

GLOBAL CUSTODIAN 2010 SECURITIES LENDING SURVEY



Top Rated and Best in Class in
“More than \$10 billion in assets” category



eSecLending

Although it does not view itself as such, the auction-platform-turned-agent-lender tops the survey again, albeit on a much lower rate of response than other leading agent lenders. A model of business long designed to extract maximum value from “specials” has proved surprisingly resilient in a downturn that has proved less than kind to the exclusives on which eSecLending built its reputation. The firm auctioned around \$200 billion of assets in various markets and asset classes during the course of 2009, and reported some of the strongest bidding in years, for portfolios consisting mostly of domestic US and international equities and US government debt. **If the current trends towards greater transparency, intrinsic value lending, and the unbundling of lending, custody and cash collateral continue, eSecLending should continue to prosper, especially if corporate activity maintains its current revival.** Scores are down slightly more often than they are up, but only from exceptionally high levels in 2009, and rarely by much. There are no obvious signs of weakness anywhere in the scores, with the possible exception of earnings relative to estimates, and even on that question the overall average is still “very good.” The strengths listed by one respondent are “client service, auction capabilities, ability to lend GC assets, [and] ability to lend multiple asset classes.” **But eSecLending collects its best score for relationship management, chiefly on the back of its ambition to**

tailor every lending program to the risk and return preferences of institutional lenders. “Performance and relationship management” are what one respondent likes most, while the “ability to keep us informed of market developments” is the quality prized by another. Investment in accounting, corporate actions, dividend tracking and cash payments and management systems pay off in what is the best score in the survey for operational capabilities. The fact that the score for product development remains high will please a company that was built on the desire to innovate, but not every client is convinced eSecLending is aggressive enough in chasing new opportunities. “eSec could be quicker in providing service in new markets and/or new products or in communicating the hurdles to enter new markets/products,” writes one. Though it now has operations in Asia and Europe as well as North America, eSecLending lacks the global reach of the major banks and the balance sheet that can allay concern in a risk-sensitive environment (“Financial strength of the provider” is the issue mentioned by one respondent). **But it has some major beneficial owners as supporters, a distinctive auction process and a clear view of how institutional lenders can optimize their risk-return ratio and enhance control over their programs through a mixture of customization and transparency.** All of which strike the right chords in current market conditions.

LEAGUE TABLE

More Than \$10 Billion

Provider	Score
eSecLending	6.58
Brown Brothers Harriman	6.23
Deutsche Bank ASLP	6.18
State Street	6.09
Global Overall	5.79
J.P. Morgan	5.55
BNY Mellon	5.38
Citi	5.33

BEST IN CLASS

More than \$10 Billion

Earnings Performance	★
Risk Management	★
Relationship Management	★
Client Service	★
Product Development	★
Reporting	★
Operational Capabilities	★
Compliance	★
TOTAL	6.58



Client Comments from the Survey

“They always keep us informed of market developments.”

*- Europe client,
More than US\$200 billion in assets*

“Their main strengths lie in relationship management, knowledge of staff and responsiveness.”

*- North America client,
US\$150-200 billion in assets*

“Nimble and willing to dig into potential new opportunities, strong client service.”

*- North America client,
US\$50-100 billion in assets*

Methodology

The Global Custodian Securities Lending survey aims to measure the services received by beneficial owners and from their agent lenders. This year marks the third in which this survey—once part of our annual Global Custody Survey—has operated on its own. Despite the turbulence within the market and the industry, our the survey has continued to grow. This year, responses were up by 20%. In total, 169 responses were received on behalf of 19 providers, of which ten received enough responses to be rated. After adjusting for erroneous, duplicate and affiliated responses, 161 were authenticated for inclusion in the survey.

In addition to a series of profiling questions designed to improve Global Custodian’s understanding of the respondents, the survey questionnaire consisted of 26 questions in eight service categories: Earnings Performance, Risk Management, Relationship Management, Client Service, Product Development, Reporting, Operational Capabilities, and Compliance with Client Guidelines. Last year, a number of revisions were made to the questionnaire

to reflect developments in the industry, but the 2010 questionnaire was unchanged.

Respondents were asked to rate the quality of service from their providers on a scale of 1 to 7, where 7 is excellent; 6, very good; 5, good; 4, satisfactory; 3, weak; 2, very weak; and 1, unacceptable. The overall scores are a weighted average expression of how a provider scored in each area. The weightings are governed by two factors. First, credit is given for scoring well in areas named as important, by all respondents in the completed, qualifying questionnaires. Secondly, respondents are themselves weighted, according to the number of service providers used and the approximate value of the business they place with the provider.

Top Rated 🏆 providers achieve an average weighted score that is superior to the average weighted score for all providers in the survey in that category. Commended 🏆 ratings are based on a mixture of scores, comments and other factors. Providers whose scores are well adrift of the overall survey average are designated as Unrated ○, while the designation

Not Rated ⊕ is used to indicate where an insufficient number of responses were received to rate a provider.

Providers are eligible to be rated in a total of ten categories. These include three assets-under management categories (Less than \$1 billion, \$1-10 billion and More than \$10 billion) and three regions (Asia, Europe and North America), as well as Single or Multiple Provider. The threshold to secure a rating in these categories was set at five responses. To secure a Global rating, a provider must have been rated in at least two regions.

In addition to ratings, providers are eligible for the Best in Class ★ awards familiar in our other surveys. These recognize excellence in servicing clients of different sizes, types and locations in different service areas. They are available in each service area for all rateable service categories save Global. Best in Class awards go to any provider that achieves an overall weighted average score that equals or better the global weighted average score in that combination of rating category and service area.