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INTERNATIONAL SECURITIES FINANCE 12-01/09

**BENEFICIAL
OWNERS SURVEY
RESULTS**

**eSecLending
#1 OVERALL**

**ENDURANCE TRAINING
LENDERS PUSHED TO THE LIMIT**

Endurance training

One year on and it turns out that last year's suffering was just prelude to this year's cardiac arrest. Ian Hall considers the new heights lenders have had to go to in this unprecedented year,

In this year's Beneficial Owners Survey, we once again contemplate the lenders performance through unprecedented times of caution, where risk is the four letter word embedded in the minds of all investors.

It's been a hectic year, with so much going on that even the savviest of investors have been left dumbfounded. This year we have witnessed the demise of Bear Stearns and Lehman Brothers and along with them, the end of the Wall Street investment bank era. Then we have had the hedge fund redemptions and the anticipated further redemptions yet to come. We have also experienced volatility in the short term lending markets, which has had a big impact in the US, where the use of cash as collateral is more common.

As a result, each of the lenders in this year's survey has put a big focus on communication with clients. In this last year, to keep clients' minds at ease, each and every one of the lenders has had to go above and beyond. With so much going on, the clients have so many more questions and concerns which need to be addressed. And so the role of the lenders this year has been to keep their clients informed about areas of concern such as risk, restrictions and regulation changes. One of the lenders commented: "Constant communication and full transparency has been instrumental in maintaining our clients' trust and comfort throughout the last several months."

As the lenders are not placed to offer advice, the approach they have taken has been to arm their beneficial owner clients with the information they need to make well informed choices about

their securities lending programmes. It has been their belief that armed with the right information, clients can then go to meet with other board members and senior management within their own organisations, and ally any concerns they might have regarding their funds allocation to securities lending.

There is no doubt that a combination of factors and market conditions has caused a number of lenders to review their allocations to securities lending. Some may have chosen to freeze or even to stop their participation in securities lending, while others will have made more minor restrictions. One of the impacts of this has been that in this year's survey, there has been a drop of in the number of responses we have had.

New for this year's survey we have added a regional breakdown to allow the lenders to benchmark their performance in Europe, the Middle East and Africa (EMEA), Americas and Asia Pacific. To qualify for each of these regional breakdown categories the lenders needed to receive at least three responses in the respective regions. We are pleased to be able to give recognition to the larger custodians who have a global presence in a wide range of markets around the world.

You will also see some of the lenders who did not meet the qualifying requirements for the overall categories, can be seen in both the European and North American regional breakdowns. These lenders include, State Street, BNY Mellon, and Wachovia in the North American regions and Dresdner in the European breakdown.

This year State Street made the decision not to actively participate in this survey, because they were focusing on

an internal survey, which is why you will notice they are missing from the overall categories.

This year we have given each of the lenders a page profile, where they can see key data such as the composition of their assets, the average fund size, and average lendable portfolio. We hope that each of the lenders will be able to take more away from each profile with this new layout. ■

Methodology

Beneficial owners are asked to assess and scrutinise the performance of their lending programme.

They are asked to rate their service providers on the same criteria from 1 (very poor) to 7 (excellent).

The individual categories are an average of the scores given.

Overall unweighted:

The category ratings are then averaged and totalled for each provider to derive the overall unweighted score. This will also be broken down regionally (Asia-Pacific/Europe, the Middle East and Africa (EMEA)/Americas) where 3 responses will be needed to qualify in a region). There will also be single provider and multiple provider tables on an overall basis.

Overall weighted:

As with last year's survey there will be the weighted and unweighted results. A multiplier will be applied to the total score for each questionnaire depending on the size of the responding portfolio as follows: 1st quartile of respondents by portfolio size = x1 / 2nd = x2 / 3rd x3 / Upper quartile = x4

Organisations need to receive a minimum of 10 responses to qualify.

OVERALL UNWEIGHTED:

eSecLending	70.20
Brown Brothers Harriman	70.13
Goldman Sachs Agency Lending	69.14
Citi	66.25
J.P. Morgan Worldwide Securities Services	60.81

OVERALL WEIGHTED:

eSecLending	280.80
Goldman Sachs Agency Lending	276.56
Citi	198.75
J.P. Morgan Worldwide Securities Services	182.43
Brown Brothers Harriman	140.26

EMEA:

eSecLending	73.12
Goldman Sachs Agency Lending	71.50
Citi	68.11
Dresdner Kleinwort	65.01
J.P. Morgan Worldwide Securities Services	56.86
BNY Mellon Asset Servicing	54.66

AMERICAS:

Goldman Sachs Agency Lending	71.24
Brown Brothers Harriman	69.77
eSecLending	67.20
Wachovia Global Securities Lending	67.08
Citi	64.96
J.P. Morgan Worldwide Securities Services	64.65
State Street	62.80
BNY Mellon Asset Servicing	58.75

ASIA-PACIFIC:

Citi	65.75
J.P. Morgan Worldwide Securities Services	60.70

STATISTICAL BREAKDOWNS – OVERALL

Average value of portfolio available to be lent out:	35.98 bn
Average percentage that is available to be lent out:	22%

AVERAGE COMPOSITE SEGMENT:

Equities:	64%
Fixed Income:	45%

PERCENTAGES OF ASSETS IN LENDABLE PROGRAM TYPE:

Agency Custodial:	73%
3rd Party:	75%
Exclusive:	38%
Self-Managed:	18%

AVERAGE PERCENTAGE COLLATERAL IN CASH/ NON-CASH:

Cash:	79%
Non-Cash:	34%

**INCOME GENERATED:**

eSecLending	6.70
Citi	6.30
Goldman Sachs Agency Lending	6.08
Brown Brothers Harriman	6.00
J.P. Morgan Worldwide Securities Services	5.40

RISK MANAGEMENT:

Brown Brothers Harriman	6.63
Goldman Sachs Agency Lending	6.41
eSecLending	6.20
Citi	5.63
J.P. Morgan Worldwide Securities Services	5.36

REPORTING CAPABILITY:

Brown Brothers Harriman	6.54
Goldman Sachs Agency Lending	6.50
eSecLending	6.50
Citi	5.63
J.P. Morgan Worldwide Securities Services	5.13

SETTLEMENT & RESPONSIVENESS TO RECALLS:

eSecLending	6.40
Brown Brothers Harriman	6.27
Citi	6.18
Goldman Sachs Agency Lending	5.91
J.P. Morgan Worldwide Securities Services	5.69

HANDLING OF CORPORATE ACTIONS/DIVIDENDS:

eSecLending	6.40
Brown Brothers Harriman	6.36
Goldman Sachs Agency Lending	6.10
Citi	6.09
J.P. Morgan Worldwide Securities Services	5.30

COSTS:

eSecLending	6.50
Goldman Sachs Agency Lending	6.25
Citi	6.22
Brown Brothers Harriman	6.18
J.P. Morgan Worldwide Securities Services	5.21

RELATIONSHIP MANAGEMENT/CLIENT SERVICES:

Brown Brothers Harriman	6.81
eSecLending	6.80
Goldman Sachs Agency Lending	6.60
Citi	6.60
J.P. Morgan Worldwide Securities Services	5.33

ACCESS TO NEW MARKETS:

Brown Brothers Harriman	6.36
eSecLending	6.00
Goldman Sachs Agency Lending	5.90
Citi	5.80
J.P. Morgan Worldwide Securities Services	5.33

APPLICATION OF TECHNOLOGY:

Goldman Sachs Agency Lending	6.54
eSecLending	6.40
Brown Brothers Harriman	6.27
Citi	5.72
J.P. Morgan Worldwide Securities Services	5.04

CREDITWORTHINESS OF SERVICE PROVIDER:

J.P. Morgan Worldwide Securities Services	6.27
Goldman Sachs Agency Lending	6.27
Citi	5.90
Brown Brothers Harriman	5.80
eSecLending	5.60

PERFORMANCE DURING RECENT CREDIT CRISIS:

Brown Brothers Harriman	6.90
eSecLending	6.70
Goldman Sachs Agency Lending	6.58
Citi	6.27
J.P. Morgan Worldwide Securities Services	5.95

**THIS YEAR,
THE CLEAR
WINNER OF
THE BENEFICIAL
OWNERS SURVEY IS
eSecLending**

eSECLENDING
SECURITIES FINANCE TRUST COMPANY

**Winner:
Weighted Winner:
Unweighted
Winner: EMEA**

eSecLending

REGIONAL BREAKDOWN

	Global	EMEA	Americas	Asia-Pacific
Income Generated	6.70	6.80	6.60	N/A
Risk Management	6.20	6.80	5.60	
Reporting Capability	6.50	6.60	6.40	
Settlement & Responsiveness to recalls	6.40	6.80	6.00	
Handling of corporate action/dividends	6.40	7.00	5.80	
Costs	6.50	6.60	6.40	
Relationship Management/Client Services	6.80	7.00	6.60	
Access to new markets	6.00	6.32	5.60	
Application of technology	6.40	6.40	6.40	
Creditworthiness of service provider	5.60	6.00	5.20	
Performance during recent credit crisis	6.70	6.80	6.60	
Total Average	6.38	6.65	6.11	

This year, the clear winners of the Beneficial Owners Survey are eSecLending. The agent lender has ranked 1st in both the weighted and unweighted categories.

eSecLending's Chief Operating Officer, Karen O'Connor observes that with the unprecedented market volatility that has occurred in the last three months, both they and their beneficial owner clients have had to face a number of new challenges. And as a result the clients have been more actively managing their securities lending programmes.

O'Connor comments: "We believe the increased focus lenders have placed on managing their securities lending programs as a result of market events, with an emphasis on risk management, transparency and performance will benefit the securities lending industry in the long run."

"Our company culture has been one in which we encourage frequent communication with our clients and ensure they have access to our entire organization so that their requests are met in a timely and thorough manner," explains O'Connor. "This philosophy has been key to our success, particularly over the last year as the market environment presented new challenges and pressures for lenders and their agents."

This year eSecLending topped the all important income generated category. The agent lender treats each of its clients as a separate book of busi-

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ness, which they say enables them to optimize returns for each client based upon their individual risk tolerances and guidelines. O'Connor also explains that an auction is the most effective way to achieve price discovery and best execution for each portfolio.

As an agent lender eSecLending's clients' counterparty exposure is directly with the borrowers they lend to. One category that eSecLending do not perform well in is the creditworthiness of counterparty category. How has this affected them this year, when indemnification against borrower default is forefront in investors' minds?

O'Connor comments: "Indemnification for borrower default in our program is provided by highly rated

PROVIDERS:

Single :	55.6%
Multiple:	44.4%

FUND SIZE:

Average Fund Size:	92.76bn
Under 1 Bn:	0%
Between 1 - 10 B:	22%
Over 10 Bn:	78%

SIZE OF LENDABLE PORTFOLIO:

Average:	12.13 bn
Under 1 bn:	12%
Between 1-10 bn:	44%
Over 10 bn:	44%

and well capitalized external insurance providers. The Lehman default was a strong testament to the protections and controls in place in our program. The collateral held in our program for all clients was more than sufficient to purchase replacement securities."

As well as its top overall ranks, the addition of the regional breakdown has benefited eSecLending in the EMEA regions, seeing them rank 1st place. **With all the changes and challenges that the lenders have faced in this tough year, eSecLending has excelled, scoring highly in a wide range of categories including relationship management, costs, settlement and responsiveness to recalls, and many other areas.**

Top comments:

"eSec are an innovative, progressive company who seek to challenge boundaries and continually think outside the box. Their ground knowledge is first class and they strive to always achieve maximum revenue for the client."

"Excellent relationship management."

"The service, reporting, relationship management, and attention to detail from eSecLending are of an extremely high standard at all times."