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# *LENDER FOCUSED FROM THE START*

More than 20 years after launching, eSecLending's team discuss how the market's only specialist agent lender is still going strong by keeping to its core business

# Lender focused from the start

*Twenty plus years into their business, the eSecLending team sat down with SFT to discuss how the market's only specialist agent lender is still going strong all these years later by keeping to its core business. And, we find out how their segregated programme model is increasingly attractive to sophisticated beneficial owners in the current market environment*

## eSecLending has come a long way since its start-up days, but what were your highlights from the past 18 months?

***Craig Starble:*** We have experienced significant growth over the past 18 months to two years, as evidenced by a number of things including the fact we've added several new large global pension plans and sovereign wealth clients. Our existing clients have also continued to award us a greater share of their lending business, which we have always prided ourselves on being able to retain and grow our client mandates over time. Lastly, we implemented our strategic partnership with Standard Chartered Bank, which has given us exposure to the Middle East and Asia regions.

Over the past three years our on-loan balances have grown by more than 110 per cent. By comparison, the industry averages, as defined by the data providers, were up single digits over the same period. I think this tells a good story of where we are today and speaks volumes to the strength of our business. Meanwhile, we continue to focus on trade automation, which is critical for our industry generally and also for us as our business continues to grow and remain competitive.

Even through this growth, like the rest of the industry, we have had to adapt quickly to the COVID-19 crisis. We were prepared from a technology perspective and achieved the transition to working remotely efficiently and seamlessly. But, we couldn't have effectively done it without our experienced team, which is a combination of folks that have been with the business since its founding and many other industry veterans that have been with us for more than 10 years. I am always really proud of our team and I think we have the best combination of experiences from the market.

We've also spent a lot of time talking to our clients and listening carefully to their top priorities. Clients were pleased that securities lending functioned smoothly through the market volatility last spring and many are increasing their focus on ways to make their lendable assets more valuable, such as through broadening collateral profiles. We also have seen our clients interested in expanding their peer conversations with one another and many have joined the new Global Peer Financing Association (GPFA).

***Brooke Gillman:*** We have been very supportive of our clients wanting to establish the GPFA. From our early days, we hosted annual meetings for our clients which created opportunities for them to network and over time that evolved into deeper connections and peer relationships. It was a natural progression for us to support our clients and the work of the GPFA and help them establish their non-profit, beneficial owner-led group. GPFA provides a forum for the beneficial owners to discuss everything from best practices, to ways to evolve the industry to better meet their needs. We are happy to see this develop because it creates a healthier market by allowing major lenders to get together and share strategies on how to do more business and enhance their programmes, which is good for the industry overall.

**Keeping to the core offering even after so many years seems to be the key to your success. How has your business changed in terms of client base over your more than 20 year history? Why do you think clients look to hire eSecLending and have the reasons changed over time?**

***Chris Jaynes:*** As you note, the core offering we have and the way we approach the business and the differentiations we bring to clients is the same today as it was when we started. We take a 'client focus' in everything we do and that is not accidental. We were a beneficial owner when we started the business and we have never changed our philosophy about focusing on the client first and I do think that makes us unique. Our clients engage with us for several reasons, such as our auction model and separate account structure, which are both unique to the industry and together bring a big lift to portfolio performance. Compared to the standard custodial model we have far fewer clients, which allows us to give each client a much greater degree of focus. We are also different in that all our staff are dedicated to securities lending and don't have any conflicts or distractions that other agents may have.

eSecLending was formed by two major beneficial owners so from day one we have been singularly focused on what our clients want, which is transparency, control, and flexibility. Unlike in a traditional pooled programme, we can offer those things through our segregated model. A pooled model will seek to maximise returns for the pool as a whole which is different than what is best for any individual client. Ultimately, because a segregated programme offers greater transparency and control, it results in enhanced risk management and greater returns for clients. Moreover, as the market evolves and you introduce concepts such as ESG, the specific needs of each individual client further undermine the premise of the pooled programme because what one client may require for ESG will be different than another. We've been offering tailored programmes since day one, so it's very natural for us.

***Gillman:*** As Chris noted, we were a beneficial owner that then partnered with CalPERS, the largest public pension fund in the US, to found eSecLending. So, from the start, our entire model was built around partnering with clients to come up with a solution and a service that meets exactly what they want on a very individualised basis. This foundation of customisation is the underlying theme of why clients choose to hire us. The outperformance of our auction model and segregated programmes appeal to some of the largest and most sophisticated lenders in the market.

Our client base is around 30 beneficial owners globally, including four of the top five largest US public pension plans, as well as some very large asset management organisations.

**As beneficial owners have become more educated on securities lending and sophisticated in their needs, has eSecLending's model become more attractive?**

***Jaynes:*** It's been a slow and steady progression as many beneficial owners historically supported this programme in their back office and viewed it as an operational function, tied to custody. This view has changed over our 20-year history. Securities lending is not an operational process, it's a trading and an asset management process and should be viewed as a front office activity. Many of our clients are those beneficial owners that have moved their lending business from the back to the front office and therefore care more about transparency and performance. The lender community is increasingly agreeing with how we and our clients view this product and that has made it easier for us to make the case for our services.

**Part of eSecLending's strength is its strategic partnerships. Can you talk about those relationships and how you work with those organisations?**

***Simon Lee:*** Over the years we've developed several partnerships with custody banks and fund administration companies. With these relationships, our partners are looking for us to either fill a product gap

with our agency securities lending offering, or they're looking to enhance returns for their clients, or reduce expenses within their existing securities lending businesses. From our perspective, these partnerships give us access to beneficial owners that we might not otherwise have had access to and to deliver our products to them on behalf of those partner banks. We have several of these arrangements in place today and we are also having conversations with other organisations along similar lines. This is reflective of developments in the broader market and some of the challenges market participants face, and is illustrative of our unique position and independence in the market, which enables us to partner with firms in this way.

Most recently we partnered with Standard Chartered Bank, which is a good example of what we are talking about here. SCB is now able to offer a new product to their clients via eSecLending, and we're now able to access new customers around the globe, including the Asia, Middle East and Africa regions, places where SCB have a particularly strong presence but where we have not traditionally focused. SCB also has very deep and long relationships with a large number of government entities worldwide, including the sovereign wealth funds and central banks that play a big role in the global securities lending market, a sector which eSecLending has not historically serviced to any degree, but is tailor made for the lending services we provide with this partnership.

## eSecLending remains one of the only specialist agent lenders in the market. Did you think that would still be the case when you first launched and why do you think others aren't trying to replicate your model?

***Jaynes:*** The barriers to entry in this market are very high and it's difficult to offer a compelling programme with the amount of technology build you need and the number of people and expertise required. We were fortunate to have a large beneficial owner behind us with an interesting and attractive asset base that borrowing counterparts were eager to participate in. Absent that, I think it's a very difficult road. In fact, barriers to entry today are greater now with increased regulatory pressure, such as the new Securities Financing Transactions Regulation reporting requirements.

***Starble:*** Before I joined eSecLending I ran a large custodial lender's securities lending product with a significant number of clients in a pooled programme. But there were challenges with that pooled model as we've already explained, and it was evident early on that specialist agents would be able to outperform for larger clients with the best assets.

Both pooled and segregated models work, but which one you want depends on what kind of client you are. Larger entities and specialist managers with attractive supply will do better in a segregated model whereas smaller clients will likely get better returns as part of a pool.

## As an agent lender in a world dominated by new regulations and now ESG, which all make the job harder as beneficial owners require a more tailored programme, how does eSecLending approach these hurdles?

***Lee:*** First and foremost, our job as an agent lender is to support whatever our client wants to do in the ESG space, which, as Chris noted earlier, our business model is able to effectively deliver on given our segregated and highly customisable programmes. For example, non-cash collateral is becoming a bigger topic on the ESG agenda, and the ability to screen for non-compliant securities. This is challenging in the traditional pooled environment but relatively straightforward in a truly segregated structure, which is how we've always managed our client programmes. So, we see tailoring ESG principles into each client's programme as an extension of what we do for them today.

Outside of that, as an independent organisation solely focused on securities lending we are able to be nimble and flexible when developing products, and some of the work we're doing with ISS around proxy voting is a testament to that, responding to client requirements and working with them to develop the next generation of reporting tools integrating securities lending and proxy voting data.

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Always with a lens of what matters to beneficial owners, the team at eSecLending keeps it fresh and current with up to date perspectives on the latest securities finance market demand and other trends across the industry.

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SECURITIES FINANCE TRUST COMPANY

www.eseclending.com/insights
info@eseclending.com
U.S. +1 617 204 4500
Europe +44 (0) 207 469 6000

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