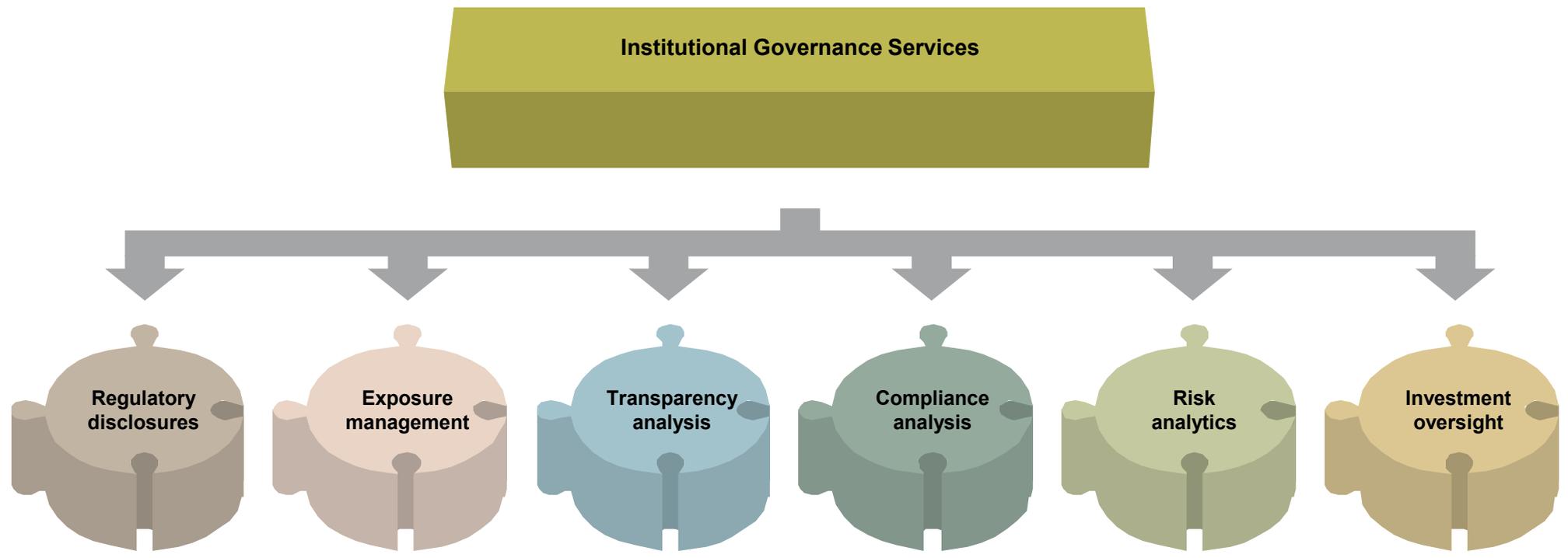


Independent, accurate and granular data: critical to ensuring strong governance



Data Driven Insights Underpinning Strong Governance

Flexible tools and reporting turning your data into meaningful insights for enhanced governance. Solutions designed around your needs from bundled to component services.



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How Does It Support Your Governance Model?



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May 9, 2012 7:27 pm

A hole in the heart of Spanish banking

Mariano Rajoy, Spanish prime minister, insisted when he came to office that no one euro more of taxpayers' money would be used to bail out the banking sector. But the meltdown at Bankia, the savings bank that holds 10 per cent of the country's deposits, has forced Mr Rajoy to confront the reality of a hole in the heart of the banking system.

Despite raising billions of euros since the collapse of Lehman, Spain's banking sector remains woefully undercapitalized. The government's plan of forced consolidation and recapitalization is still in the early stages.

9 May 2012 Last updated at 13:04

153 Share [Facebook] [Twitter]

Spain bank problems loom over markets

Spanish shares have fallen and the interest rate on the country's benchmark 10-year bond has risen amid fresh worries over the banking sector.

The Ixex market fell by 3% and bond yields rose above 6%, a level seen as unsustainable.

On Friday, Madrid will unveil a plan to clean up banks exposed to the property and construction sector crashes.

Much focus will be on Bankia, which holds 32bn euros in distressed property assets and whose boss has resigned.

Rodrigo Rato, who stepped down as Bankia's executive chairman on Monday, was a former member of the International Monetary Fund.

IBEX 35 Index

LAST UPDATED AT 10 MAY 2012, 09:17
*CHART SHOWS LOCAL TIME



value	change	%
6750	+111.30	+1.63





What is our exposure to that country?

Northern Trust | ACCOUNT BRIEF

EXPORT VIEW | EXPORT DATA

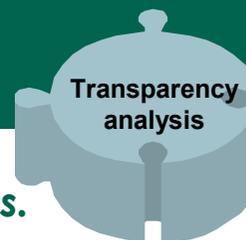
Country Asset Detail
09 May 2012

Country: Spain

PASSPORT LONDON - ALL ACCOUNTS

Asset Description/ Asset ID	Shares/ Mkt Price	Accrued Inc/Exp	Market Value	Cost	Unrealized G/L Total	% of Total
BBVA U S SR S A 3.25% DUE 05-16-2014 SB4W11L6	1,900,000 98.00	29,846	1,862,051	1,897,519	-35,467	6.583
GAS NATURAL SDG EUR1 S5650422	113,900 9.99	0	1,471,572	2,025,727	-554,154	5.121
GRIFOLS SA EUR0.10 (CLASS B) SB3Y5WX8	14,077 14.32	0	260,768	0	260,768	.907
GRIFOLS SA EUR0.5 SB01SPF2	140,775 18.70	0	3,403,297	1,969,388	1,433,910	11.842
INDITEX EUR0.15 S7111314	76,884 67.56	0	6,716,987	6,360,088	356,899	23.373
MAPFRE EUR0.10 SB1G40S0	2,215,368 1.94	0	5,563,448	7,198,544	-1,635,096	19.359
PVTPL SANTANDER US DEBT S A UNIPERSONAL SR NT 144A 2.485% DUE 01- 18-2013 BEO C802815AP5	4,400,000 98.81	34,017	4,347,816	4,299,716	48,100	15.247
TELEFONICA 5.134% DUE 04-27-2020 SB5LPJZ6	270,000 93.47	501	252,375	268,017	-15,642	.880
TELEFONICA SA 5.877% DUE 07-15-2019 SB614PC9	310,000 98.91	5,820	306,621	311,817	-5,195	1.087
TELEFONICA SA EUR1 S5732524	233,025 11.00	0	3,314,699	3,641,574	-326,875	11.534
VISCOFAN SA EUR0.30 S5638280	26,621 33.94	0	1,168,383	1,058,795	109,588	4.066
Report Total			28,668,018	29,031,184	-363,166	100

Transparency Analysis for Pooled Funds



Transparency down to the individual security level in the underlying holdings of pooled funds.

Before Fund Peek Through		
<i>Reports</i> XX-XX-XXXX	Account number ABC Client	
Effective Currency Exposure		
Country	Currency (Base currency)	%
Canada	48,900,774	100.00%



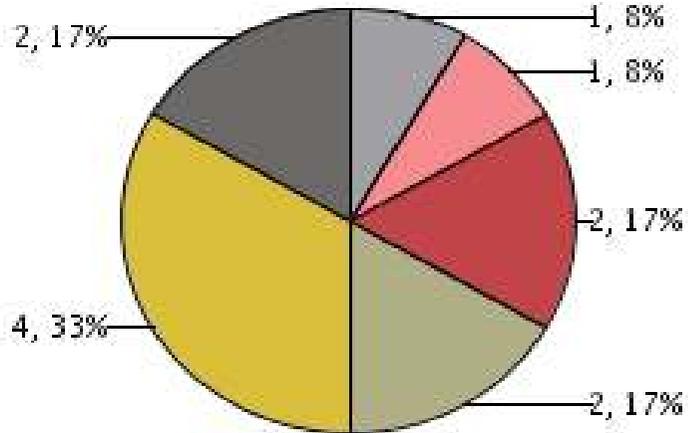
After Fund Peek Through		
<i>Reports</i> XX-XX-XXXX	Account number ABC Client	
Effective Currency Exposure		
Country	Currency (Base currency)	%
Australia	1,630,504	3.33%
Canada	2,997,192	5.12%
Denmark	999,314	2.04%
Euroland region	15,179,395	31.04%
Hong Kong	1,837,565	3.75%
Japan	5,472,449	11.19%
New Zealand	245,092	0.50%
Norway	231,011	0.47%
South Korea	2,085,000	4.27%
Seden	1,783,711	3.65%
Switzerland	1,373,915	2.81%
United Kingdom	12,239,711	25.03%
United States	3,172,578	5.49%
Total for report	48,900,774	100.00%

Monitoring Compliance With Your Investment Guidelines



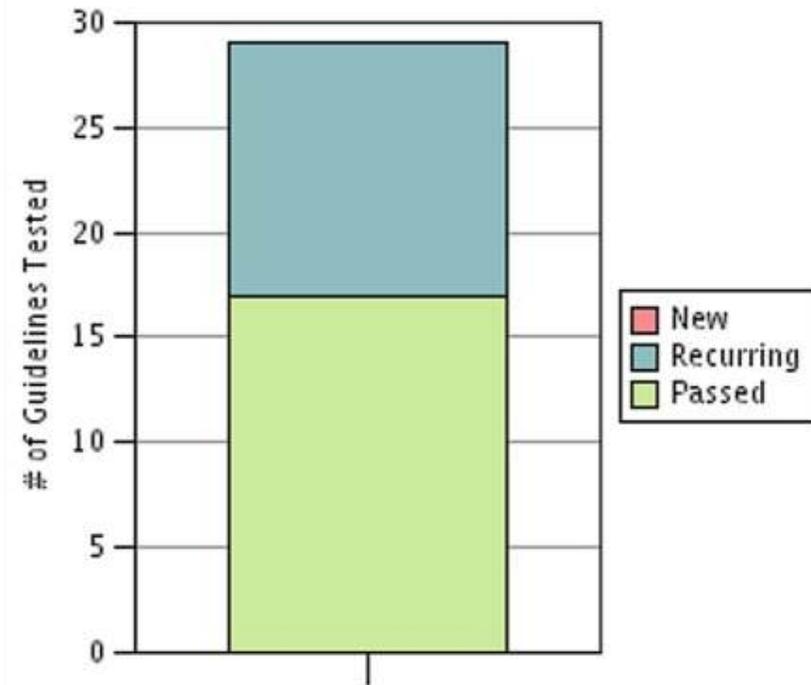
Manage your compliance monitoring programme easily via an on-line tool.

Exception Reports by Action Status for 05/14/2012



- New
- Information Only
- Under Investigation
- Ignore
- On Watch
- Valid Breach

Guidelines Tested vs. Exceptions for 05/14/2012



29 Guidelines Tested As of the Previous Business Day



Detailed Notification of Guideline Breaches



Drill through into each exception report to understand the guideline breach.

Message Summary for: Credit Rating Minimum

Triggered on Mar-26-20XX
For Valuation Mar-25-20XX

SETUP

Description The portfolio shall not hold any security with a credit rating below BB+ by S&P or the equivalent by Moody's or Fitch.

Guideline Parameter	Credit Rating Minimum	Country Restrictions	No
Use the rating from all sources when the primary source does not provide a rating.		Individually or Aggregate Based on Country of	
Primary Vendor & Minimum Rating	S&P BB+		
Secondary Vendor & Minimum Rating	Moody's Ba1	Asset Class Restrictions	Yes
Tertiary Vendor & Minimum Rating	Fitch BB+	Assets Individually or in Aggregate	Assets Individually
Name of Acct/Consolidation	MANAGER A		
Number of Accounts Individually or Aggregate	1 Accounts in Aggregate		

RESULTS

<u>Account Number</u>	<u>Account Name</u>	<u>Securities Triggered</u>	<u>% MV Rated*</u>
MGRA	MANAGER A	6	100.00%

Asset and Liability Risk Reporting

Risk analytics

Measure the performance of your liabilities through various market regimes.

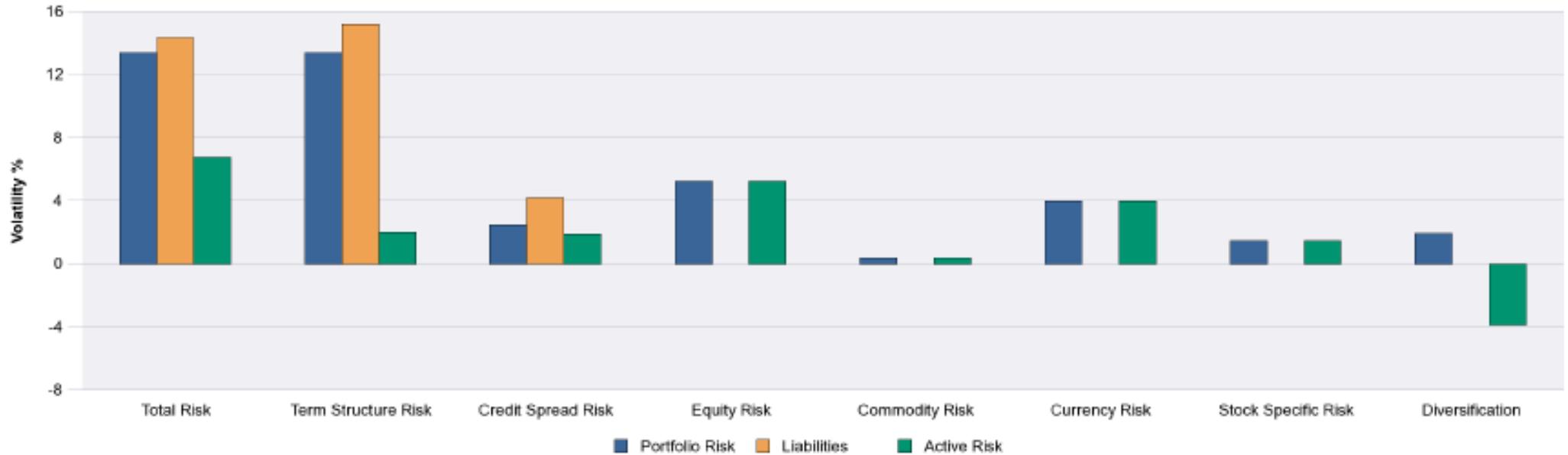




Risk Versus Liability Reporting



View the risk of your portfolio versus its liabilities, enabling you to quickly identify the major sources of risk or concentration of risk.





What is the potential risk of a default?

Default Forecast(%) Grouping	Market Value	Weight (%)	Total Risk Percentage	S&P Rating	Total Risk	1-Year Default Forecast(%)
0-5%	2,032,042,983.13	69.57%	69.334%	A-	6.86	0.93%
5 to 10%	720,453,025.82	24.66%	27.669%	AA-	8.01	6.08%
20 to 30%	22,318,821.26	0.76%	1.099%	A	12.38	24.86%
30 to 50%	146,251,415.89	5.01%	1.899%	CCC+ / CCC	10.39	33.53%
Sample FI Portfolio	2,921,066,246.10	100.00%	100.000%	A / A-	6.81	4.02%

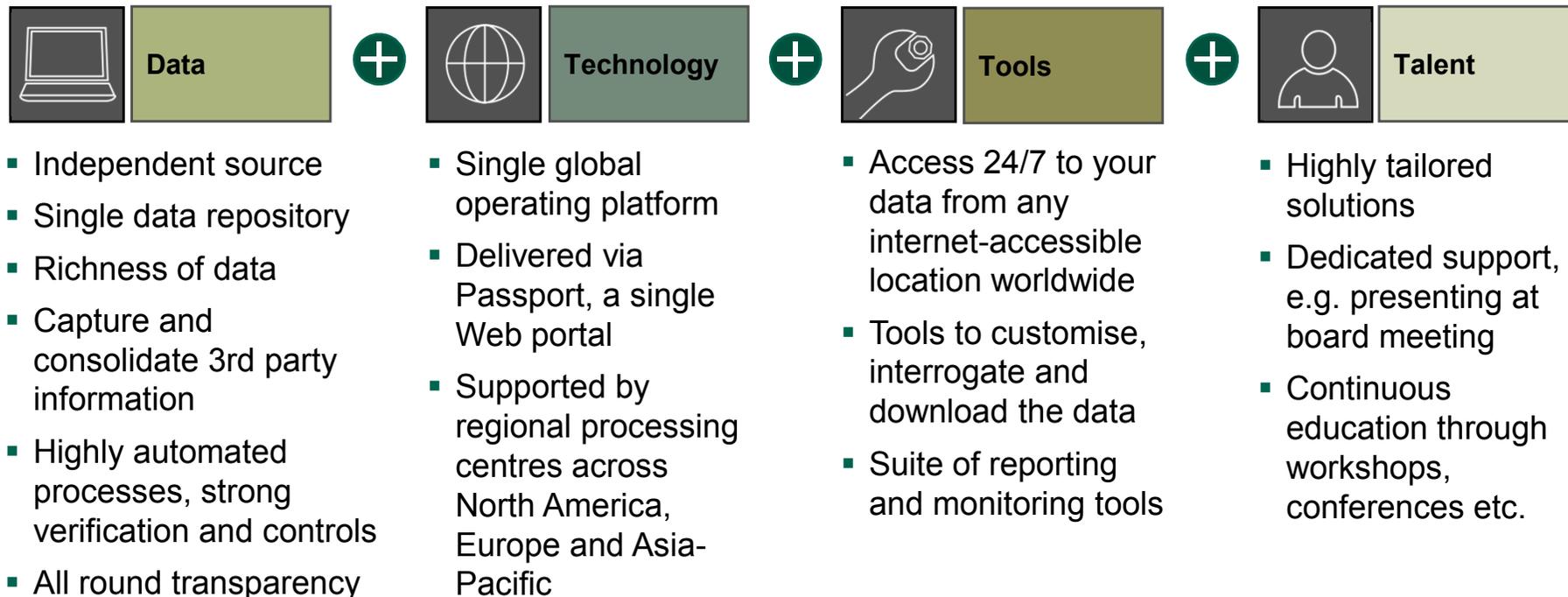
Default Forecast(%) Grouping	Portfolio 1-Year Default Forecast(%)	Benchmark 1-Year Default Forecast(%)	Active 1-Year Default Forecast(%)	Active Weight
0-5%	0.93%	1.06%	-0.126%	-0.02%
5 to 10%	6.08%	6.83%	-0.755%	-3.40%
20 to 30%	24.86%	24.90%	-0.046%	0.40%
30 to 50%	33.53%	32.94%	0.588%	4.43%

Is default probability too high for comfort in the 20 to 30% bucket given it has an average 'A' rating?

Portfolio shows significantly more allocation to bonds with > 30% default forecast than the benchmark

Data Solutions Driving Effective Governance and Risk Management

Providing you with the tools, technology and talent to turn broad-ranging data into meaningful insights.



Greater insight and control, more effective governance



Any Questions?





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