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Securities Finance Review \ Q1 2014

# Spring cleaning



Welcome to the financial review of securities in lending activity in 2014/Q1.

The good news is that our industry managed to add another \$700bn worth of inventory in the first three months of this year. Despite this strong supply, the size of the lending pie shared by market participants is not growing and the additional inventory has ensured that revenue is spread more thinly.

To this extent, the return to lendable figure is down on this time last year, mostly driven by loan balances having failed to keep up with the ever rising inventory levels. Utilization has fallen by three percentage points since 2011 to all-time lows.

While the markets may not have markedly improved since the previous quarter, we believe that the coming spring quarter brings several regulatory changes which could boost the fortunes of the securities lending industry.

Although the full impact of Dodd Frank, Basel III and the spate of recent regulation has yet to be fully felt, our industry provides essential financing and liquidity by matching those with assets to lend with those in need. We are constantly looking at ways to tailor our offering to suit the industry's shifting requirement.

We hope you enjoy this review.

Simon Colvin  
Research analyst

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# Spring cleaning

Simon Colvin

Research analyst

As the securities finance industry prepared for yet another round of regulation-driven change, we look at the spring cleaning needed to adapt to the new normal.

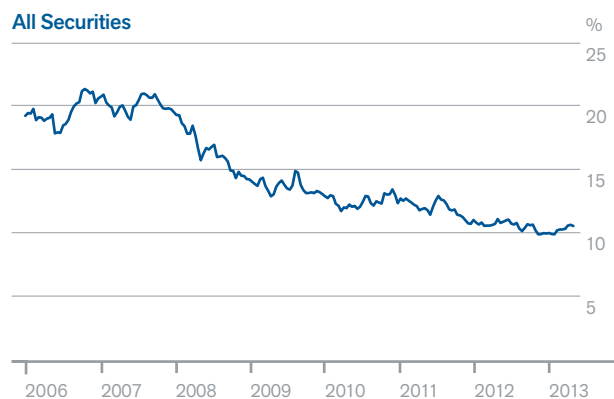
Looking at the pages of this latest quarterly review, you could be forgiven for thinking that we'd forgotten to update the data from our previous issue. Last year's stories of loan balances failing to keep up with ever rising inventory levels continue to play out in the opening months of the year. This in turns puts pressure on the fees charged for exiting loans, a trend which was no doubt exasperated by the fact that the industry has managed to add another \$700 billion of inventory since the start of the year.

Value on Loan



This phenomenon was discussed in our last forum. The “size of the pie” shared amongst industry participants is not growing and the extra supply just ensures that the remaining revenue is spread more thinly. To highlight the case, the last quarter saw utilisation levels across all asset classes hover in the 10-11% range, down from 13% at the same time three years ago and 20% in 2008. With daily total earnings across the industry holding steady, the added supply has ensured that the return to lendable figure across the entire industry fell to all-time lows at the end of last year. While the opening months of the year have seen a slight lift in securities lending profitability, the return to lendable figure is still down on where it stood this time last year.

Utilisation



Despite all this doom and gloom, 40% of Forum attendees identified themselves as optimistic about the outlook of the securities lending industry for the coming two years. Ever the optimists, we look at what could be driving this optimism and what are the steps needed to adapt to the coming waves of regulation which will no doubt shape much of the market.

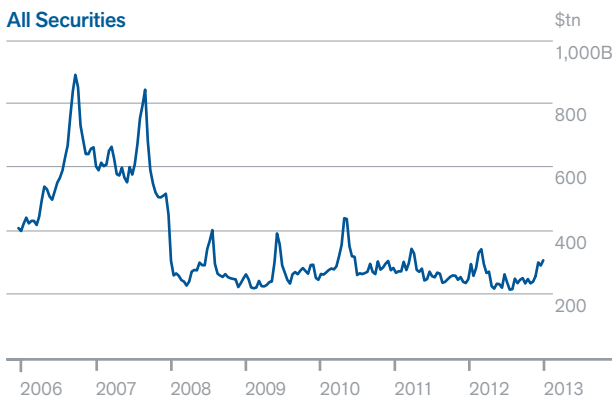
## Regulatory impact

Regulation, as ever, will dictate much of the coming evolution. From a securities lending point of view, the two main pieces of legislation are those that will dictate balance sheet and the type of assets borrowed.

On the balance sheet front, Basel III will see banks look to lock-in longer term funding in order to avoid the heavy cost of capital for short dated liabilities. As such, lenders willing to lend on a term basis will see an opportunity. This regulatory impact is yet to make its way to the market, however, as the aggregate term balance in our system has remained anemic over the last three years.

## Term trades

### All Securities



Staying on to the world of balance sheets, capital charges could affect the shape of the markets with regards to exposure to certain counterparties and also the cost to indemnify securities lending programs. While the former will be discussed later, the balance sheet costs of indemnification could potentially be passed on beneficial owner which stand to see a further erosion in returns. The debate still rages as to whether or not this could see participants leave securities lending, but some commentators at our Forum did state that indemnification was becoming less of an issue to engaged beneficial owners with good oversight of their collateral policies. To this extent, the onus is now on the industry to educate beneficial owners as to the risk/reward tradeoffs in the collateral space.

The need for derivatives to clear on exchanges provides second regulatory impetus. Many commentators have the financial industry scurrying to find high quality collateral to post and turning to the securities lending market to make up any shortfalls. The fact that estimates of this collateral shortfall lie anywhere between \$40 billion and several trillions of dollars exemplifies the uncertainty around the issue.

What is clear however is that the financial industry will have to go through a collateral mobilization phase and that high quality collateral will become increasingly scarce. An example of this increasing scarcity is the demand to borrow German Bunds which have seen utilization climb to 50% recently from 40% three years ago. Lending high quality assets with flexible collateral terms looks to be the clear area of opportunity here, though this opportunity may not suit all types of beneficial owners uniformly.

## Utilisation

### Germany Bond (Govt)



Structurally, regulation will no doubt see a convergence of the securities lending, repo and collateral management roles. On this subject, a few market participants have already rationalizing their collateral management functions under one function. This effort is needed to ensure that collateral flows in the most efficient manner.

## Housekeeping

As ever, the coming of a new regulatory spring heralds the need to best adapt to the changing world. A change in the current agent lender disclosure and a greater uptake of central counterparty cleared trades come to mind as two of the largest structural changes needed to adapt to the changing market dynamics.

## ALD

Two thirds of the attendees of our recent forum felt that the agent lender disclosure structure needed work as the current and pending regulatory changes may be putting pressure on the existing framework.

## CCP

Capital costs to interact with certain participants could prove increasingly onerous in the wake of Basel III. Moving some types of trades to a CCP system could provide an answer to mitigate these capital charges, especially for high volume business and trades done to higher risk counterparties. Yet the nascent CCP providers need to ensure that their offering is comprehensive enough to make sure the system has the type of coverage needed to obtain universal acceptance. The jury is still out as to when the capital costs will tip the scales in favor of CCPs.

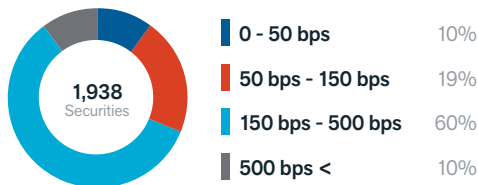
# Exchange Traded Funds

The first quarter of 2014 continued to see strong borrowing demand for exchange traded funds (ETF) with the aggregate value on loan closing the period at an annual high of over \$56bn. As ever, the US continued to grow its share, accounting for \$53bn of the loan balance and more than 60% of the lendable inventory which surpassed \$150bn.

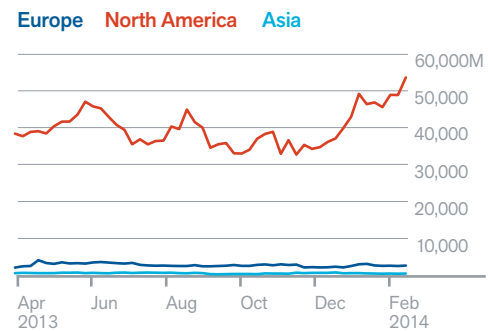
It remains relatively lucrative to lend ETFs with 70% of the lending pool commanding a fee greater than 150bps during the quarter and the average total return from lending ETPs having held steady at around 8bps.

The total return from lending US ETFs improved to 12.3bps from 10.8bps during the fourth quarter. Fees in the small Asian market staged a slight recovery to 9.2bps from 8.2bps in Q4 2013. Europe declined slightly with a total return of 3.1 bps.

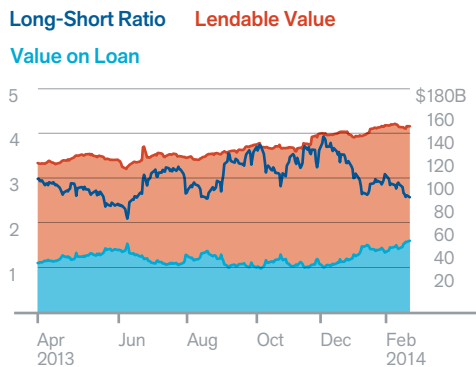
Securities Lending Fee Breakdown



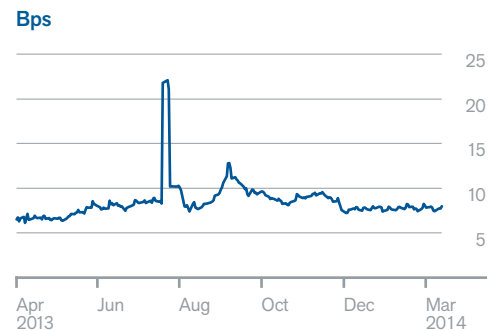
Value on Loan by Region



Long Short Ratio



Total Return to Lendable



## Securities Lending Market Statistics

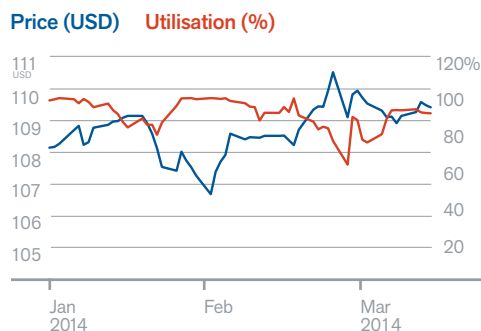
Asset Class	As at end March 2014		Group Average Results Quarter Ended March 2014			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
North American ETF	87,320.70	53,109.10	21.33	44.51	11.42	12.32
Canada ETF	9,621.20	602.50	1.74	101.70	1.88	1.88
US ETF	77,698.30	52,328.80	23.86	43.30	12.65	13.66
European ETF	37,344.40	2,737.80	2.63	166.60	3.65	3.66
France ETF	2,764.30	204.40	2.09	186.36	3.86	3.90
Germany ETF	11,484.70	223.40	1.43	147.28	1.89	1.89
Sweden ETF	4,917.00	14.80	0.23	233.09	0.59	0.60
Switzerland ETF	3,139.10	193.90	1.14	147.77	1.27	1.31
UK ETF	2,011.60	823.10	3.57	225.67	8.03	8.15
Asian ETF	1,449.10	538.00	14.91	70.85	8.59	9.15
Hong Kong ETF	332.30	281.90	33.77	84.77	22.94	24.60
Japan ETF	1,021.70	246.20	8.35	35.90	2.99	3.15

## Security Ranking by Total Daily Return

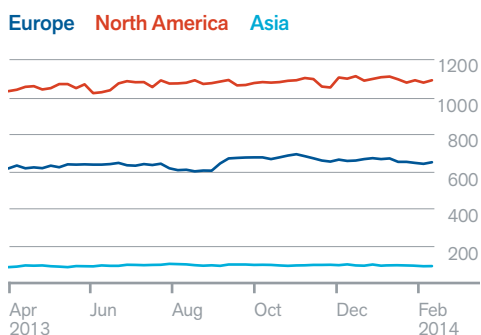
Rank	Security Description
1	Ishares J.P. Morgan Usd Emerging Markets Bond Etf
2	Ishares Russell 2000 Index Fund
3	Brd Bk Ipth S&P 500 Vix Sh Ftrs Etn
4	Vanguard Ftse Emerging Markets Etf
5	Ishares 20+ Year Treasury Bond Etf
6	Ishares Msci Emerging Markets Etf
7	Ishares Iboxx \$ Investment Grade Corporate Bond Etf
8	Ishares Iboxx \$ High Yield Corporate Bond Etf
9	Spdr S&P Biotech Etf
10	Ishares Nasdaq Biotechnology

## Security of the Quarter

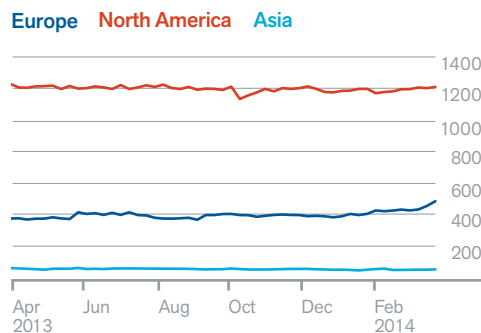
Ishares J.P. Morgan Usd Emerging Markets Bond Etf



## Supply- Number of Securities



## Demand - Number of Securities



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ASIA

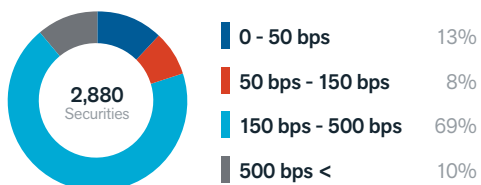
# Asia

Asian shares ended the quarter with a 10% increase in demand to borrow from the start of the year with total balances finishing at \$31 bn from \$28bn. Inventories, on the other hand, were flat and also proved resilient with Asian Equities in lending programs ending the quarter with just under \$400bn.

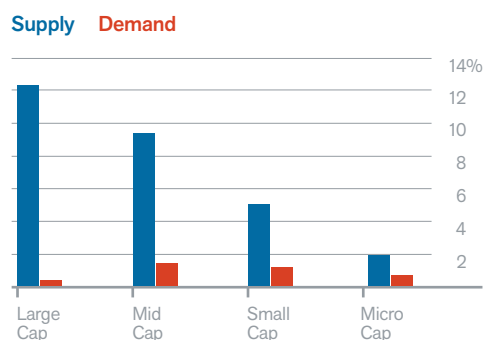
The increased demand to borrow fed through to fees somewhat over the quarter with the average fees charged over the quarter standing just shy of 120bps. This increase in fees led to a rise in the return to lendable figure which stood at a nearly 9bps at the end of the quarter.

South Korea changed spots with Taiwan as the most expensive to borrow market, though Taiwan managed to hold on to its title as the most lucrative securities lending market in the region with an average return to lendable figure over three times the regional average.

### Securities Lending Fee Breakdown

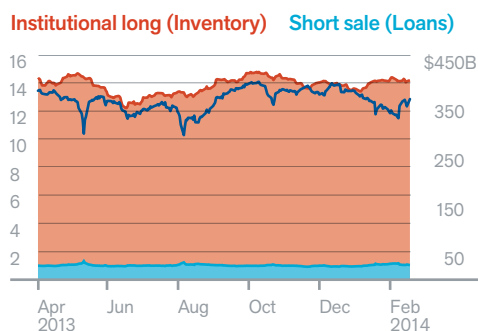


### Supply & Demand - by % of Market Cap



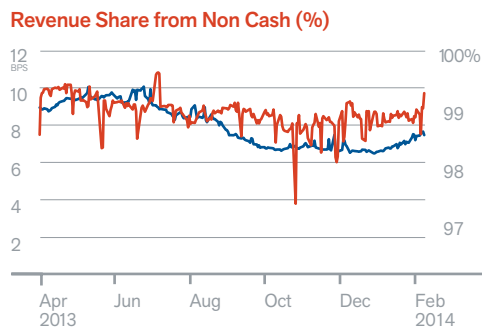
### Equity - Long Short Ratio

#### Long-Short Ratio (Asia Equity)



### Equity - Revenue

#### Total Return to Lendable (BPS)



## Securities Lending Market Statistics

Asset Class	As at end March 2014		Group Average Results Quarter Ended March 2014			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
Asian Equity	394,636.19	31,318.43	5.85	119.21	6.82	6.93
Australia Equity	217,052.56	14,464.15	5.26	52.30	2.65	2.74
AU Equity (ASX50)	177,358.49	6,168.05	2.76	22.20	0.62	0.66
South Korea Equity	96,680.11	5,722.93	4.40	206.48	8.92	8.98
KR Equity (KOSPI50)	74,083.54	2,647.49	3.10	49.96	1.47	1.51
Taiwan Equity	34,539.40	6,660.04	12.88	174.75	23.29	23.53
TW Equity (TWSE)	33,464.76	6,102.97	12.59	164.86	21.45	21.71
Singapore Equity	46,364.12	4,471.31	6.28	143.59	9.27	9.43
SG Equity (STI)	39,589.64	3,936.62	6.14	128.46	8.23	8.38

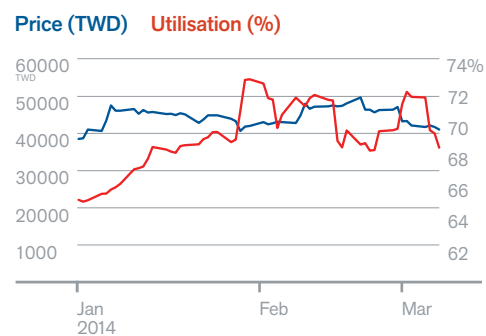
## Security Ranking by Total Daily Return

Rank	Security Description
1	Celltrion Inc (South Korea)
2	Olam International Ltd (Singapore)
3	Singapore Press Holdings Ltd (Singapore)
4	Monadelphous Group Ltd (Australia)*
5	Catcher Technology Co Ltd (Taiwan)
6	Mediatek Inc (Taiwan)
7	Htc Corp (Taiwan)
8	Tpk Holding Co Ltd (Taiwan)
9	Largan Precision Co Ltd (Taiwan)
10	Chailase Holding Co Ltd (Taiwan)

\*could be in demand due to dividend record date

## Security of the Quarter

Celltrion Inc



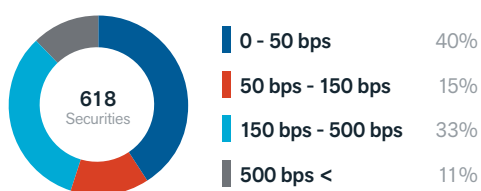
# Hong Kong

Hong Kong proved the bright spot in Asian securities lending last quarter as investors clamored to play the recent set of weak Chinese PMI numbers. Demand to borrow the equities in the market jumped by 15% to end the quarter at \$24.3bn while aggregate inventory fell by nearly 8% to \$228bn. This pushed the utilization figure up to 7.7% on average for the quarter, up from 7.1% in the fourth quarter of last year.

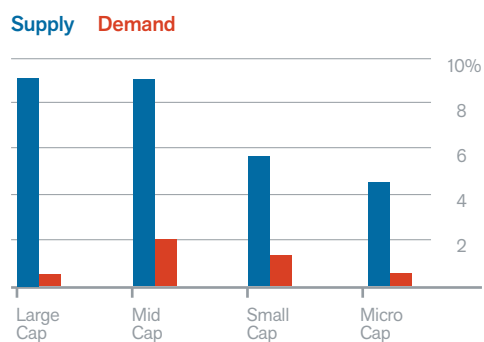
Fees continued to climb which pushed the return to lendable figure to a new annual high at the end of the quarter. The fees were highest in loans for non-HIS constituent shares, which saw fees of 172bps on average, compared to 157bps in the previous quarter. This is also reflected in the fact that demand to borrow is concentrated in mid cap names which see the highest proportion of their market cap out on loan.

The security of the quarter is solar panel manufacturer Hanergy Solar Group Ltd, which has seen demand to borrow hover north of the 90% for the last three months, making it the second highest yielding security of the quarter in terms of total returns.

Securities Lending Fee Breakdown



Supply & Demand - by % of Market Cap



## Securities Lending Market Statistics

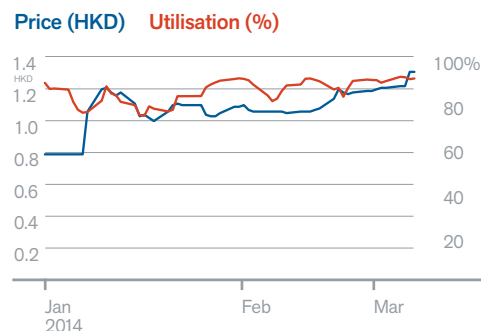
Asset Class	As at end March 2014		Group Average Results Quarter Ended March 2014			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
<b>Hong Kong Equity</b>	224,182.35	24,303.73	7.70	123.49	9.41	9.59
<b>Hong Kong Equity (HSI)</b>	143,613.97	8,538.01	4.06	30.24	1.26	1.36
<b>Hong Kong Equity (Others)</b>	80,568.39	15,765.73	14.26	173.20	24.09	24.43

## Security Ranking by Total Daily Return

Rank	Security Description
1	Byd Co Ltd
2	Hanergy Solar Group Ltd
3	China Huishan Dairy Holdings Co Ltd
4	Evergrande Real Estate Group Ltd
5	Zoomlion Heavy Industry Science And Technology Co Ltd
6	Yanzhou Coal Mining Co Ltd
7	Sound Global Ltd
8	Hanergy Solar Group Ltd
9	Evergrande Real Estate Group Ltd
10	Angang Steel Co Ltd

## Security of the Quarter

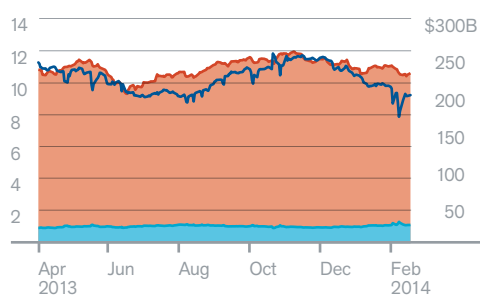
Hanergy Solar Group Ltd



## Equity - Long Short Ratio

Long-Short Ratio (Hong Kong Equity)

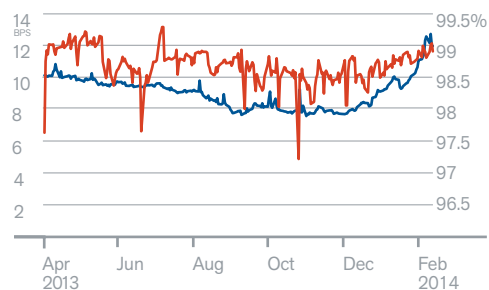
Institutional long (Inventory) Short sale (Loans)



## Equity - Revenue

Total Return to Lendable (BPS)

Revenue Share from Non Cash (%)



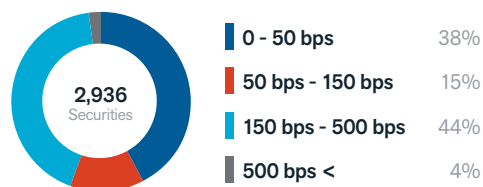
# Japan

Demand to borrow Japanese equities stayed relatively steady in the first quarter, with \$39bn of loans outstanding on average over the first three months of the year. The assets in lending programs saw an 8% decline over the quarter with \$460bn of equities inventory in lending programs at the end of the quarter; this helped push the utilisation levels from 4% to 4.4%.

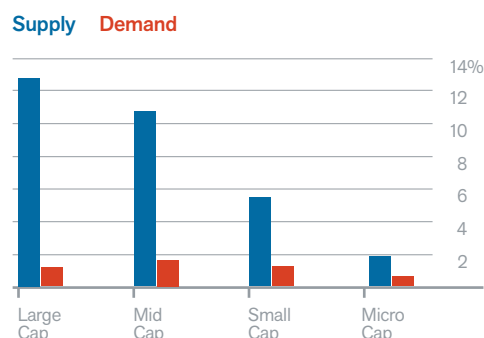
Fees jumped by 10% to an average of 89bps for the quarter. The buoyant fees helped push the return to lendable figure higher for the quarter. The average profitability figure for securities lending programs ended the quarter at five bps, up from four at the start of the year.

Government bonds also saw high demand to borrow over the quarter. The demand to borrow ended the quarter with \$13bn, up from less than \$10bn at the start of the year. Despite this strong demand to borrow, Japanese government bonds yield a less than impressive 1.3bps in return to lendable, less than a fifth of the yield garnered by US government bonds.

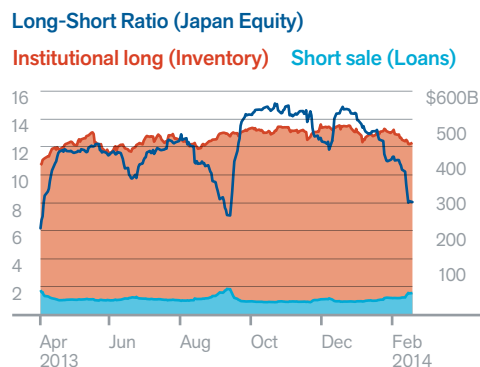
### Securities Lending Fee Breakdown



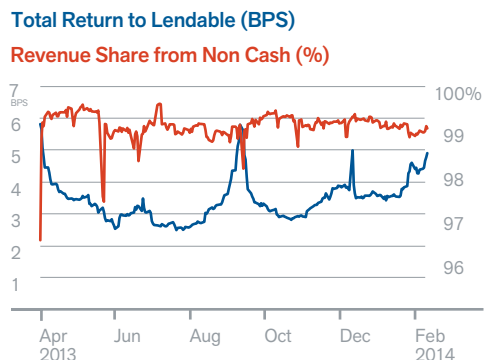
### Supply & Demand - by % of Market Cap



### Equity - Long Short Ratio



### Equity - Revenue



## Securities Lending Market Statistics

Asset Class	As at end March 2014			Group Average Results Quarter Ended March 2014			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)	
<b>Japan Equity</b>	457,893.15	57,206.58	4.40	88.99	3.95	4.01	
<b>Japan Equity (Nikkei 225)</b>	327,107.02	36,972.21	3.36	42.62	1.83	1.87	
<b>Japan Equity (Others)</b>	130,786.14	20,234.36	7.05	145.40	9.34	9.45	
<b>Japan Govt Bonds</b>	18,034.14	13,034.24	14.75	11.28	0.66	1.31	
<b>Japan Govt Bonds (Dom)</b>	18,034.14	13,034.24	14.75	11.28	0.66	1.31	
<b>JPY Corporate Bond</b>	1,295.63	15.72	1.41	36.00	0.51	0.51	

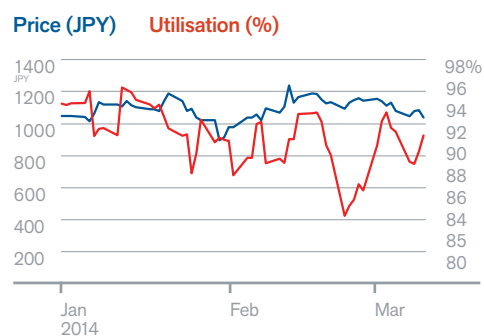
## Security Ranking by Total Daily Return

Rank	Security Rankings by Total Return
1	Gungho Online Entertainment Inc*
2	Gree Inc
3	Ana Holdings Inc
4	Dena Co Ltd
5	Mitsubishi Motors Corp
6	Sanrio Co Ltd
7	Nippon Paper Industries Co Ltd
8	Colopl Inc
9	Canon Inc*
10	Ana Holdings Inc

\*could be in demand due to dividend record date

## Security of the Quarter

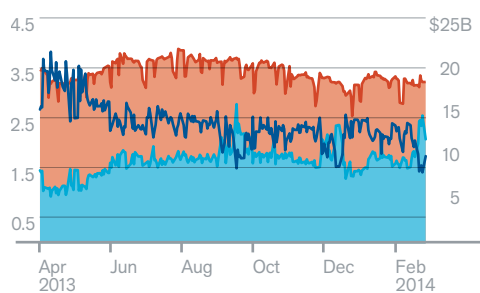
Gree Inc



## Government Bond - Long Short Ratio

### Long-Short Ratio (Japan Bond Govt)

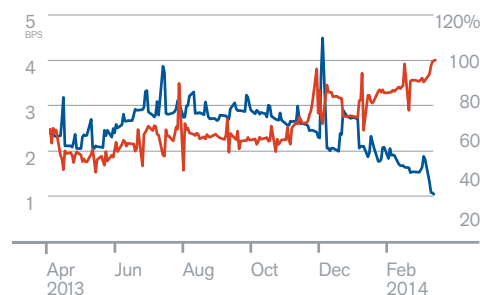
Institutional long (Inventory) Short sale (Loans)



## Government Bond - Revenue

### Total Return to Lendable (BPS)

Revenue Share from Non Cash (%)





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A stylized map of the Americas, including North and South America, rendered in various shades of blue and white. The map is centered on the page, with the word "AMERICAS" overlaid in white text.

# AMERICAS

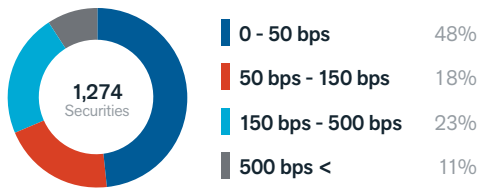
# Canada

Canadian equities have been relatively calm this quarter with flat inventory and loan balances. Again, we did see several notable spikes around key DRIPS payments, which were also responsible for large movements in the return to lendable figure. The average was 6.1 bps, the same as the previous quarter.

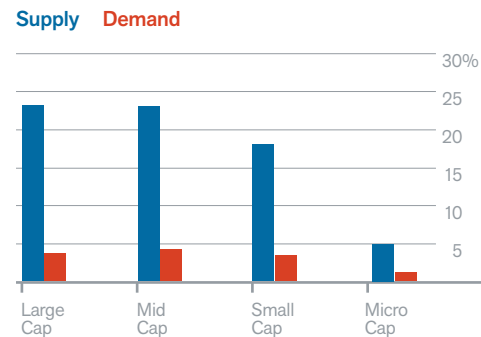
The security of the quarter is Toronto-Dominion Bank whose DRIPS payment made it the highest earnings security in the country. Note that all ten highest yielding securities this quarter owe their high revenue to dividend yield optimisation.

Government bonds have also seen subdued activity with both demand to borrow and lending programme availability holding firm from the start of the quarter. The fees commanded from lending Canadian held steady with the return to lendable figure hovering in the 3bps range.

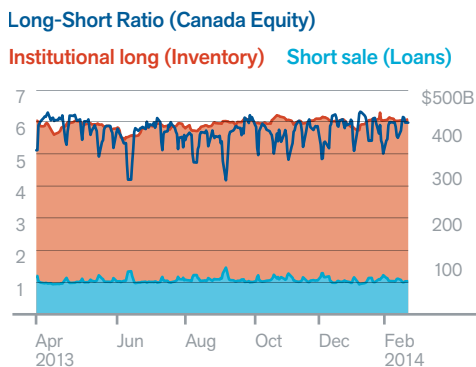
Securities Lending Fee Breakdown



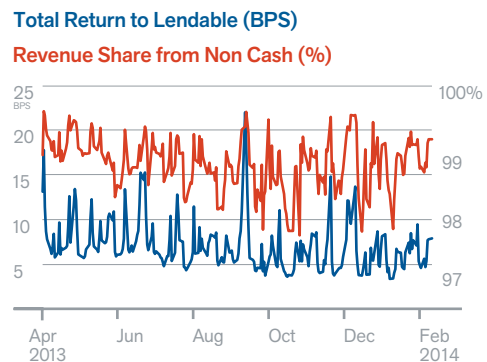
Supply & Demand - by % of Market Cap



Equity - Long Short Ratio



Equity - Revenue



## Securities Lending Market Statistics

Asset Class	As at end March 2014		Group Average Results Quarter Ended March 2014			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
<b>Canada Equity</b>	432,886.81	70,587.73	11.73	47.83	6.13	6.22
Canada Equity (TSX60)	299,470.75	48,646.08	11.39	43.91	5.61	5.67
Canada Equity (TSX Midcap)	103,734.57	18,480.31	13.77	44.85	6.52	6.69
Canada Equity (Others)	29,681.48	3,461.34	7.81	118.08	10.08	10.14
<b>Canada Government Bonds</b>	273,859.02	78,079.11	24.69	10.74	2.56	3.06
Canada Govt Bonds (Domestic)	124,203.97	63,527.19	43.76	10.86	4.58	5.37
Canada Govt Bonds (International)	5,810.33	226.54	3.74	16.50	0.65	0.98
Canada Govt Bonds (Prov. Domestic)	126,554.61	13,060.19	9.01	9.70	0.84	1.07
Canada Govt Bonds (Prov. International)	17,290.09	1,265.19	8.15	14.74	1.16	1.67
<b>CAD Corporate Bonds</b>	233,911.75	12,947.90	4.39	8.78	0.40	0.56

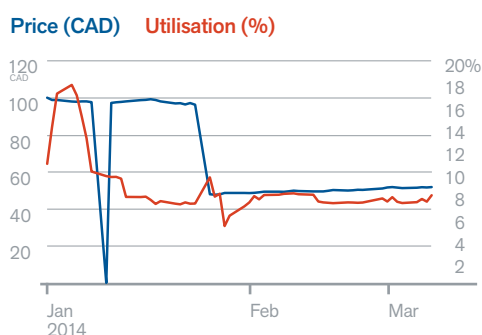
## Security Ranking by Total Daily Return

Rank	Security Description
1	Toronto-Dominion Bank*
2	Manulife Financial Corp*
3	Bank Of Nova Scotia*
4	Royal Bank Of Canada*
5	Loblaw Companies Ltd*
6	Canadian Imperial Bank Of Commerce*
7	Potash Corporation Of Saskatchewan Inc*
8	Crescent Point Energy Corp*
9	Enbridge Inc*
10	Transcanada Corp*

\*could be in demand due to dividend record date

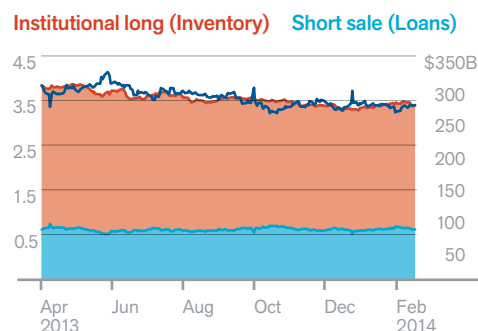
## Security of the Quarter

Toronto-Dominion Bank



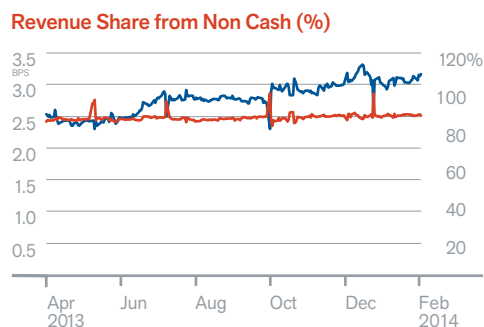
## Government Bond - Long Short Ratio

### Long-Short Ratio (Canada Bond Govt)



## Government Bond - Revenue

### Total Return to Lendable (BPS)



# USA

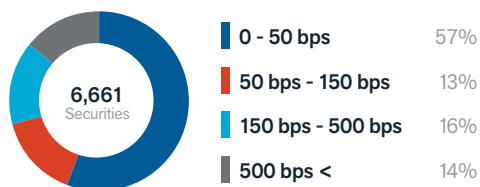
US stock lending saw a slight improvement in the first quarter as loans increased by 8% while inventory stayed roughly flat. Utilisation held steady and with 5.2% of lending program inventories out on loan.

The average total returns from lending programmes held steady in the mid 3bps level. Fees saw a slight uptick over the last three months commanded an average of 63bps for the quarter. Specials continue to hold steady as the proportion of share commanding a fee greater than 50bps held steady at 43%, the same proportion as at the start of the year.

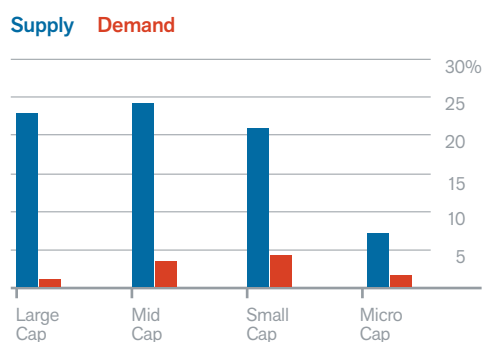
Demand to borrow US bonds increased in recent months, with the aggregate value of treasuries on loan jumping by 7% in the quarter to \$412bn. Inventory levels for treasuries were little changed with just over a £1 tr in lending programmes.

The security of the quarter is biotech company Myriad Genetics which continued to see high demand throughout the quarter to see the share become the highest yielding share of the quarter by total return.

### Securities Lending Fee Breakdown

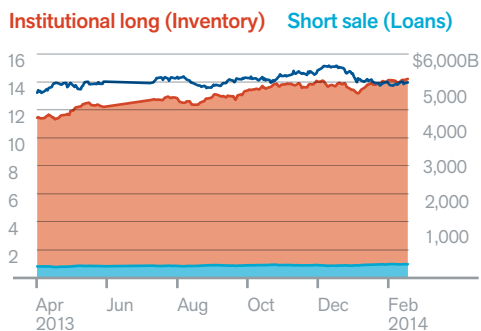


### Supply & Demand - by % of Market Cap



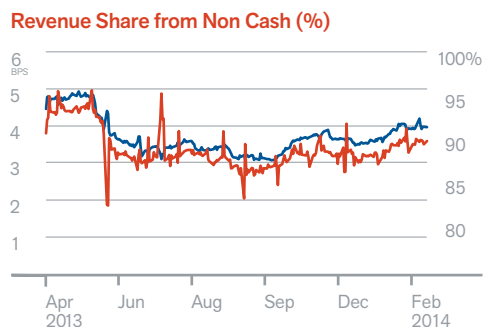
### Equity - Long Short Ratio

#### Long-Short Ratio (USA Equity)



### Equity - Revenue

#### Total Return to Lendable (BPS)



## Securities Lending Market Statistics

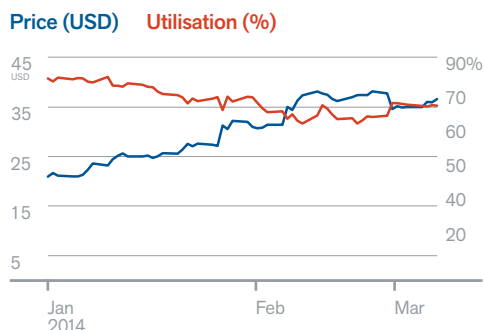
Asset Class	As at end March 2014		Group Average Results Quarter Ended March 2014			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
<b>USA Equity</b>	5,299,961.86	383,031.41	5.22	63.04	3.24	3.78
USA Equity (S&P 500)	4,053,935.33	181,587.00	3.11	10.95	0.42	0.84
USA Equity (Russell 2000)	496,128.00	89,578.46	13.54	93.01	12.14	13.06
USA Equity (Others)	749,898.50	111,865.96	11.23	121.92	12.76	13.69
<b>USA Government Bonds</b>	1,042,127.45	412,151.51	38.34	5.97	2.12	9.45
US Govt Bonds (Agencies)	181,178.91	23,887.46	13.20	7.21	0.96	3.99
US Govt Bonds (Bills)	67,666.45	15,786.68	37.14	6.95	2.51	10.57
US Govt Bonds (Bonds)	279,705.45	137,578.23	49.41	3.93	1.78	10.13
US Govt Bonds (Notes)	476,583.53	218,230.77	41.56	7.23	2.78	9.84
US Govt Bonds (Strips)	36,993.20	16,668.40	44.07	3.12	1.38	25.80
<b>USD Corporate Bonds</b>	1,462,862.22	86,914.79	5.39	25.10	1.26	1.99

## Security Ranking by Total Daily Return

Rank	Security Description
1	Myriad Genetics Inc
2	Twitter Inc
3	Arena Pharmaceuticals Inc
4	Interoil Corp
5	Ipg Photonics Corp
6	American Airlines Group Inc
7	Tesla Motors Inc
8	3D Systems Corp
9	J C Penney Company Inc
10	Sturm Ruger & Co Inc

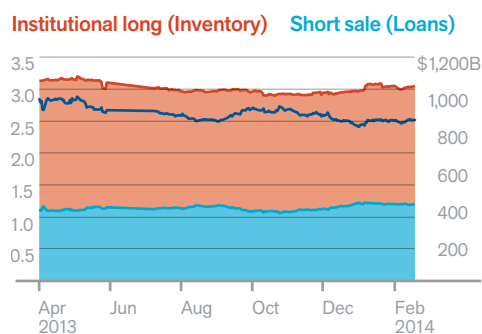
## Security of the Quarter

Myriad Genetics Inc



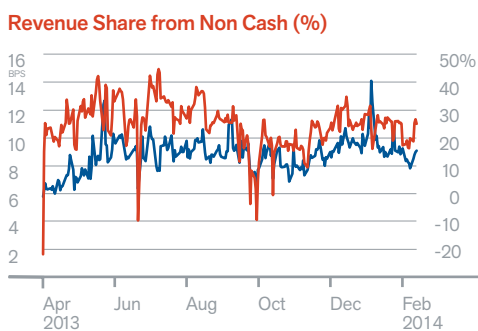
## Government Bond - Long Short Ratio

### Long-Short Ratio (USA Bond Govt)



## Government Bond - Revenue

### Total Return to Lendable (BPS)



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countries

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regions

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sectors

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EMEA

# Euro Government Bonds

Germany, France and the UK continued to dominate as demand to borrow these nations' government debt is driven by the continued need for high quality collateral. However, the UK stood out as the only European sovereigns to have witnessed a sharp fall in the loan balance, which declined from \$94bn to \$83.1 bn. Despite this, there was a sharp increase in the average total return from lending UK sovereign debt from 3.9bps to 4.9bps. This was considerably higher than the European average of 4.3bps, which was broadly unchanged on the prior period.

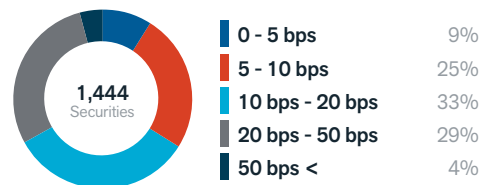
Outside of the three dominant nations, Belgian, Finnish and Italian sovereign debt saw some of the largest increases in borrowing demand.

The ratio of longs to shorts fell over the period to 2.7 times despite the lendable value across the region having increased sharply to \$978bn from \$948.3bn, led by large increases in Germany and Switzerland.

## Security Ranking by Total Daily Return

Rank	Security Description
1	Germany (Government Of) (4% 04-Jan-2018)
2	Germany (Government Of) (3.75% 04-Jan-2019)
3	Germany (Government Of) (2% 04-Jan-2022)
4	Germany (Government Of) (1.25% 14-Oct-2016)
5	Germany (Government Of) (3% 04-Jul-2020)
6	Germany (Government Of) (1.75% 04-Jul-2022)
7	Germany (Government Of) (2.25% 04-Sep-2021)
8	United Kingdom Of Great Britain And Northern Ireland (Government) (2.25% 07-Mar-2014)
9	Bundesrepublik Deutschland (3.25% 04-Jul-2015)
10	Germany (Government Of) (2.25% 04-Sep-2020)

## Securities Lending Fee Breakdown

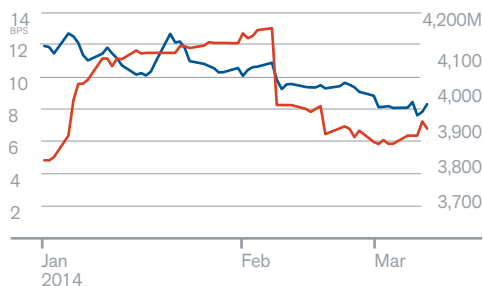


## Security of the Quarter

Germany (Government Of) (4% 04-Jan-2018)

### Total Return to Lendable (BPS)

### Quality on Loan (USD Million)





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## Securities Lending Market Statistics

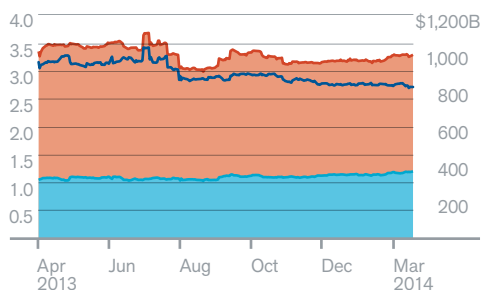
Asset Class	As at end March 2014		Group Average Results Quarter Ended March 2014				
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)	
<b>European Bonds (Govt)</b>	977,962.14	361,662.12	32.15	11.51	3.51	4.31	
Austria Bond (Govt)	25,842.35	9,124.48	29.63	10.86	2.96	4.66	
Belgium Bond (Govt)	31,688.77	8,094.06	19.64	11.61	2.08	2.82	
Denmark Bond (Govt)	4,278.61	1,184.33	24.82	8.60	1.65	2.18	
Finland Bond (Govt)	14,884.83	5,489.40	32.99	11.92	3.84	5.86	
France Bond (Govt)	138,903.63	65,718.44	35.44	11.95	4.12	4.95	
Germany Bond (Govt)	248,591.11	131,673.51	48.48	11.55	5.30	6.20	
Ireland Bond (Govt)	5,099.37	564.19	9.54	27.51	2.37	2.54	
Italy Bond (Govt)	73,121.96	9,501.03	10.43	7.83	0.72	1.41	
Netherlands Bond (Govt)	73,170.11	28,313.28	31.49	13.09	3.97	4.80	
Norway Bond (Govt)	8,843.67	672.03	4.46	21.61	0.93	1.06	
Portugal Bond (Govt)	9,391.65	366.82	3.50	34.51	1.12	1.18	
Spain Bond (Govt)	42,547.68	3,268.93	6.64	16.46	1.10	1.31	
Sweden Bond (Govt)	20,778.96	2,226.29	9.33	9.64	0.92	1.36	
Switzerland Bond (Govt)	26,573.76	9,336.77	29.49	16.39	4.89	4.89	
UK Bond (Govt)	230,646.35	83,057.47	34.06	9.86	3.08	3.94	

No filters have been applied. Data includes all collateral types, as well as open and term trades.

## Government Bond - Long Short Ratio

### Long-Short Ratio (European Bond Govt)

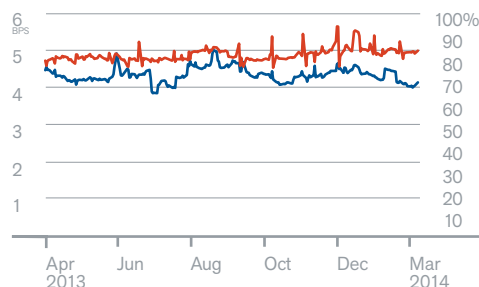
Institutional long (Inventory) Short sale (Loans)



## Govt Bond Revenue

### Total Return to Lendable (BPS)

Revenue Share from Non Cash (%)



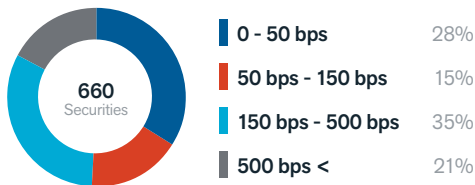
# Nordic and Benelux

The beginning of the annual dividend season saw borrowing demand for Nordic and Benelux equities close the period considerably higher at \$68.5bn. This drove the ratio of longs to shorts sharply lower to six times, despite the value of lendable inventory having risen to an annual high to breach the \$400bn threshold.

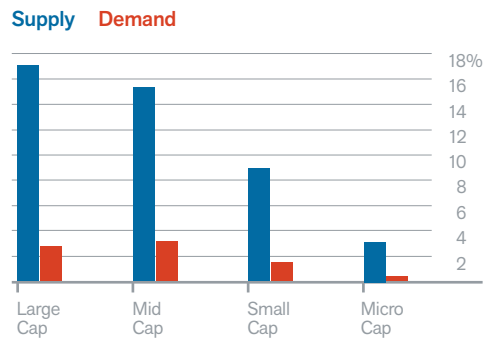
The increased value on loan drove the average total return to lendable higher to 9.2bps from 7.9bps during the fourth quarter. This was again driven by lending Finnish equities where the total return averaged an improved 27.8bps. Swedish equities were the next best performers with an average total return of 12.5bps.

Fees held steady with the proportion of shares on loan for over 150bps representing just over half the lending pool.

Securities Lending Fee Breakdown

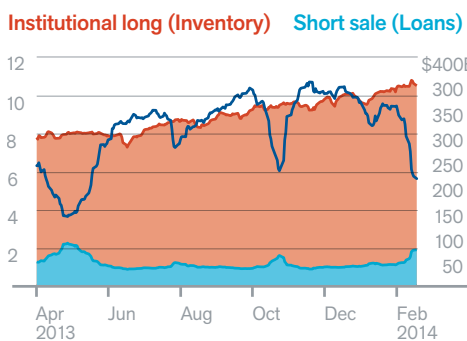


Supply & Demand - by % of Market Cap



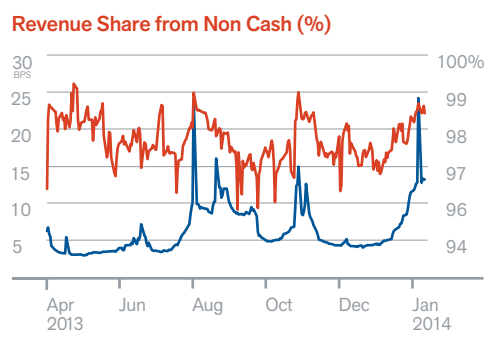
Equity - Long Short Ratio

Long-Short Ratio (Nordics & Benelux Equity)



Equity - Revenue

Total Return to Lendable (BPS)



## Securities Lending Market Statistics

Asset Class	As at end March 2014		Group Average Results Quarter Ended March 2014			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
<b>Nordic and Benelux Equity</b>	401,164.15	68,474.97	8.21	99.97	9.11	9.23
<b>Norway Equity</b>	28,186.73	4,619.04	12.44	97.62	10.47	10.74
Norway Equity (OBX)	25,459.49	4,301.79	12.65	49.64	6.19	6.46
<b>Finland Equity</b>	30,187.99	7,968.91	19.08	149.12	27.55	27.78
Finland Equity (HEX25)	27,597.22	7,242.35	20.04	145.98	28.64	28.88
<b>Sweden Equity</b>	116,970.91	24,501.43	7.87	102.23	12.47	12.59
Sweden Equity (OMX)	94,544.12	20,578.16	7.00	100.69	12.80	12.89
<b>Denmark Equity</b>	55,231.08	15,816.11	5.28	88.23	6.43	6.51
Denmark Equity (KFX)	52,350.80	15,724.26	5.43	86.70	6.60	6.68
<b>Netherlands Equity</b>	116,882.19	10,929.05	6.94	48.93	3.58	3.66
Netherlands Equity (AEX)	106,795.79	9,587.48	6.59	51.85	3.66	3.74
<b>Belgium Equity</b>	53,705.26	4,640.43	5.91	81.56	5.09	5.16
Belgium Equity (BEL20)	50,089.11	4,348.41	5.78	72.99	4.40	4.46

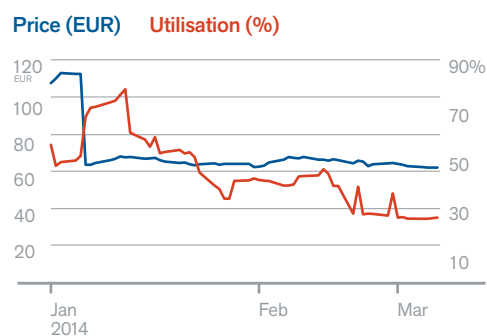
## Security Ranking by Total Daily Return

Rank	Security Description
1	Kone Corp (Finland)*
2	Cermaq Asa (Norway)
3	Wartsila Oyj Abp (Finland)*
4	Thrombogenics Nv (Belgium)
5	Outotec Oyj (Finland)
6	Royal Dutch Shell Plc (Netherlands)*
7	Gemalto Nv (Netherlands)
8	Nordea Bank Ab (Sweden)
9	Tdc A/S (Denmark)*
10	Unilever Drc (Netherlands)*

\*could be in demand due to dividend record date

## Security of the Quarter

Cermaq Asa



# Western Europe

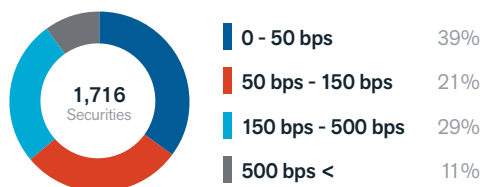
The average total return to lendable for German equities recovered in the first quarter to 8.2bps boosted by yield enhancement trades which compares favourably to 1.8bps achieved during the previous period. The loan balance closed the quarter broadly flat at \$30.8bn.

Across the region, the value of institutional lending programmes reflected buoyant equity markets and closed the quarter just off an annual high at \$1.5tn.

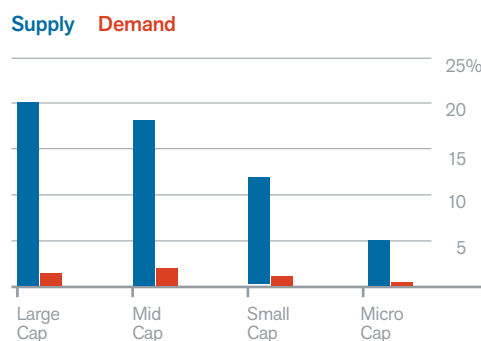
France on the other hand saw a reduced average total return, which fell to 3.3bps compared to 7.7bps in the final quarter of 2013, driven mainly by lower rates for borrowing stock in the main CAC 40 index. However, this was not enough to offset the positive impact from lending German equities which increased the average total return across the region to 3.5bps from 2.6bps.

While lendable and loan balances were broadly flat for UK equities, the average total return was marginally improved at 1.3bps against 1.2bps at the end of 2013. Across the region, a slightly reduced 40% of the securities were on loan for more than 150bps.

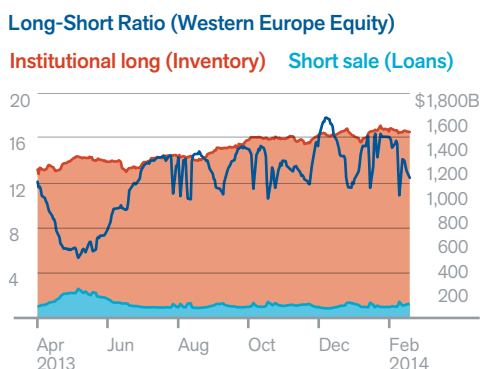
Securities Lending Fee Breakdown



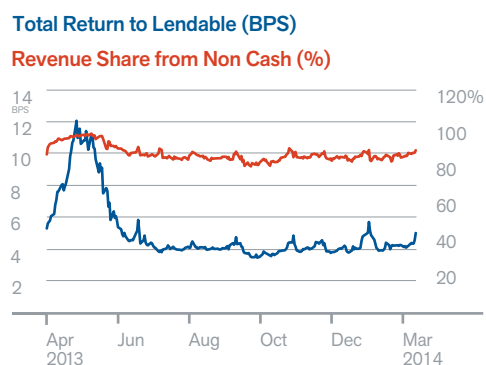
Supply & Demand - by % of Market Cap



Equity - Long Short Ratio



Equity - Revenue



## Securities Lending Market Statistics

Asset Class	As at end March 2013		Group Average Results Quarter Ended March 2013			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
<b>Western Europe</b>	1,505,513.64	110,883.67	4.19	68.20	3.41	3.47
<b>France Equity</b>	330,917.22	48,441.75	4.76	53.22	3.25	3.31
<b>FR Equity (CAC)</b>	261,659.07	38,763.64	3.54	30.95	1.50	1.55
<b>Germany Equity</b>	385,291.39	30,769.74	5.84	87.52	8.09	8.16
<b>DE Equity (DAX)</b>	305,680.09	22,898.31	5.36	89.09	8.77	8.83
<b>UK Equity</b>	789,305.03	31,672.17	3.16	35.66	1.20	1.25
<b>UK Equity (FTSE 100)</b>	640,202.38	23,237.13	2.93	20.71	0.81	0.85

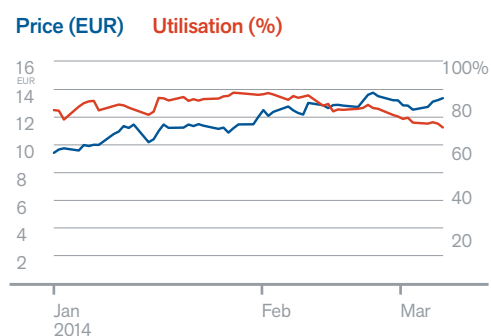
## Security Ranking by Total Daily Return

Rank	Security Description
1	Siemens Ag (Germany)*
2	Sodexo Sa (France)*
3	Kering Sa (France)*
4	Peugeot Sa (France)
5	Total Sa (France)
6	Neopost Sa (France)*
7	K&S Ag (Germany)
8	Gulf Keystone Petroleum Ltd (UK)*
9	Celesio Ag (Germany)
10	Blinkx Plc (UK)

\*could be in demand due to dividend record date

## Security of the Quarter

Peugeot Sa



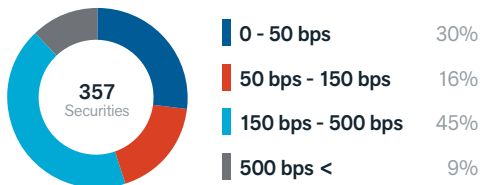
# Southern Europe

Loan balances across southern Europe recovered to \$21.5bn from the annual low of \$16.4bn seen at the end of 2013, while the lendable value rose to a fresh high of \$203.6bn. This drove the LongShort Ratio to end the quarter below 10 times. The recovery in loan balances was driven by demand to borrow Italian equities which ended the quarter at \$9.8bn against \$7.6bn at the end of 2013. The average total return from lending Italian equities was flat at 6.4bps.

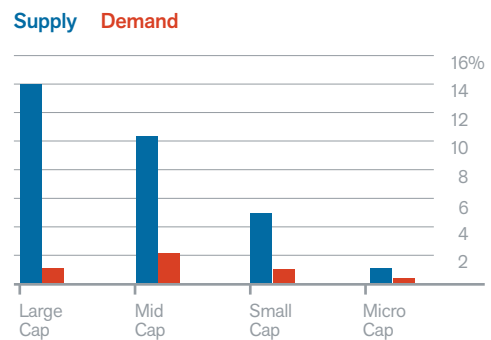
Spanish equities offered the most attractive total return to lendable of 7.3bps, while the returns from the peripheral nations fell sharply with Greece and Portugal at 2.9bps and 5.8bps respectively. Borrowing demand for Spanish equities was up sharply at \$10.3bn compared with \$7.7bn at the end of last year.

A flat 54% of the region's securities were on loan for over 150bps, with 9% of the 357 stocks trading special.

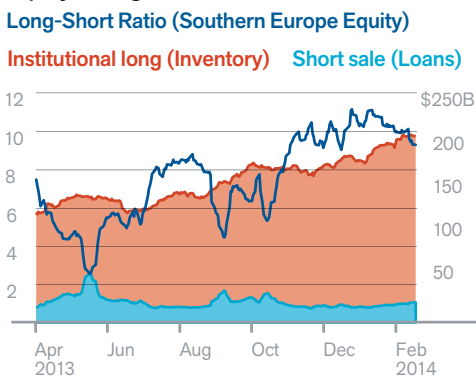
Securities Lending Fee Breakdown



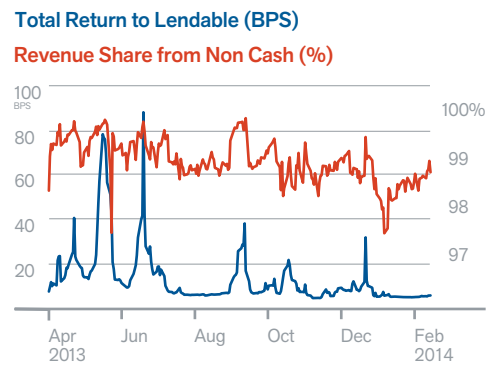
Supply & Demand - by % of Market Cap



Equity - Long Short Ratio



Equity - Revenue



## Securities Lending Market Statistics

Asset Class	As at end March 2014		Group Average Results Quarter Ended March 2014			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
<b>Southern Europe</b>	203,609.75	21,458.83	6.30	96.54	6.71	6.84
<b>Greece Equity</b>	1,664.19	16.95	0.33	695.90	2.98	2.98
<b>GR Equity (FTASE)</b>	1,645.35	16.95	0.34	696.33	3.01	3.01
<b>Italy Equity</b>	95,960.86	9,819.90	6.26	97.38	6.26	6.42
<b>IT Equity (MIB30)</b>	86,451.11	8,443.84	6.23	94.06	6.10	6.25
<b>Portugal Equity</b>	8,412.55	1,297.28	12.51	45.21	5.70	5.76
<b>PT Equity (PSI20)</b>	8,242.40	1,293.90	12.73	45.09	5.79	5.85
<b>Spain Equity</b>	97,572.15	10,324.70	5.94	99.36	7.19	7.31
<b>ES Equity (IBEX)</b>	93,198.48	9,178.38	5.31	78.88	5.18	5.28

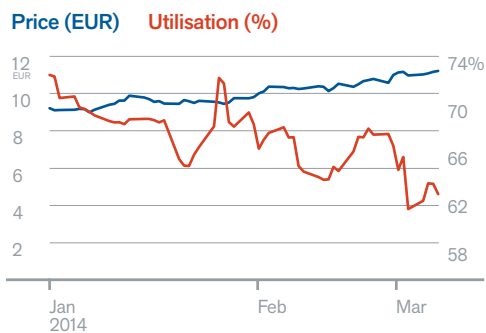
## Security Ranking by Total Daily Return

Rank	Security Description
1	Banca Monte Dei Paschi Di Siena Spa (Italy)
2	Banco Santander Sa (Spain)*
3	Acerinox Sa (Spain)
4	Banca Monte Dei Paschi Di Siena Spa (Italy)*
5	Melia Hotels International Sa (Spain)*
6	Atlantia Spa (Italy)*
7	Gas Natural Sdg Sa (Spain)*
8	Acciona Sa (Spain)
9	Endesa Sa (Spain)*
10	Banco Popolare Sc (Italy)

\*could be in demand due to dividend record date

## Security of the Quarter

Acerinox Sa



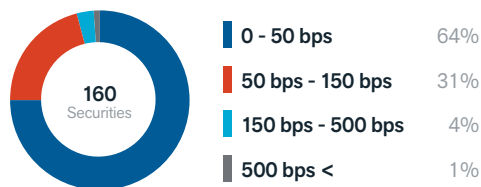
# South Africa

Borrowing of South African equities remained flat over the first quarter at just over \$6bn and considerably below the \$8.7bn seen at the end of a buoyant third quarter in 2013. The value of stock in lending programmes of international institutional investors also fell, which meant longs outnumbered shorts by less than six times at the end of the period.

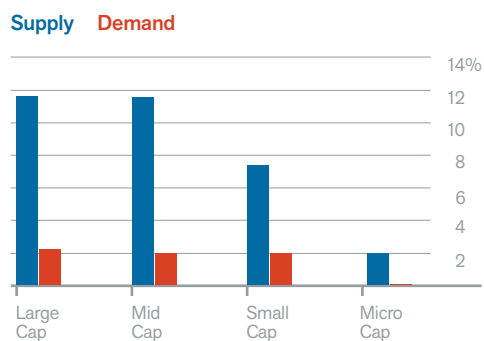
The average total return to lendable held steady at around 7bps, although the contribution from large cap names in the JSE40 remained flat at 4.3bps. Three quarters of the lending pool was on loan for less than 50bps, while only 1% of stocks were trading special at over 500bps.

Our security of the quarter is Vodacom Group Ltd which saw utilisation consistently above 60% during the period.

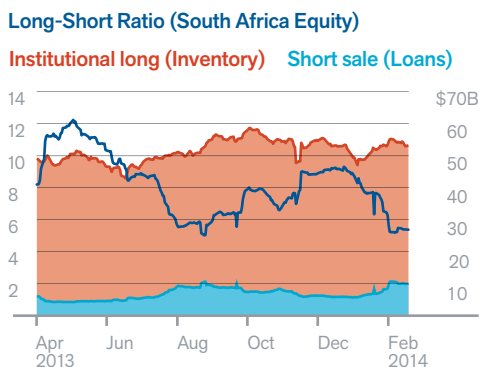
Securities Lending Fee Breakdown



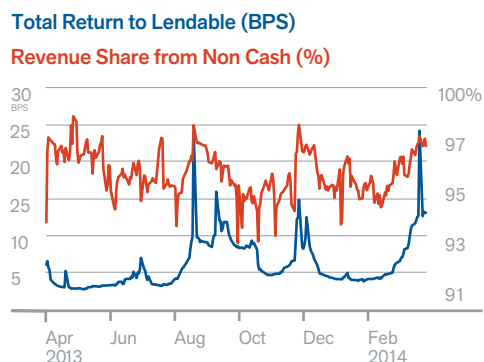
Supply & Demand - by % of Market Cap



Equity - Long Short Ratio



Equity - Revenue





## Securities Lending Market Statistics

Asset Class	As at end March 2014		Group Average Results Quarter Ended March 2014			
	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilisation (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
<b>South Africa Equity</b>	53,430.14	6,031.30	8.10	75.29	6.60	6.87
<b>South Africa Equity (JSE 40)</b>	44,008.48	4,503.46	7.78	49.17	4.05	4.32
<b>South Africa Equity (Others)</b>	9,421.66	1,527.84	9.63	175.93	19.25	19.53
<b>South Africa Govt Bonds</b>	8,401.69	2,119.05	16.73	16.37	2.54	3.79

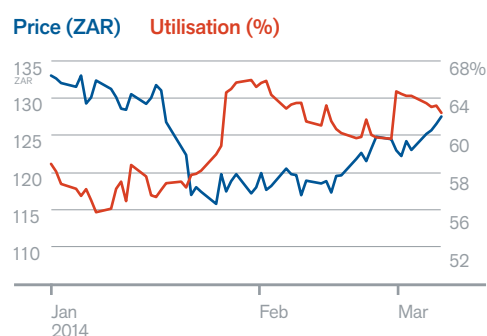
## Security Ranking by Total Daily Return

Rank	Security Rankings by Total Return
1	African Bank Investments Ltd
2	Capitec Bank Holdings Ltd
3	Vodacom Group Ltd
4	African Bank Investments Ltd
5	Kumba Iron Ore Ltd*
6	Mtn Group Ltd
7	Barclays Africa Group Ltd
8	Standard Bank Group
9	Capitec Bank Holdings Ltd
10	Steinhoff International Holdings Ltd

\*could be in demand due to dividend record date

## Security of the Quarter

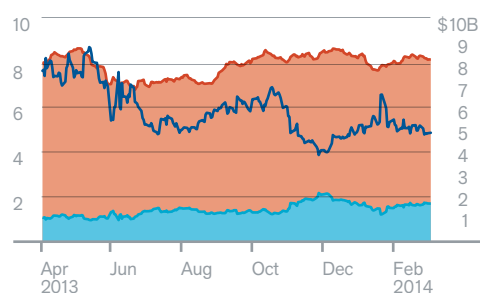
Vodacom Group Ltd



## Government Bond - Long Short Ratio

### Long-Short Ratio (South Africa Equity)

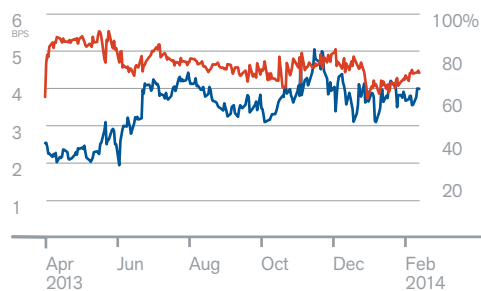
Institutional long (Inventory) Short sale (Loans)



## Government Bond - Revenue

### Total Return to Lendable (BPS)

Revenue Share from Non Cash (%)



# Glossary

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## Basis point (bp)

One one-hundredth of a percent or 0.01%.

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## Lendable

The total value of holdings, in USD millions.

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## Long Short Ratio

The Long-Short Ratio is a macro overview of the market.

### It combines two datasets

- The US Dollar value of Institutional longs that are made available to lend through securities lending programs.
- The US Dollar Short selling as measured by what has been lent in the securities lending market.

### The ratio is useful to

1. Determine whether the market is getting relatively more or less short.
2. Track long and short flows across different asset classes.

This ratio can also be indexed to allow for comparing across different asset classes.

### Note

The ratio removes term transactions which are not standard securities lending transactions that facilitate short selling.

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## Market Cap Breakdown

### Large Cap

Market capitalization value of more than \$10 billion.

### Mid Cap

Market capitalization value between \$2 billion and \$10 billion.

### Small Cap

Market capitalization value between \$300 million and \$2 billion.

### Micro Cap

Market capitalization value less than \$300 million.

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## Revenue share from non-cash collateral

The percentage of the total return to lendable achieved through intrinsic securities lending activity (bp Fee) rather than cash reinvestment.

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## Securities Rankings Tables

Within the market commentaries there are Security Rankings showing the top 10 securities per market. We assessed each market on an individual basis and used the following methodology – We calculated the top ten securities for the specific market ranked by Group Average Total Daily Return (absolute figures).

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## Securities Lending Return to Lendable (SLRTL)

The revenue from securities lending, scaled by the lendable assets, in Basis Points.

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## SL Fee

The weighted average intrinsic securities lending fee of the loans the group has in the security category, in Basis Points.

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## Total Balance

The total value of assets on loan, in USD millions.

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## Total Return to Lendable (TRL)

The revenue from securities lending and reinvestment activity, scaled by the lendable assets, in Basis Points.

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## Utilisation

The total value of assets on loan over the total value of holdings, expressed as a percentage.

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