

Wednesday 18th September 2014

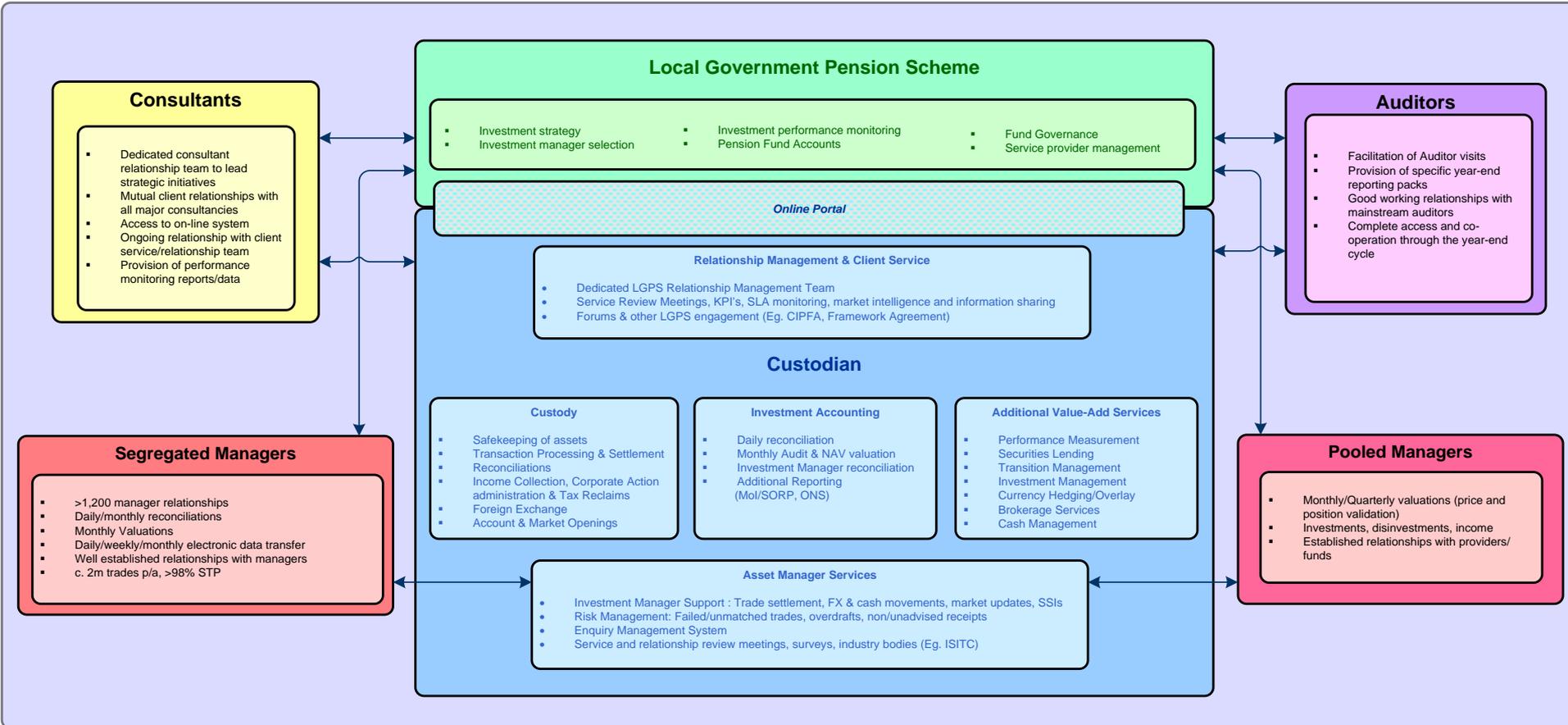
Role of the Global Custodian



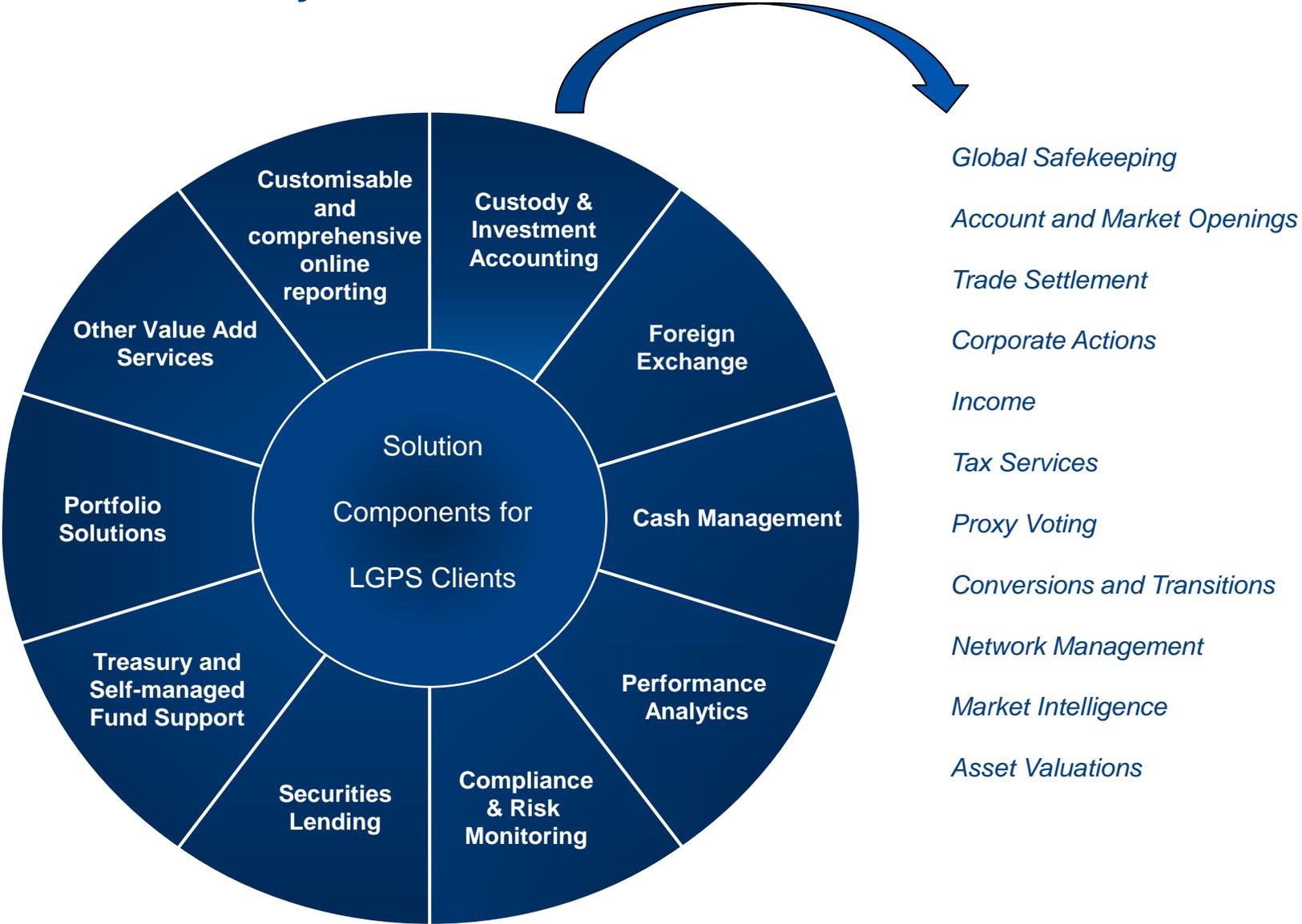
STATE STREET®

David Cullinan

Role of the Custodian - Relationship Map

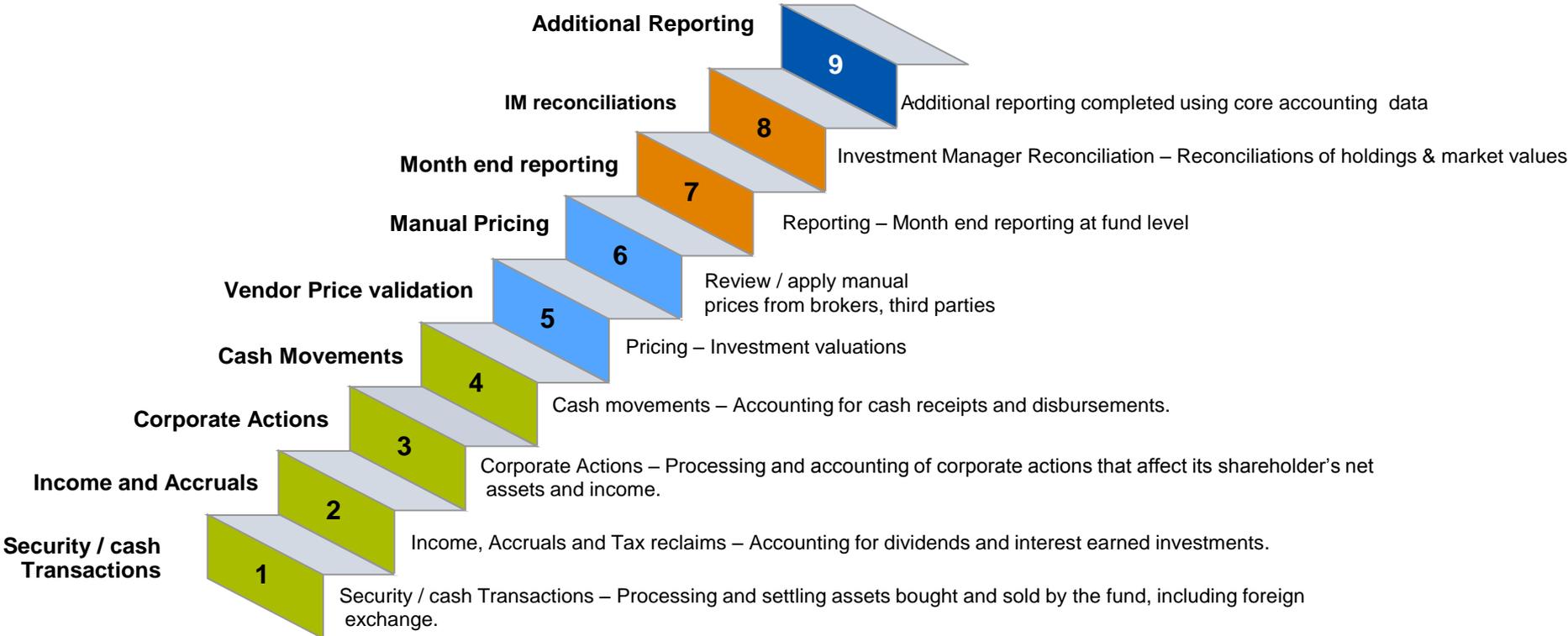


Global Custody



Value Add Services - Investment Accounting

Month end process



Considerations

- Asset Safety
- Financial Strength (Capital and Credit Ratings)
- Transparency (Reporting, Fees, Foreign Exchange)
- Commitment & Engagement
- Service & Capabilities
- Competitive Fees

Developments

- Regulatory changes (LGPS changes, IFRS, FATCA etc.)
- Shared Services & Framework Agreements (Actuarial, Consultancy, Investment Management, Custody Services)
- Performance vs benchmark / peers → assets vs liabilities?

Investment Analytics

Value Add Services - Investment Analytics

The Current Environment

The Challenges

- Increasing fund complexity
- Expanding range of asset types and managers
- Increasing regulation
- Increasing governance overhead
- Market volatility

Provider Solutions

- Analytics delivered quickly, accurately and efficiently
- Impartial evaluation and analysis to support decision making
- Absolute flexibility around inputs and outputs
- Ease of access to data
- Rapid response to managing change
- Industry context
- Regular dialogue

Investment Analytics at State Street

- Fully integrated solution
- Comprehensive product suite
- Third party solution – the WM Company brand
- We currently measure 86 UK Local Authority funds equating to over 800 portfolios
- Our track record extends to 35 years
- We boast an unparalleled database of Local Authority returns
- Supported by 80 UK based staff

Servicing the needs of the UK Local Authority market

Core Services

- Straight through processing for SSGS customers
- Management of third party data
- Calculation of returns – any currency, any time-period
- Calculation of scheme specific benchmarks
- Transparent attribution of relative performance
- IM reconciliation
- Flexible hierarchies and reporting – one size can't fit all
- Flexible delivery

Value Added Services

- Board reporting
- Bespoke reporting
- Linking risk and reward
- 'Trustee' training
- Performance consultancy
- Presentation of results
- Peer group reviews
- Impartial research
- Local Authority Roadshows

2014 and beyond

- Increasing complexity
 - Greater regulation
 - Managing change
- 
- Growing pressure on Officers
- Dealing with negative cash flow
 - New look LGPS
 - Framework agreements and collaborations
 - Mergers?

Appendix

Settlements Process and Controls

PARTIES

- IMs / Clients
- Lending Agents
- Local Exchanges

- Subcustodians
- Depositories
- Client Service Groups
- IM's / Clients
- Reporting

- Subcustodians
- Depositories
- Reporting

PROCESS



CONTROL HIGHLIGHTS

- Workflow management
- Prioritisation
- Integrity check
- 24 Hour monitoring

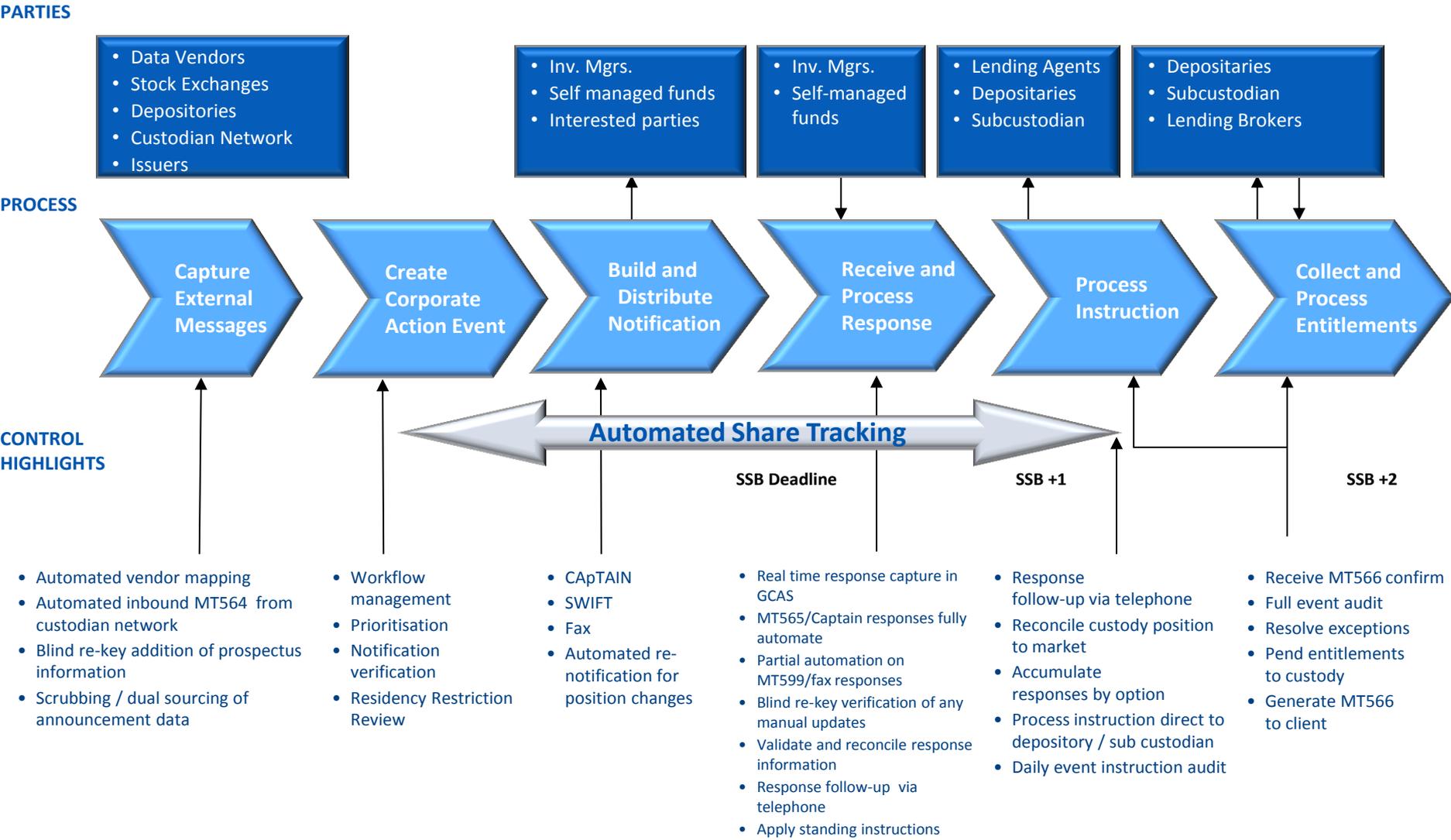
- Real time status updates
- Inventory management
- 24 Hour monitoring
- Automatic notification to clients

- Automatic updates to securities balances
- Real time position availability
- Automatic notification to clients

- Failed trade management
- Complete fail status updates
- Collaboration with local agents/depositories for fail resolution

- Automated recon schedule
- On-line reporting
- Exception monitoring
- MIS reporting

Corporate Action Process and Controls



Income Process and Controls

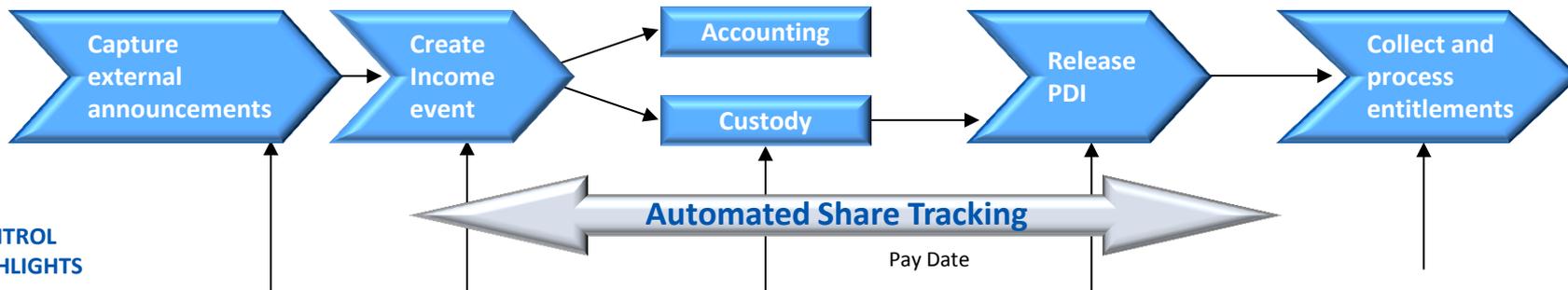
PARTIES

- Data Vendors
- Depositories
- Stock Exchanges
- Custody Network

- Lending Agents
- Depositories
- Subcustodians

- Lending Agents
- Depositories
- Subcustodians

PROCESS



CONTROL HIGHLIGHTS

- System and Manual Data scrubbing
- Dual sourcing of announcement data

Generate MT564 to clients

- Tax treatment applied
- Custody event data
- Due from market
- Due from lending
- Due from broker
- Not entitled
- Reconcile subcustodian pre-advice

- Eligible for release at start of local market day
- Income policy
- Associate policy with fund, currency, location
- Generate MT566 to client

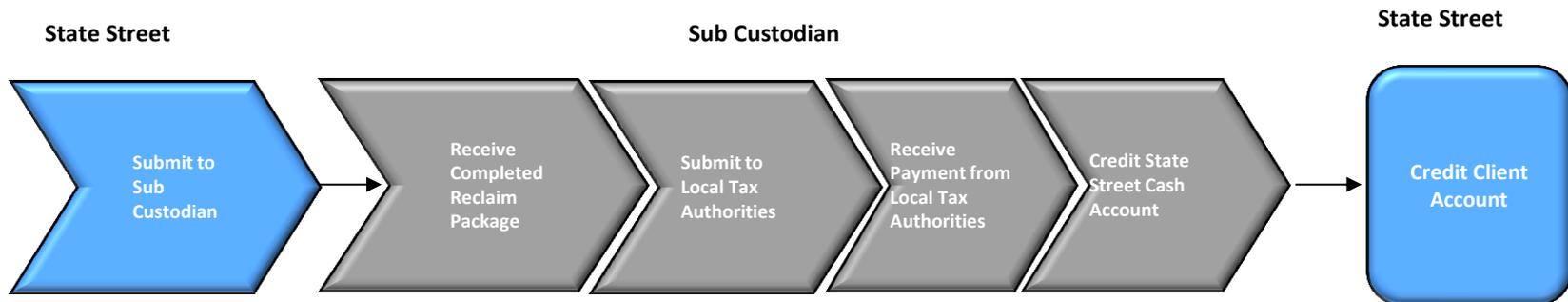
- Post actual income to clients
- Relieve income advances
- Exposure monitoring;
- Resolve exceptions;
- Issue claims
- Generate MT566 to client

Tax Reclaim Process Local Market Flow

Tax Reclaim Package Preparation



Tax Reclaim Filing



Value Add Services - Portfolio Solutions

Transition Management	<ul style="list-style-type: none"> • End-to-end solution that implements revised strategy and delivers new portfolio to fund's managers • Minimises costs by utilising derivatives, diverse liquidity sources and internal/external crossing pools
Interim Exposure Management	<ul style="list-style-type: none"> • Maintains desired market exposure over an interim period with immediate effect in a risk reduced manner • Customisable solutions allow clients to identify investment instruments and tracking error thresholds
Interim Asset Allocation Overlay	<ul style="list-style-type: none"> • Cost-effective and timely rebalancing of sub-optimal asset allocations • Smooth reallocation facilitates eventual transition
Cash Equitisation	<ul style="list-style-type: none"> • Maintains market exposure for excess cash balances and fund-level cash • Exposure conducted by way of futures overlay and hedges are adjusted daily, if necessary
Liquidity Management	<ul style="list-style-type: none"> • Manages cash flows to provide targeted liquidity and market exposure levels • Minimises opportunity costs by utilising internal crossing network and derivative overlay
Currency Management	<ul style="list-style-type: none"> • Broad range of currency management strategies, servicing approximately \$65 billion in assets* • Supports passive and active overlay and standalone portable alpha strategies • Share-class hedging services provided to allow managers replicate performance in other base currencies
Commission Management	<ul style="list-style-type: none"> • Provides a complete, end-to-end global solution that enables Investment Managers to better manage commission flows, address regulatory reporting requirements and administer commission sharing agreements

Value Add Services – Securities Lending

Why Borrow Securities ?

- Settlement coverage
- Securities are borrowed to facilitate a “short” position in a security
- Tax treaties between governments allow for dividend arbitrage trades
- Securities are borrowed as part of a financing strategy
- It is cheaper and / or more efficient to borrow shares than to buy them

What Does An Agent Lender Do ?

- Facilitates lending transactions between lender and borrower
- Aggregates assets and monitors demand in the market
- Negotiates rebate (cash collateral) or loan premium (non-cash collateral) with the borrower at loan initiation
- Receives cash or non-cash collateral typically with a margin and marks-to-market daily to maintain that margin
- Provides dedicated departments e.g. legal resources, trading expertise, operations etc.
- Dedicated income collection department dealing with MOD's
- **Provides a borrower default indemnity**
- **Facilitates loan recalls to support trading and other activity (Eg. Proxy voting)**

Revenues earned through Securities Lending programmes are shared between the Client and the Custodian, with the majority share in favour of the Client.

Contact details for further information

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