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High on the agenda for fund managers will be to firm up a strategy for managing regulatory change. In the course of this year and next, a succession of legislative initiatives starts to bite on both sides of the Atlantic. At the very least, these changes will impose new costs and require new ways of doing things. But they may also require a top-level rethink in areas such as domicile, fund structure and investor targeting. We look at the options for the private equity, hedge fund and mutual fund sectors.

In the securities lending market, trading platform providers are beginning to work on establishing links with the central counterparty (CCP). As a long-standing member of the International Securities Lending Association, Citi is actively engaged in these discussions. We look at the pros and cons of the CCP structure from a lender’s perspective.

In all these areas, we at Citi are ready to help our clients confront this torrent of change with constructive and highly flexible solutions, enabling them both to manage the cost and control issues and go forward with product platforms, structures and strategies that enable them to achieve their ambitions for growth.

I hope you enjoy this edition of IMR.

Dirk Jones
Global Head of Client Sales
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Challenge and Opportunity on the Road Ahead
Will the macro environment be helpful in the year ahead? Are there particular pockets of growth that investment managers can exploit? What are the key issues for their own businesses? The following article focuses on two areas – the economic backdrop and the trends now shaping decision making within the investment management industry.
Economic Signals Still Positive

While downside risks remain, the economic backdrop looks supportive in the year ahead.

Three themes dominate the outlook for 2011. The first is the unevenness of economic recovery. While Citi’s analysis is for global GDP growth of about 3.4%, compared with 3.9% in 2010, that growth will be more uneven than in previous recoveries. Once again, Asia is expected to be in the vanguard; Europe is expected to encounter a drawn-out recovery.

“We expect GDP growth in Asia ex-Japan to slow to 7.6% in 2011 from about 8.8% in 2010,” says Jürgen Michels, Lead Euro Area Economist and ECB Watcher, Managing Director, Economic and Market Analysis, Citi. “However, that is still about twice the global average. Monetary conditions for most countries in Asia remain very accommodative. This contrasts with fiscal tightening in most advanced economies.”

One concern is that China’s attempts to counter rising inflation will knock this growth on the head. China is committed to a “prudential” monetary policy and a “positive” fiscal policy. But that language, which emerged from China’s central economic work conference in December, suggests the authorities believe inflation is still under control and are not planning to slow GDP growth significantly from the current level.

“It also supports the view that over-tightening is unlikely for now. However, this does not rule out the possibility that more austere tightening could be introduced if consumer price inflation rises to an unacceptable level – which often means a year-on-year rate above the 6% to 8% range,” says Mr. Michels.

In the U.S., the latest measures to postpone tax cuts and extend fiscal easing have led Citi to increase its estimate of 2011 GDP growth to close to 3.5%, compared with a previous estimate of near 3%. “The risks appear balanced,” says Mr. Michels: “Lingering credit restraint, lagging heavy construction and state and local consolidation are balanced against upside cyclical potential, a strong profit rebound and a well-advanced housing correction.”

In the Eurozone, the forecast is for a wide divergence in performance in 2011. There is likely to be continued above-trend growth in Germany but – even after severe recessions – little or no growth in the periphery countries. “Most countries have to do more to get to sustainable public balances,” says Mr. Michels. “There are still huge current account deficits in the fiscally strained countries,” he says.

On average, Citi expects weak domestic demand within the euro area and export growth of around 5% – which is half the growth rate witnessed in 2010. Overall, GDP growth is unlikely to be around 1.5%. With little inflationary pressure from wage growth, but upside pressure from rising commodity prices, inflation is expected to emerge in a range between 2.25% and 2.5%, somewhat above the European Central Bank’s medium-term target of close to, but below, 2%. “In this environment,” says Mr. Michels, “while the ECB is unlikely to increase interest rates any time soon, we expect a first rate hike in the second half of 2011.”

Emerging Markets Lead the Way

A second theme, related to the first, is the particular strength of emerging markets. In Asia, where the emerging economies enjoy a solid fiscal position, there are relatively low household debt levels, high personal savings, relatively low corporate leverage and low external debts. Longer-term structural issues are also important. Urbanization and industrialization trends in China, India and Southeast Asia provide further scope for catch-up.

The outlook for Central and Eastern Europe, the Middle East and Africa (CEEMEA) is also positive. Most of these economies continue to expand, lifting corporate profitability sharply. Limited growth prospects in the developed world and very low interest rates are likely to continue to favor portfolio flows into emerging markets.
High Private Savings Levels

The third key theme is the prospect of high private savings levels in the U.S., euro area, Japan and the UK. Private sector financial surpluses (households plus companies) have soared to 12% or 13% of GDP in Japan, 7% or 8% in the U.S. and UK, and 6% or 7% in the euro area. There is still, however, a large overhang of private debt.

In the UK, for example, aggregate debt for households plus nonfinancial companies had edged down from 230% of GDP in the first quarter of 2009 to 222% in the second quarter of last year. But that still matched Japan’s post-bubble peak, reached in 1994. Private sector debt/GDP ratios are less extreme in the U.S. and euro area but – at 160% to 170% in both regions – remain far above previous norms.

Given these numbers, it is expected that the experience of recent years – with severe house price falls, volatile equity prices, a drying-up of credit and uncertain income prospects – will leave a bias to relatively high savings among households, businesses and lenders. “This is positive for the asset management industry,” points out Jervis Smith, Managing Director, Global Head of Client Executive, Global Transaction Services, Citi, “though the evidence suggests a lot of the savings are finding their way into bank deposits in the first instance.”

In sum, there are solid reasons for optimism. While downside risks to growth stemming from the euro area sovereign debt crisis clearly remain, the chances of the crisis resulting in a significant tightening of financial conditions in Europe’s core countries are slim. And as well as downside risks, there are also upside possibilities. “On balance, our growth forecasts continue to rise,” says Mr. Michels: “Continued above-trend global expansion, ongoing balance sheet repair and successful monetary and fiscal measures to ensure medium-term stability could reenergize the corporate appetite for expansion.”

Picking the Right Path for 2011

When they look back in a year’s time, will asset managers think kindly of 2011? Here we analyze some of the key trends – and the challenges – the industry faces.

Will 2011 be the year when the investment management industry finally puts the turbulence of 2008/9 behind it? There are certainly straws to clutch at. At the retail level, cash that is now exiting money market funds must find a home elsewhere. Following a rally in world stock markets, there are tentative signs that investors are prepared to give equities another chance. According to EFAMA’s statistics (released on January 17, 2011) over the first 11 months of 2010, net inflows to all long-term UCITS – equity, bond and balanced – came to €215 billion compared with €156 billion in the same period the previous year. At the same time, the sharp rise in government bond yields toward the end of 2010 may have reduced the attractions of this asset class.

“The bull phase for bond funds looks to be finishing,” says Dario Frigerio, Senior Adviser for EMEA, Securities and Funds Services, Citi. “There is the potential for a shift of money into equity funds. Certainly, there is a good trend to flows in the emerging markets, which are at a different cyclical stage,” he says.

In the institutional market, Mr. Frigerio says the winners are likely to be the successful long/short and absolute return players. “For many managers, finding ways of adding value is becoming increasingly difficult,” says Mr. Frigerio: “Institutions are looking for liability-driven solutions, absolute return strategies or low-cost, passive solutions. Benchmark-plus returns are becoming less and less relevant. Cash flow is more and more important. Firms must try to extract value around the cash flow.”

He predicts a better year in 2011 for the traditional, long-only firms. “On the other hand,” he says, “there is a secular trend for money to go into advisory platforms where the adviser manages the tactical asset allocation. Passive strategies are often the winners. But if you are a firm with a good record in alpha stock picking, this could still be a good year for you.”

The big challenge, he sees, will come from outside the asset management industry. “Over the next two years, governments and banks have enormous refinancing requirements,” he says. “There will be big competition for funds.”
Facing the Costs Challenge

Behind the scenes, investment managers are faced with a variety of other challenges, too. The squeeze on costs continues. “The pressures from investors to reduce fees are shocking,” says Richard Ernesti, Managing Director, Global Head of Client and Sales Management for Investors at Citi’s Global Transaction Services. “And in the hedge fund area, new capital is still scarce – with the result that intermediaries can charge 30% or 40% of management fees for raising money.” This, says Mr. Ernesti, makes it less likely that traditional managers will continue to invade the hedge fund market by launching their own long/short products.

Then there is the tide of new regulations on both sides of the Atlantic – which is analyzed elsewhere in this issue of IMR. Suffice to say the common trend is a more rule-based approach by regulators (instead of a principle-based approach), increased governance, transparency and reporting, and higher capital requirements. “The effect is clearly to increase management costs,” says Mr. Frigerio.

The pressure for added transparency is coming not only from the regulators, but from clients, too. Increasingly, hedge fund investors want independent, third-party confirmation of the fund’s portfolio holdings. In response, Citi has launched a new “investor transparency reporting” service that gives investors detailed information about the portfolio’s value and where the assets are held.

“The new service provides a detailed breakdown of a fund’s reported NAV, portfolio holdings, pricing and counterparty exposure, says Michael Sleightholme, Managing Director, Global Head of Alternative Investments, Global Transaction Services, Citi. “It can be included in the capital statement package that we distribute to investors in hedge funds and managed accounts that are clients of Citi Hedge Fund Services,” he says.

Separating Cash and Derivatives

Investor demand for more liquidity in the alternative investment market is another trend that has big implications for the way firms manage their market exposures. Successful cash management can be critical for some strategies.

““The liquidity of cash instruments fell sharply in the crisis,” says Mr. Frigerio, “and is still somewhat reduced. There are fewer market makers and bigger spreads than historically. Unexpected cash inflows or outflows can have a big impact. There is a secular trend toward the use of cash and derivatives, as opposed to cash instruments. With centralized clearing of virtually all derivatives on the way, firms need to optimize the management of both cash and derivatives by having them managed separately,” he says.

That could be doubly important if some of the market’s worst fears come to pass. One example: Alan Brown, the Chief Investment Officer at Schroders, has warned that, if combined with a move to gross margining, centralized clearing could change the “profit dynamic” for investment banks and result in reduced liquidity in the derivatives markets – with possible knock-on implications for the cash markets.

Given the rise in the use of synthetic positions, even among long-only managers, firms also need a clear middle-office strategy to deal with centralized clearing. “That is likely to prompt a new wave of outsourcing,” says Mr. Frigerio: “With the mounting cost of technology upgrades, the need for increased transparency and declining margins in investment management generally, firms need to be as efficient as possible – and they need to know in real time where everything is.”

“Citi has recently launched OTC Derivative Services, which provides full life-cycle support to OTC derivatives participants, from clearing through middle and back office. Initial take-up of the service has been strong from both traditional and alternative asset managers who are looking to build cost efficiency and scale into their operation while buying insurance against the expense of future regulation-driven technology changes,” notes Michael Sleightholme, Managing Director, Global Head of Alternative Investments at Citi’s Global Transaction Services.

Broadening the Investor Base

An aggressive search for new assets is likely to be a continuing priority for many firms. In the traditional, long-only marketplace, increased penetration of Asian markets is near the top of the agenda list for 2011. “Precrisis,
most of the big U.S. and European firms were already present in Asia,” says Harle Mossman, Managing Director, Asia Head of Client and Sales Management for Investors at Citi’s Global Transaction Services, “but many others had little exposure. Now there is a constant stream of new names investigating the distribution potential in the region.”

The big asset pools, he says, are in Japan, Australia, Korea, Taiwan, Hong Kong and Singapore: “These are the markets with 20% to 30% savings ratios and big corporate pension schemes. For many firms, the path of least resistance is to distribute their proven Luxembourg funds here. Firms that want to target retail generally need to replicate them with local funds.”

Perhaps the most exciting targets are the large number of sovereign wealth funds and government pension funds in the region. Most are projected to grow strongly. “In the past, their investment approach has been domestically focused,” says Mr. Mossman: “Now they are issuing international mandates. The household names of investment management have done well, but there have been some surprises, too. These are broadly diversified strategies, ranging from core international, through emerging markets to specialist fixed income strategies and alternative investing, including private equity and infrastructure funds. One fund in Australia appointed 60 different managers.”

UCITS Goes on Growing

For the hedge fund industry, geographic expansion is only one strand in the drive to diversify the investor base. In the U.S., it includes targeting new investors through registered investment companies and various hybrids. In Europe, it includes UCITS (which has seen increased interest from hedge fund managers in light of the recent adoption of the Alternative Investment Fund Managers Directive (AIFMD), which is expected to introduce restrictive regulations for, among others, the hedge fund industry) and the more accommodating institutional vehicles such as Luxembourg’s Specialized Investment Funds (SIFs) and Dublin’s Qualified Investor Funds (QIFs).

Fund research firm Strategic Insight recently calculated that hedge funds and other alternative UCITS now account for more than $160 billion in assets. According to Hedge Fund Research, nearly a quarter of new launches in the third quarter of 2010 were UCITS. “New launches are more consistently conforming to investor preference for liquidity and lower costs,” said the firm.

Even Paulson & Co., the hedge fund group riding high since its phenomenal success in calling the collapse of the U.S. sub-prime mortgage market, has launched a UCITS. “Implementing our existing event arbitrage strategy via a UCITS allows us to provide a liquid, regulated, onshore European fund that helps us further diversify our investor base,” said John Paulson in a widely publicized statement.

Targeting new territories and investor groups brings its own challenges. “As they become more global, most institutional and more diverse hedge funds will increasingly reevaluate their operating models and review their vendor relationships,” says Mr. Sleightholme: “They will need solutions that span different asset classes, are globally consistent and can support every wrapper and fund structure.”

Mr. Frigerio notes, “Having recently joined Citi, it is clear the business continues to make great strides in assisting investment managers of every kind with the multitude of issues they face and connect with the wealth of new and emerging opportunities envisaged for the industry in 2011.”

Conclusion

The global investment industry may see a return to form in 2011. Buoyed by some strong performance indicators and expectations, investment managers are looking to give their investors the much-sought-after performance they now seek.

With alpha high on the agenda of investors and investment managers alike, managers must be able to deliver on their promises, especially following the recent period of tumult and uncertainty. If investment managers are to broaden their investor base they must first have the trust of their investors. This means they must demonstrate that their businesses can manage future headwinds while identifying and delivering on the emerging opportunities quickly.
Grappling
with regulatory
A flood of regulatory change is threatening to overwhelm fund managers on both sides of the Atlantic. As well as imposing new costs, the changes demand top-level strategic responses in areas as important as fund domicile, structure and marketing. We look at their impact, and some of the options open to managers, in three sectors: private equity, hedge funds and mutual funds.
The Struggle with AIFMD (Private Equity Firms and Beyond)

For private equity firms, two pieces of regulation are top of mind right now: the European Union’s (EU) Alternative Investment Fund Managers Directive (AIFMD) and the Dodd-Frank Act (covered in more detail later in this article).

The private equity industry may reasonably be asking itself what it has done to deserve being caught up in the AIFMD. In a survey of alternative investment managers late last year by the U.S. research firm Preqin, 89% of respondents said the AIFMD should be amended to take into account the difference between the private equity and hedge funds. As one respondent remarked: “It is poorly conceived, relating to two business models — private equity and hedge funds — that are completely different. The rules for one are not relevant to the proper regulation of the other and vice versa.”

“The AIFMD clearly has profound implications on the private equity market in Europe,” says Kamran Anwar, Managing Director, EMEA Head of Private Equity Services, Global Transaction Services, Citi. “If you are raising money in Europe, you will eventually have higher compliance costs, an independent fiduciary process, greater reporting and independent valuation requirements. In addition, AIFMD impacts the ability of a private equity firm to operate in terms of disclosure and treatment of assets. Managers will now more closely evaluate domicile alternatives and make even tougher market-driven calls on being onshore in Europe,” he says.

The Level 2 details are now out and firms are assessing the impact of the AIFMD on their business and planning for its implementation — unless of course it is possible to stay outside the scope of the AIFMD altogether. Firms with aggregate assets under management of less than €100 million leveraged or €500 million unleveraged will escape the full registration and reporting regime. But how those thresholds will be applied remains open to question, points out Brendan McMahon, Partner, PricewaterhouseCoopers, Channel Islands: “Do those figures relate to committed capital or invested capital? And what if you subsequently go above the €500 million through asset growth?”

Passive marketing is not covered by the directive. U.S. and other non-EU fund managers with non-EU alternative investment funds may decide they can still prosper without actively marketing to European investors. But if they have an office in the EU, could that still be defined as a management presence? “Until we have the Level 2 definitions, we won’t know the answer,” says Mr. McMahon. A lot more clarity is needed around the definition of passive marketing.

In any event, it is likely that as part of their due diligence many European investors will ask whether a non-EU fund manager is effectively AIFMD-compliant. “We’re suggesting firms will need to offer the same transparency, come what may,” says Mr. McMahon. Equally, it is important that the jurisdiction in which the non-EU fund manager is operating offers the same level of investor protection as the EU. “Investor protection must be built in if you’ve got systemically important investors, such as pension funds,” he says.

Non-EU fund managers and non-EU alternative investment funds will, in theory, be permitted to market in the EU by way of private placement until at least mid-2018 — though they will have to comply with the same transparency and reporting requirements as EU firms from January 2013 onward. The key for these firms is to ensure that their home jurisdiction has a cooperation agreement in place with the European countries where the funds are marketed. The likes of Jersey, Guernsey and Cayman have already indicated their intention to do whatever is necessary.

The cooperation of the non-EU jurisdiction will be doubly vital if non-EU fund managers are to qualify for the passport regime. It is expected that non-EU fund managers of alternative investment funds will be able to apply for an EU passport from January 2015 onward. This is something that non-EU fund managers need to keep an eye on.

EU managers of alternative investment funds and their alternative investment funds (both EU and non-EU) need to be fully compliant with the AIFMD by January 2013 to ensure continued market access. There is plenty of planning to put in place:

- Capital requirements. Many private equity fund managers will find themselves having to top up their
capital. The AIFMD requires where an alternative investment fund has appointed an external fund manager, that the fund manager has an initial capital of at least €125,000, increased with 0.02% of the amount by which the value of the portfolios managed by the fund manager exceeds €250 million. The required total of the initial capital and the additional amount of capital that must be put up by a fund manager will not exceed €10 million. Many firms will look at the way they are structured to see if there are ways to reduce the capital needed.

- Valuation procedures. Managers must decide whether they intend to carry out valuations internally (in which case separate staffing will be required) or externally. The latter option could be an expensive one given the unlimited liability to which it exposes the valuer and the need for valuations every time there are capital changes to the fund. Fund documentation will need amending to reflect the new valuation requirements.

- Disclosure and reporting. The AIFMD imposes a host of new disclosure and reporting requirements on fund managers and alternative investment funds. These go beyond reporting to regulators and investors to take in shareholders and employees of portfolio companies. For many firms, these will require additional resources. There are also implications for communications policy. Firms may also want to consider putting confidentiality agreements in place with their investors.

- Acquisition planning. Anti-asset-stripping measures in the AIFMD will limit both the fund manager’s and portfolio companies’ freedom to restructure acquisitions.

- Reward structures. Once the Level 2 decisions are known, firms will be able to gauge how the new remuneration rules affect their existing arrangements. The AIFMD requires the deferral of 40% to 60% of bonuses and carried interest of senior managers and key staff and the implementation of remuneration policies that promote sound risk management (for instance, by aligning the fund manager’s interest with the fund’s interest by requiring that at least 50% of any variable remuneration will consist of units or shares of the fund concerned). Managers will need to review their incentive schemes and reward structures.

Non-EU fund managers looking to avail themselves of the European passport to market their funds in the EU – which will become possible from 2015 onward – will be subject to full AIFMD compliance, including the appointment of a depositary. Given the likely costs, this is an area of major concern.

“The AIFMD needs to be viewed in the context of the global trend of greater regulation and transparency requirements for the financial services industry at large,” says Mr. Anwar. “The way in which the private equity model evolves in light of these changes, the Level 2 adoption of the regulation and the how the regulation in Europe shapes the demands of limited partners (LP), even those outside Europe, are factors we are following with anticipation.”

Can a manager with only a minority of EU-based investors in the fund justify the added costs of AIFMD compliance to its other, non-EU investors?

“General partners (GP) will clearly need to make some choices when it comes to raising money in Europe,” says Mr. Anwar. “They will no doubt strike the right balance between Europe and the rest of the world.” He says: “Real pockets of capital are scarce today and the balance of power between GPs and LPs has changed. Meeting the equilibrium between fund raising, fund expenses, transparency and increased investor demands will be a greater challenge and will depend ultimately on the realities of each manager. This being said, The AIFMD signals the beginning of a structural shift in the Private Equity space and we are working closely with industry bodies, clients and other partners to prepare for this transition and meet the challenges ahead.”

Hedge Funds to Divide over Europe

The AIFMD is forcing hedge fund managers to rethink their European presence and marketing strategy.

How important is continued access to European investors for my funds? This, perhaps, is the most important question many hedge fund promoters must ask themselves.

At present, more than 90% of all assets under management in the hedge fund industry are in funds domiciled outside the EU (Charles Rivers Associates).
The costs of either redomiciling all those funds to the EU or restructuring them to conform with the AIFMD — and so ensure continued, long-term market access — run to many hundreds of millions of dollars. Is it worth it? And if so, will non-EU investors in those funds be prepared to share the increase in costs that come from AIFMD compliance?

Peter Bevan, Partner, Linklaters, expects a “bifurcation” in the industry. “Those comfortable raising their assets outside the EU will be pushed further offshore. The rest will come onshore, albeit with more expensive products,” he says. In theory, there is plenty of time in which to decide what the strategy should be. Non-EU alternative investment funds will continue to be able to be marketed in the EU using the existing country-by-country private placement rules until mid-2018, subject to the adoption from 2013 of certain transparency requirements in the AIFMD, and a cooperation agreement being in place between their home jurisdiction and the EU.

But, as Mr. Bevan points out, that presumes individual European countries will leave their private placement rules in place. “It is possible that some countries will use the implementation of the AIFMD to review their private placement rules.” Longer term, it is very likely that private placement for noncompliant funds will go completely.

Up until mid-2018, however, private placement will be the only means whereby non-EU funds can be marketed to European investors. Given the increased levels of transparency and investor protection that will apply to AIFMD-compliant hedge funds from 2013, it is a reasonable question to ask whether those investors will continue to invest in Cayman or other offshore funds unless they provide more safeguards than they do at present.

“We believe there is a case for offshore jurisdictions to look at putting some sort of AIFMD-lite legislation in place if they want to continue to compete,” says Brendan McMahon, Partner, PricewaterhouseCoopers, Channel Islands. “For funds from those jurisdictions, this would provide something of a stepping stone to the EU-wide passport that is supposed to be available to them from 2015.”

Now that the Level 2 details have been released, there are still questions to be answered. One is a crucial matter of scope. Mr. Bevan says: “At present, most UCITS funds are managed by investment managers regulated under the Markets in Financial Instruments Directive (MiFID) and are not themselves UCITS management companies. Could there be the same regime for hedge funds? If a Cayman fund appoints an onshore manager in the UK, will that manager be regulated under the AIFMD or under MiFID? There are legal grounds for suggesting the answer is MiFID.”

Another issue is one of definition. The AIFMD definition of institutional investors to whom hedge funds can be marketed is drawn from MiFID. A lot of high net worth individuals, currently a legitimate target for hedge funds, would no longer qualify. “There is a proportion of private investors that could not be accessed through the passport regime under the existing definition,” says Mr. McMahon. “I expect that definition to be broadened as a result of the Level 2 discussions.”

In determining whether to rely on the private placement rules or move to full onshore compliance with the AIFMD, non-EU funds and their managers will also be looking closely at what emerges from Level 2 in the area of mutual recognition between the EU and other jurisdictions. Early versions of the AIFMD were drafted in such a way that it would have been impossible for the U.S., for instance, to satisfy the EU’s criteria.

Many hedge fund groups may continue to use UCITS III as a means of accessing a European investor base. These funds will continue to be regulated under the UCITS legislation. With less stringent depositary safeguards, newcits are likely to be the cheaper option once the additional requirements of full AIFMD compliance for hedge funds seeking the European passport are taken into account.

But, warns Mr. Bevan, that situation may not last for long. “The costs of AIFMD compliance will read across to UCITS in due course. UCITS is no escape route, long term, because the UCITS V depositary consultation is already out and will align the AIFMD rules with the revised UCITS regime.”

The cost of AIFMD compliance will play a big role in determining the strategy of non-EU managers. Analysis by consultant Charles Rivers Associates last year put the ongoing compliance costs for the industry at €311 million. “All market participants interviewed believe these costs will be passed on to investors, leading to reduced returns,” said the firm. There is clearly a case for keeping European and non-European investors in separate vehicles — with the latter enjoying a lower costs base. This, of course, assumes there will still be jurisdictions offering light-touch regulation.
Mutual Funds: Where Should the Industry Focus First?

The mutual fund industry faces a plethora of pending legislation. One of note, which also affects the broader investment management industry, is America’s Foreign Account Tax Compliance Act (FATCA). Another is the need to firm up a strategy for clearing and valuing many derivative contracts after they move on-exchange as part of the European Commission’s formal proposal on the standardization of OTC (over-the-counter) derivatives – the European Market Infrastructure Regulation.

Passed last March, and due to come into effect on January 1, 2013, FATCA is designed to eliminate offshore hiding places for U.S. individuals seeking to evade U.S. tax. It requires foreign financial institutions (FFIs) to enter into disclosure compliance agreements with the U.S. Treasury. FFIs must identify any U.S. persons among their investors. Failure to comply will result in a 30% withholding tax not only on U.S.-sourced distributions but also on redemptions or disposals.

The proposed regulations for FATCA are still being drafted by the Internal Revenue Service. They should be made public before the end of the current quarter. A draft agreement for FFIs, together with new tax forms and information returns, will then follow. With much still to do, there are doubts whether the Treasury and the IRS will meet their deadlines.

Commentators have suggested big FFIs will likely need two years from the issuance of final guidance to set up the systems and perform the due diligence to be able to comply with FATCA. For every U.S. investor, the fund needs to be able to provide the name, address and taxpayer identification number. Where the account holder is a U.S.-owned foreign entity, the same information needs to be available for each substantial U.S. owner, plus data on the value of the account and gross receipts and payments.

Some European investment managers have taken the view it is safer and simpler to exit U.S. investments. The St. Gallen-based private bank, Wegelin, has reportedly told its clients to sell their U.S. assets (according to Reuters and other industry sources). An unlimited liability partnership, Wegelin is concerned about the risks entailed by the new legislation.

However, there will be a phasing in of the new documentation and withholding requirements, dividing the process between new accounts and those already open at the beginning of 2013. “There will be a transition period where financial institutions that are going to comply will be required to determine the status of their accounts,” says Nicole Tanguy, Director, Tax Counsel, Citi – Kamran Anwar, Director, EMEA Head of Private Equity Services, Global Transaction Services, Citi: “The time period ranges from one to five years. Where all the accounts are in the names of individuals, firms will have five years. For the rest it is a maximum of two years.”

Many questions remain unanswered. An offshore fund may only know the names in which investor accounts were opened, not the beneficial owners. “Whose responsibility is it to work through possibly multiple tiers of ownership – is it down to the fund or down to the transfer or paying agents that maintain the register?” asks Ms. Tanguy. Each financial institution in the chain of ownership will be responsible for documenting the immediate level of ownership. But if any one member of the chain fails to participate in identifying the next level of ownership, a withholding tax will be imposed.

“Where shares or units in a fund are sold through a broker further down the chain, it will be down to them to do the documentation and withholding,” says Ms. Tanguy: “It is the responsibility of the entity that has the customer relationship.”

She says it is too early for firms to put together an implementation plan but it is time to evaluate the potential impact on a firm’s various funds. Foreign funds that specifically bar U.S. citizens have argued for a carve-out from the legislation. “We won’t know whether carve-outs have been offered until we see the preliminary regulations, but any carve-out is unlikely to be complete,” says Ms. Tanguy.

The sheer scale of the work needed is causing consternation in some quarters. “If you have 2 million existing accounts, you can’t hope to redocument them all in one year. But if you have passport details for each one, that may be okay,” says Ms. Tanguy: “If you have an electronic database with the nationality, country of residence and other key data already there, you may not have much more to do until year five. For preexisting accounts, firms are not required to produce paper records: electronic records are fine.

The important thing is for firms to tighten up their procedures and get the work done.”
Increasing numbers of fund managers have turned to OTC derivatives to hedge interest rates in recent years – either for longer fixed income funds or as a shorting instrument for absolute return funds. Now the Dodd-Frank Act, which is due to take effect in July this year, will move all CDS and interest rate swap contracts onto exchanges for clearing through central counterparties (CCPs).

Many firms are conducting studies to assess what the changes will mean for them. The short answer is a lot of added cost, in terms of trading desk and back-office systems, and collateral. The problem is that the detailed rules have yet to be written. The Act requires federal agencies to write more than 200 new rules, but to do so before the July 2011 deadline would be a record-breaking achievement.

Sean Quinn, UK Head of Securities and Fund Services, Global Transaction Services, Citi, says a host of issues remain to be resolved. “One of the most important is valuations,” he says. “In the future, exchanges are expected to price many of these contracts. But with OTC contracts you need to know the underlying cash flows – the cash flow curves – in order to value the contract. As an administrator, we are responsible for pricing the fund correctly and providing the raw data that goes into the client's risk model.”

The biggest decision fund managers face is whether to continue to manage their derivatives clearing in-house. Can they justify the investment in new systems for both trading desks and back office? Or should they turn to third-party providers of clearing services? With much of the Dodd-Frank rulebook promised by the end of the current quarter, it may be easier to assess the scale of the challenge – and work up the right strategy response.

**Conclusion**

The impact of the banking crisis continues to linger as authorities across the globe look to introduce new, more stringent regulations to the financial services industry. Each regulatory initiative has positive undertones as well as some more frictional, and occasionally political, implications. What is evident are the high levels of interplay between the regulatory initiatives and how they will affect the investment management industry's business models and decisions, from clearing and execution to remuneration and marketing.

Overall, the industry is headed in the right direction, but there are still many hurdles to cover for large-scale adoption of many of the regulations considered above. What is clear is that the investment management industry must take an active role. The “wait-and-see” approach industry will not achieve the coherent stance the industry needs if it is to create the positive change required to encourage investors to return to the industry.
Making Tax Reclaims a Thing of the Past

A streamlined and standardized system for accessing double tax-treaty benefits may finally be in sight.

After more than four years' work by the Organization for Economic Cooperation and Development (OECD), moves to introduce a simplified and more effective withholding tax relief process could soon pay off. Key lobby groups have now had time to provide comments to the OECD on a proposed implementation package that would, if adopted by enough countries, streamline documentation and result in tax relief at source, supported by reporting at the claimant level.

“There appears be political will to work toward a solution, but investors need to keep banging the table to get their home country tax authority to take action,” says Paul Radcliffe, a Director in Corporate Tax, EMEA, Citi, who was a member of the OECD’s Informal Consultative Group that prepared the draft implementation package. “Investors may have to accept increased reporting and greater scrutiny of claims, but the reward will be reduced cost and better clarity,” he says.

The existing process for obtaining double tax-treaty benefits is highly paper-intensive, involving a long chain of participants from beneficial owner to withholding agent. Financial intermediaries are often unwilling to service small claims on cost grounds. In addition, increasing numbers of tax authorities have been “looking through” collective investment vehicles to the end-investors. “It can be hard going for custodian banks, for claimants and for paying agents,” says Mr. Radcliffe.

The OECD solution would scrap the existing system and eliminate the certificates of tax residence on which it is based. Instead, it would introduce relief at source and simplified documentation involving a standard investor self-certification declaration (ISCD) — all supported by contracts between financial intermediaries and source-country tax authorities.

Financial intermediaries that want to benefit from the scheme would need to become authorized intermediaries (AIs). They would be permitted to pool their clients according to their withholding tax profile and claim on a pooled basis. Once a year, AIs would provide the source country authority with data on the beneficial owners. AIs would be subject to independent review.

Certification of tax residence by the home-state tax authority would no longer be required for the investor treaty claim form. However, the biggest saving is that one standardized claim form would allow the AI to determine treaty access to multiple markets of investment — and could be filed electronically.

The OECD has also come up with procedural recommendations for dealing with the issues facing collective investment vehicles. “For these proposals to become operative reality, tax authorities must agree the claim process,” says Mr. Radcliffe: “This may require pressure from the investor community.”

The European Commission is also looking at the treaty claim process and has set up a tax business advisory group — of which Mr. Radcliffe is a member — to examine the current state of withholding relief and refund procedures within the EU. “The Commission’s long-term goal dovetails with the OECD’s,” he says, “in that it envisages a simplified relief at source system.”

For some governments, the OECD’s proposals would provide greater visibility over investors than they enjoy today. That looks a modest price to pay for ending the current, cumbersome process of paper reclaims and replacing it with a simplified and standardized mechanism delivering tax relief at source.
AFRICA:
From Straggler
Is Africa the investment destination for the new decade? The Africa “story” is looking increasingly compelling – and one that big investment managers should not ignore.
One continent rode the recent world downturn with remarkable aplomb. In aggregate, African GDP growth remained positive throughout the horrors of 2008/9 and its banks suffered little in the way of backlash from the credit crisis. This cemented a decade of powerful growth that saw Africa’s collective output rise to a level similar to that of Brazil or Russia.

**Market Opinion: A Shifting Perception**

For some seasoned African investors, the resilience shown in 2008/9 came as no surprise. Chris Derksen is Head of Frontier Markets at the global investment manager, Investec Asset Management, founded in South Africa and now one of the largest third-party investors on the continent. He remarked that: “Some sectors, such as tourism in Mauritius, did take a knock,” he says, “and export-oriented economies such as Kenya were clearly affected. But, in aggregate, Africa’s growth rate never went below zero.”

As for the banking sector, he says, the average African bank is only leveraged to about a quarter of the extent common in Western Europe: “Margins are high by comparison and with banking penetration still low there is a lot of greenfield growth to come.”

Africa has witnessed a remarkable transformation in the past decade. It has gone from being a perpetual straggler in the global economic race to a potential pacesetter. In June 2010, consultants McKinsey published a study on Africa entitled *Lions on the Move*. The study points out that real GDP grew by 4.9% a year between 2000 and 2008 – more than twice as quickly as in the 1980s and 1990s.

**Growth Drivers: Ensuring Sustainability**

It is clearly no coincidence that the past decade has witnessed a commodity super-cycle that has provided a heaven-sent boost to resource-rich countries. But it is also apparent that Africa’s growth represents more than just a resource boom.

Natural resources accounted for about a quarter of the GDP increase over the period, according to McKinsey. Equally important was the upsurge in wholesale and retail trade, transportation, telecommunications and manufacturing.

“Only eight out of 53 African countries have a high commodity element to their GDP,” says Mr. Derksen: “It is the African consumer that has been one of the most important drivers of growth.” Discretionary spending, for so long the preserve of wealthier continents, has soared as Africans have migrated to cities. In 1980, just 28% of Africans lived in cities. Today the figure is 40%. Cell phone ownership, that universal signifier of emerging market growth, has taken off with more than 300 million new subscribers signed up since 2000. Africa’s combined consumer spending in 2008 amounted to $860 billion. McKinsey reckons it will hit $1.4 trillion by 2020.

“Improved governance has played a big part in this story,” says Mr. Derksen. “In the 1980s, just 10% of African nations were functioning democracies. Now the figure is about 70%,” he says. Increased stability has heralded a material reduction in foreign debt despite pockets of instability in places such as Egypt and Tunisia. “Taken together, African debt levels are currently below those of their developed country counterparts,” says Mr. Derksen. The privatization of state-owned enterprises, more business-friendly economic policies and strengthened regulatory and legal systems have followed in many countries.

**Upcoming Trends: Economic Forecast**

When the figures for 2010 emerge, they are likely to show GDP growth across the continent in excess of 5%. Is it sustainable? The skeptics point to the fact that African growth also picked up during the 1970s oil boom, only to slow sharply over the subsequent two decades. But McKinsey says it will be different this time. “The number of households with discretionary income is projected to rise by 50% over the next ten years, reaching 128 million,” says the firm.

Not surprisingly, given this backdrop, capital inflows have picked up sharply in recent years. According to McKinsey, annual foreign direct investment in Africa increased from $9 billion in 2000 to $62 billion in 2008. Relative to GDP, that is almost as large as the FDI flows into China. Portfolio flows are not far behind, judging by the recent performance of some of Africa’s larger stock exchanges.
Mr. Derksen suggests this is just the start. “I sense that we’ll see significant capital inflows into Africa over the next three to five years. To date there have been a few sophisticated long-term investors who have allocated capital to the continent and enjoyed above-average returns. It will take time for global capital allocations to fully recognize the extent of the investment opportunity in Africa. But I expect Africa to become more mainstream.”

Finding the liquidity to trade remains a big issue. “At the start of the last decade, the combined liquidity of African exchanges (ex-South Africa) was around $1 billion,” says Mr. Derksen: “It has since risen forty-fold and will continue to rise.” Nonetheless, aggregate monthly value of stock traded on African exchanges fluctuated between $4 billion and $6 billion last year (African Securities Exchanges Association). That compares with around $30 billion on the Johannesburg Stock Exchange. Outside of the big four markets – Nigeria, Egypt, Morocco and Tunisia – trading volumes are tiny.

However, exposure to Africa can be gained through a variety of other markets. “You can buy 100% exposure to Nigeria through the London Stock Exchange,” says Mr. Derksen. One of Investec’s own funds has around 15% of its money invested via the South African, Australian, Canadian and UK markets. “Some of the best African businesses are listed outside Africa, because that’s where they can raise capital,” he says.

With each new market opening, investors have a major challenge finding a suitable local custodian. While the leading global custodians provide services in the major markets – Citi, for instance, provides custody in 11 African markets, two of them through its own proprietary branch – there are often no international players present in some of the newer frontier markets. A case in point is Rwanda where the recent opening of a stock exchange was followed by an IPO. “Angola is another example,” says Mr. Derksen: “There will be a lot of scurrying around to set up a bilateral arrangement.”

With its limited liquidity, Africa is only for long-term investors that are prepared to accept the added risks that come with frontier markets. There are some rules, stresses Mr. Derksen. “It helps if you invest with a pan-African mindset,” he says: “You must get a variety of exposures across multiple markets and sectors. If you get one wrong, it will not affect your entire portfolio.”

It is also vital “to tread the ground,” he says. Accessibility of information can be a problem. “You have to understand the people and the politics,” he says: “You must not be dependent on third parties. We have bimonthly meetings to track the business environment in each country. And we travel extensively. In the past six years, our people have made two country visits a month and three meetings with managers a week.”

**Future Investment: Hunting Out Opportunity**

Where are the opportunities now? Mr. Derksen remains a fan of Nigeria and a long-term supporter of Egypt despite the current situation there. Nigeria has lagged of late but still achieved gains of nearly 17% in 2010. While Egypt returned just over 9% in 2010, political uncertainty has driven the stock market down aggressively. “In the short term, valuations and economic indicators are very attractive in the former, while the same could be said for the latter once the market has more certainty on the political leadership of that country,” he says.

He also highlights the potential in Ghana and Angola. “Ghana offers limited liquidity but the economy is one of the three or four fastest-growing in Africa and they have found oil there. Angola is a big oil exporter – and a fairly big economy. A stock exchange has been set up in Luanda and will launch at some stage. It could grow to be a $10 billion to $40 billion market very easily,” he says.

**African Investment: Pacesetting Patterns**

Of all the statistics to emerge from the McKinsey study, the most impressive, perhaps, is the projection of growth in the labor force over the coming years. By 2040, Africa could have 1.1 billion workers, overtaking both China and India. It will then be home to one in five of the planet’s young people. “The demographic structure of Africa, with its weighting towards younger people, is highly beneficial for its future growth,” stresses Mr. Derksen.

With increasing political stability, improved access to international capital, a rising middle class with discretionary spending power and the potential to capitalize on increasing demand for resources, Africa’s growth potential is clear. While global perceptions of Africa as an investment destination may be slow to change, compelling evidence suggests that such a conservative outlook merits a radical change.
CITI'S PERSPECTIVES

on the Canadian
From a fund administration perspective, managers should recognize that as assets and infrastructures grow, so do the magnitude and complexity of the job.
Prevailing Trends in the Canadian Marketplace

Although it is certainly not a brand new trend, we are seeing an acceleration in the “retailization” of funds, both by our clients and by other hedge fund companies in the marketplace.

Retailization has occurred because a number of hedge funds have reduced the initial investment commitments from their historic minimums of $250,000 or $1 million to $25,000 or, for a period of time, even as low as $5,000. The purpose of the reduction is to attract new assets from clients who have not invested in the Alternative Investments (AI) space, either because they lacked the investable assets required to meet the previous minimums or because they thought the earlier amounts were too large when weighed against their own risk profiles. At these lower-minimum levels, hedge funds are increasingly accessible to investors who are looking for returns beyond those available in traditional investments in today’s low-yield economic environment.

To an increasing degree, these retail investors are saying, “I want the potentially outsized returns achievable in the AI space and I am comfortable that I can manage the risk, financially and psychologically, of a $25,000 minimum.”

From a fund administration perspective, managers should recognize that as assets and infrastructures grow, so do the magnitude and complexity of the job. With the broadening of the client base, especially one composed increasingly of individual investors, come additional know-your-customer requirements, increased documentation and the potential for greater regulatory oversight, all of which can be a considerable drain on a fund’s professional and financial resources. A third-party administrator can take care of these operational responsibilities, thereby enabling the manager to focus on attracting and growing assets.

Of course, long-only funds have also recognized this retailization phenomenon and are aggressively responding by developing their own hedge-fund-like offerings, both to attract new investors and to manage their current assets.

We believe the trend toward retailization will continue, with traditional long-only managers and AI managers increasingly moving into each other’s space. Certainly, some AI managers will not enter the retail marketplace; they will continue to market and accept assets only from institutions or wealthy individuals because servicing those investors can be less demanding and less complex than providing investor services for retail clients. However, other AI funds will develop additional offerings for individual investors, as has occurred in Europe. At the same time, mutual fund managers will increasingly look at alternative strategies for their investment portfolios and will continue to try to launch their own funds. To the extent that they can move into the alternative space, attract retail clients and therefore acquire more assets, it would appear that this offers an opportunity for real growth.

How Fund Managers are Adapting to the Current Investment Risk Environment

Although the industry is recovering from the most brutal market conditions since the Great Depression, the pace of the financial recovery is much more sluggish than expected. Institutional and individual investors alike are understandably concerned about mitigating risk, transparency, compliance and independent valuation as never before. In this post-Lehman, post-Madoff world, fund managers are, as always, seeking to deliver the optimal returns in keeping with their clients’ specific investment profiles and their sensitivity to risk.
Today, in an environment where transparency of investments and risk mitigation are paramount, a successful investment program hinges upon having access to accurate and timely information, and fund managers are looking for a more efficient way to manage their assets, fulfill their reporting requirements and address their fiduciary responsibilities.

At Citi, we are seeing that more and more asset managers (long or short, traditional or alternative) are allocating a portion of their portfolios to explore new strategies in their continual search for alpha. At the same time, they are looking for the analytical tools to assess the success of these new, often complex investments: How do they track with the other components of the portfolio, and how are the risks being borne out?

An asset management firm, working on its own set of books with its own internal staff, might lack the specific market expertise and technological capabilities to dimension the diverse aspects of risk across an increasingly intricate portfolio, and simply delegating more employees to the task is both operationally inefficient and wasteful of the firm’s professional and financial resources. Here, the capabilities of a third-party service provider (which has clients worldwide that have implemented a multiplicity of investment strategies and which offers state-of-the-industry analytics) can deliver market-proven, best-practice-based benefits.

A great example is our Treasury Analytics product, which is our investment analytics reporting tool that delivers integrated, automated reporting on risk, compliance, accounting and performance measures across a portfolio of investments. It offers the flexibility and convenience of having a single view of all investment assets, combined with comprehensive reporting for timely, relevant portfolio information.

Treasury Analytics, which can use multiple custodians and prime brokers, helps managers spend less time compiling reports from multiple portfolio managers, and more time gaining strategic insights into their investment allocations to make better informed investment decisions. A big advantage of an automated reporting tool like Treasury Analytics is that it enables fund managers to concentrate on what they do best: attracting clients, managing their portfolios and delivering premier client service.

The Prime Growth Prospects for Asset Managers

In a word: global. Without question, the future of the asset management industry will involve cross-border investing, and all the arcane complexity that implies. To succeed in the global financial marketplace, an asset manager of any size will benefit from the capabilities of a service provider with a global footprint, extensive local market knowledge and seamlessly integrated technology to deliver end-to-end solutions from a single source.

As an example, one of our North American clients was using a local third-party asset manager to manage their assets in India and was interested in reviewing their strategy and possibly partnering with a local manager in the market itself. The client was put in touch with our Citi colleagues on the ground in India and, as a result, was exposed to several different options on how to manage those assets. In the end, by providing our client with the tools, resources and access to make an informed decision across the globe, a change was made to the third-party asset manager resulting in improved performance and a happier client.

To the extent clients can get access to resources and information on the ground, they will have an advantage in developing growth strategies around the world.
THE ROLE OF
A Central Counterparty

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Key Areas for Consideration by Lenders
The prospective role of a central counterparty (CCP) in the securities lending marketplace has been attracting increasing amounts of attention. Over the past several months trading platform providers have already or are looking to set up links with established central counterparties to provide CCP service for executing securities lending transactions on the platforms.

Also, the International Securities Lending Association (ISLA) issued a report whose title poses an intriguing question: *A Central Counterparty in the European Equity Securities Lending Market?* Although the paper, produced by a working group of borrowers and agent lenders from ISLA member firms, relates primarily to equity loans in European markets, we believe the concept of a CCP deserves a broader treatment beyond equities and Europe because introducing this structure into securities lending would have ramifications that affect global securities lending markets.

In securities lending, the current model is one in which beneficial owners (lenders), such as pension and investment funds, transact with intermediaries, banks and dealers, mostly using agents, such as custodian banks and asset managers, to negotiate and execute transactions on their behalf. The intermediaries may, in turn, lend the securities to their clients, like hedge funds, or other market counterparties. Lent securities are delivered by the lending agent to the borrower with collateral securities or cash moving in the other direction. Collateral is delivered prior to a loan being released.

According to the ISLA working group report, introducing a CCP into the market would mean that the lender has no credit exposure to the borrower and vice versa. This exposure is transferred to the CCP (or clearing member of the CCP). In principle, the standardization of counterparty credit risk through the central counterparty could facilitate wider market access (for example, to hedge funds directly, provided they could find a clearing member) creating the development of a securities lending “exchange.” Lent securities would be delivered from the lender to the borrower via their respective clearing members and the central counterparty. Collateral securities or cash would move in the opposite direction from the borrower to the central counterparty via the borrower’s clearing member. Depending on the arrangements of the central counterparty, those collateral securities would be available to the lender in the event of the failure of the central counterparty.
Drivers of Demand

Contributing to the attraction of introducing a CCP structure into securities finance were the following market drivers:

• a post-Lehman push by regulators for lending transactions to have the same CCP protection as the cash equity markets
• the ability for trading platform participants to trade with all members of the platform without the need to bilaterally approve each other or record and monitor credit exposure on open trades
• the appeal of a CCP to reduce regulatory capital exposure by borrowers in line with Basel II requirements

Despite the perceived benefits of these market drivers, we’ve identified several key areas – structural and cost-related – that should be considered before adopting a central counterparty model in the securities lending marketplace.

Structural Considerations

First of all, we’ve identified three structural challenges surrounding the CCP model.

• Legal Structure

One of the challenges relates to the legal structure of the CCP membership and the resulting relationships between the lender, the lender’s agent, the General Clearing Member (GCM) and the central counterparty.

In the current lending structure, an agent bank lends on behalf of a lender to a borrower; the borrower and the lender have a principal relationship with each other. The agent bank typically provides an indemnity to the lender as protection against losses arising in the event of a borrower default. In a CCP structure, the lender’s counterparty is no longer the borrower; it’s an intermediary who is either a clearing member or a nonclearing member, depending on the CCP. The trade actually isn’t with the CCP because the lender needs a clearing member to have the principal relationship. The lender is transferring risk to the clearing member, not to the CCP (unless the lender becomes a clearing member in their own right).

This structure may be difficult for a lender to accept if a lender has risk against a clearing member. We know the risk when a borrower or a borrower’s clearing member defaults, depending on the structure; that’s the CCPs responsibility. What is not clear is the risk to the lender should the CCP or clearing member default or become insolvent.

• Operational Structure

The key advantage of the CCP structure is wider distribution – the ability for the trading platform participants to trade with all members of the platform without the need to bilaterally approve each other or record and monitor credit exposure between them. However, that benefit depends on the borrower being able to become a direct clearing member or employ a GCM on their side of the transaction, which, in turn, depends on the CCP’s rules and/or the GCM’s credit appetite against the borrowers or lenders.

In addition to expanding distribution, CCPs can theoretically improve efficiency by centralizing billing and the collateral management process. Also, the central counterparty structure doesn’t cover all markets; the initial CCPs (e.g., LCH Clearnet, X-Clear, Eurex, etc.) are limited to Euronext markets (Belgium, France, the Netherlands and Portugal) plus Germany, Switzerland and the UK. Since many lending transactions will not go through a CCP (because they occur in geographical markets not served by a central counterparty, are traded over the counter or the borrower may not be a CCP member), market participants will need to retain their current infrastructure and run it in tandem with a CCP structure.

So for any given market there could potentially be at least three CCPs (which do not execute transactions in the same way), in addition to the normal bilateral process. Rather than simplifying securities lending, the CCP model imposes additional structures and levels of complexity onto the process, all of which will have to be adopted by the industry.
Collateral Structure

Securities lending is always transacted against collateral (cash or noncash) to mitigate counterparty risk. In the current securities lending scenario – using the agent lender structure as an example – the borrower gives the collateral to the agent lender (including margin), who places it in the lender’s collateral custody account.

In a CCP model, the borrower gives collateral to the CCP, who in turn gives it to the lender or the GCM, depending on the structure. The primary problem with the CCP structure is that sending collateral to a GCM or to the lender via a GCM creates CCP risk against the GCM or the lender because an asset has been transferred.

This need for the CCP to protect itself against borrower and GCM or lender default results in a process where the borrower and the GCM (and ultimately the lender) have to provide variation margin back to the CCP to cover price risk on the borrower’s side of the loan and on the lender’s side on the collateral received.

The question is: From where does the lender get the variation margin? As a possible solution, one of the potential CCPs is working on a model in which the collateral is held in a pledge structure for the benefit of the lender but not transferred to the lender, therefore removing the risk to the CCP in a lender default and, consequently, removing the requirement for the lender to provide margin.

Complicating matters, too, are regulatory policies. Lenders quite often are guided by local regulation (e.g., UCITS rules in Europe, ‘40 Act regulations in the U.S.), which specify what they must do if they lend their assets, what collateral can be taken for a loan, what margins have to be taken and, in some cases, where those margins have to be held. If lenders are taking collateral and giving up margin, as required in a CCP structure, are they meeting the relevant regulatory requirements? If not, will regulators have to revise the securities lending rules if they want CCP to work?

The Question of Costs

One of the biggest issues to be resolved is the potential costs of a CCP model – and who will pay them. Currently, if an agent bank lends (on behalf of a beneficial owner) securities to a borrower, just two parties are involved and the only costs are the transaction costs. In the CCP model, the trading platform (where relevant), a clearing member and a CCP will provide services in the lending transactions, and, naturally, each of them will be looking to charge for providing their services. What those additional costs (e.g., new fees, markups, add-ons, etc.) will be and who will bear them will be of particular interest to lending agents.
At Citi, from an agency securities lending perspective, our view is that the CCP model has failed to gain significant traction among participants in the securities lending market because the primary drivers for its introduction have yet to materialize. Regulators have been focusing on other components of the financial markets, although there is a widely held view that it is just a matter of time before they concentrate on CCP structures. In addition, lenders continue to prefer managing their own counterparty risk and setting their own haircuts instead of engaging a third-party intermediary. Trading levels on the existing lending platforms that use CCPs have been limited, raising the question of there being enough liquidity in these markets. Also, there must be a question on the potential size of the lending market and if enough volume will be processed through CCPs to justify the necessary investment and infrastructure to deliver a CCP model that works for the market, and for CCPs to be financially feasible.

Ultimately, the tightening of capital requirements under Basel II, and in the future Basel III, may force borrowers to move balances to CCP structures to make better use of their capital. If so, the benefits of a reduced balance sheet may drive borrowers to coerce lenders to utilize CCP structures. Under that scenario, will the borrowers pass on to the lenders any of the borrowers’ financial benefits gained through use of a CCP as an incentive for lenders to sign up to the CCP structure?

Finally – and importantly – a key component of securities lending is its bilateral nature. Over time, strong working relationships develop directly between and among market participants. Under the CCP structure, however, in markets where CCPs are linked to blind markets, this link would be lost, and with it an important factor of the market’s success.

Citi has been a long-standing member of the International Securities Lending Association. In our clients’ interests, we are actively engaging in constructive communication with other member firms, the ISLA CCP working group and representatives of CCPs to discuss the viability of the structure in the securities lending marketplace. If you would like to meet with us and offer your views, we would greatly welcome and appreciate your comments. We will continue to keep you updated on market developments.
Exchange-Traded Products – EMERGING AS AN INCREASINGLY IMPORTANT GLOBAL ASSET CLASS
The exchange-traded product (ETP) industry — including exchange-traded funds and related exchange-traded vehicles — has recently reached two remarkable milestones: more than one thousand funds with over $1 trillion AUM. Since the introduction of the S&P 500 Depositary Receipt (SPDR) ETF in 1993, the marketplace has seen steadily increasing popularity, with an accelerating growth rate in recent years.

According to the National Stock Exchange, there were 672 ETFs in 2006, 875 in 2008, 924 in 2009 and 1,099 last year. Over the same period, assets under management have likewise grown: from $433 billion in 2006 to $1.01 trillion at year-end 2010. As another measure of their increasing attractiveness to investors, net cash flow into ETFs was $119 billion in 2010, the fourth year in a row when annual inflows totaled more than $100 billion.

This growth of AUM has been sparked both by cash inflows into existing ETFs and by a steady stream of innovative products. In 2010, 223 new ETFs were launched — compared to 100 in 2009 — enabling investors to access a wide variety of regions, asset classes and investment strategies.

At this growth trajectory, many industry watchers foresee a future when ETFs overtake the traditional fund as the preeminent investment choice for average investors.
**Definition**

An ETF is an investment vehicle that typically tracks a stock market index and trades on an exchange, just like a regular stock. The key term in that sentence is “typically.” ETFs were first developed in the U.S. to make stock program trading available to retail investors, so that, like institutional investors, they could trade a basket of securities in a single transaction.

The method of creating an ETF starts when an institutional investor provides a basket of specified securities for deposit into the ETF’s portfolio. This basket generally includes most or all of the securities underlying the ETF’s index. In exchange, the institutional investor receives the equivalent value of the ETF’s shares in large lot sizes called “creation units.” Thereafter, the institutional investor (known as the “authorized participant,” or AP) may hold the shares in creation units, or sell some or all of the individual shares into the secondary market, where they are bought, sold and priced throughout the day on a stock exchange.

Technically, an ETF is an investment company (IC) registered with the U.S. Securities and Exchange Commission (SEC) – or with the appropriate regulatory agency within its home domicile – because it holds a portfolio of securities and continuously issues and redeems its shares at daily NAV, just like an open-end fund. However, many institutional and all retail investors do not acquire or redeem their shares directly at the NAV from the ETF provider, but instead buy and sell them at their market prices on the secondary market, similar to the way in which shares of closed-end funds are bought and sold.

This hybrid structure, consisting of mutual fund and closed-end fund elements, does not fit into the existing regulatory regime governing investment companies. Therefore, in the U.S. ETFs must often receive formal exemptive, interpretive, no-action and other relief from certain provisions of applicable federal securities laws before they can be brought to market. (Please note, regulatory approval, processes and timelines can be different depending on structure and domicile of incorporation; as always with any highly regulated financial product, advice from experienced legal and accounting firms is invaluable.)

**ETF/ETV – History of Innovation**

In this article, in addition to the term ETFs, we will also use “exchange-trade vehicles,” or “ETVs,” to identify those exchange-traded products that: (1) are not investment companies, (2) usually hold nontraditional portfolio assets, but (3) nevertheless use many essential features of the original ETFs.

ETFs and ETVs can take many forms. With the significant increase in the number of funds and their total net assets over the years, we have seen a corresponding emergence of innovation and diversification both in terms of the investment areas targeted by these funds and the structures of products on the market. There are now exchange-traded products that track virtually every recognizable stock market index, many bond market indexes and, as mentioned, even commodities and currencies.

The tradition of product pioneering continued last year. Among the notable innovative ETFs launched in 2010 were Van Eck Global’s “Market Vectors Rate Earth/Strategic Metals,” which invests exclusively in producers of strategic metals including so-called rare earths; the ETPS Physical Precious Metals Basket Shares, which holds a blend of gold, silver, platinum and palladium (the first precious-metals basket to be launched in the U.S.); and the first-ever “end-date” or “bullet” bond ETFs from BlackRock’s iShares and Guggenheim Partners that hold a portfolio of bonds all maturing in the same year.

Last year also saw an increased number of registrations, which are currently pending SEC approval, filed for innovations on the actively managed front by asset managers such as Alliance Berstein, John Hancock and Huntington. An increase in registrations filed with the SEC demonstrates continued support and interest for firms to add ETFs as a product suite.
General Considerations for Launch

Since the first product was introduced in 1993, the astonishing evolution and growth of the ETF/ETP industry has consisted of countless hours of product development. All of this effort, however, has served a remarkable purpose: it has brought products to market that not only fill the needs of institutional investors, but bring retail investors into an institutional space in terms of ETFs’ competitive pricing and efficiencies as investment vehicles. For asset managers considering issuing new ETFs, there are a series of stages to keep in mind. (These considerations relate primarily to launching an ETF in the U.S. As noted above, experienced legal and accounting advice is required; this article provides a general list of issues but is not a substitute for such advice.)

• Stage 1: Landscape
Before you even get to the drawing board in terms of your product’s design, it is important for an asset manager to gauge the investment interest landscape. Are there interested investors? What is the level of product demand? Who are the current competitors? What are the barriers to entry? Most importantly, will you create a product that meets the needs of your current investors?

• Stage 2: Product Structure
ETFs and ETPs are not uniformly structured; they have used a variety of forms. For example, there are ETFs in the form of unit investment trusts, such as SPDRs, as well as open-end funds, such as iShares. Currently, there are ETPs structured as grantor trusts, such as streetTracks Gold Trust, and those that use a limited partnership structure, such as United States Oil Fund (ticker: USO). There is not one preferred choice. The structure of the fund depends on a number of factors, such as the fund’s investment portfolio, and is a decision of the fund sponsor.

• Stage 3: Investment Strategy
Since ETFs are currently offered in both passive and active forms, not all products aim to replicate an index. For more traditional passive products, index selection can be important to a product’s success. Many well-known indexes have already entered into a restrictive or exclusive licensing agreement with fund managers, and therefore are not available.

Absent available well-known indices, some ETF sponsors have sought to create an index that is unique – utilizing a specific alpha or quantitative model with proven market performance. Market niche indexes have been steadily growing in popularity.

If products are planned to be constructed as active, relevant considerations can be a manager’s reputation and track record – thinking through the interconnectivity between the ability to provide daily transparency into the ETF’s holdings relating to a fund’s ability to be fairly priced and traded on the secondary market. Since active ETFs remain in an immature state of innovation, it is important to seek the advice of industry experts including legal counsel, market makers and primary market liquidity agents. Although the number of actively managed ETFs have been increasing, it is important to state that currently regulators have only approved products that offer investors full daily transparency into fund holdings. Any deviation is subject to regulatory approval.

• Stage 4: Exchange
Shares of ETFs and ETPs trade intraday, thus requiring the product to be listed with a primary exchange, such as the NYSE, NASDAQ, the LSE, Euronext or the Hong Kong Stock Exchange. It is important to choose a primary exchange that best suits your needs. Key considerations for asset managers include product support, reputation, liquidity, trading volume and cross-listing arrangements.

• Stage 5: Service Providers
The role of service providers has grown in importance in recent years; for example, portfolio valuation and NAV accuracy have undergone increased scrutiny to ensure investor protection. Settlement, back-office and clearing procedures may also be looked at closely by regulators. As ETFs continue to demonstrate increased innovation, an asset manager can benefit by establishing a partnership with a firm that can offer solutions spanning pre-to-post trade, including back and middle office, primary and secondary market trading, and liquidity solutions, and that has connectivity with major global trading exchanges.
• Stage 6: Distributor

One primary role of the distributor is to take the orders from the APs and, often, to act as the liaison between the ETF’s transfer agent and the APs. The distributor passes the order information to the transfer agent, who either creates or redeems the shares in creation units with the local depository.

• Stage 7: Authorized Participants (APs)

ETFs and ETPs operate both in a primary and a secondary market environment. Apart from the fact that the portfolio assets of an ETF or ETP can appreciate or depreciate due to market events, creation/redemption orders for shares entered by APs have a direct impact on the assets underlying an ETF or ETP. APs are the large institutional counterparties who enter into an agreement with the ETF or ETP, which permits them to participate in the creation/redemption process.

• Stage 8: Registration Process

Asset Managers will need to retain an attorney to help prepare and file the registration statement (including the prospectus and exhibits) with the SEC (or appropriate home-domicile regulatory agency) for review and comment. Counsel will also negotiate with the SEC and file amendments to the statement, as well as finalize the prospectus and other materials.

2011 and Beyond

In our view, the ETF/ETP space will continue to expand on its long-standing trends – asset growth, product innovation, global expansion – in 2011 and thereafter. In particular, we see:

• Growing Institutional Interest

Although exchange-traded funds are most commonly thought of as a retail product, institutional investors are finding that they can be helpful tools in such critical portfolio management tasks as cash equitization, transition management, rebalancing and obtaining hard-to-achieve exposures. ETF use among U.S. pension funds, endowments and foundations has grown to about 14%, according to Greenwich Associates. Despite that relatively modest share, institutions actually represent roughly half the assets invested in ETFs in the United States.

The future looks very bright for ETFs in the institutional market. Almost 55% of institutions currently employing ETFs expect their usage to increase in the next three years, including nearly 20% that expect the amount of assets dedicated to ETFs to grow by 5% - 10% in that period. Money managers are slightly more likely to predict an increase in use: 65% expect to be devoting more assets to ETFs in the next 12 months, compared with half of plan sponsors.
• Changes in Distribution
To gain share from traditional mutual funds, several fund complexes have introduced zero-commission trades on ETFs. Schwab offers free trades for 11 of its proprietary ETFs, Fidelity on 25 iShares ETFs, Vanguard on more than 60 and TD Ameritrade on more than 100 commission-free ETFs.

In the UK, the impact of changing distribution practices can be seen through the retail distribution review (RDR). A major component of the RDR initiative is putting more constraints on how shareholder servicing fees are disclosed to make them more transparent to investors.

• Increased Popularity Among Fee-Based Advisers
Some believe that ETFs will continue to be embraced by fee-based financial advisers, something that may help support their popularity. If regulators tighten up on potential conflicts of interest in the brokerage and advisory industry, more advisers are expected to move toward business models based on fees from clients rather than sales commissions on products. Fee-based advisers tend to have their own investment strategies and disciplines, and the use of easily traded, relatively low-cost ETFs may be popular among such advisors because they provide excellent liquidity and are an efficient tool to dictate asset allocation.

• Products Launched Outside North America
Several factors could contribute to the growth of ETF/ETPs outside North America. As leading issuers look to extend their footprint outside their home domicile, prospects for growth are especially strong in the Europe, Asia and Latin American markets. At the same time, products domiciled in Hong Kong are flourishing and are being offered throughout Asia. And regulators in local jurisdictions around the world may adjust their policies to promote ETF creation, trading and domiciliation. Promoting global access, the industry is increasingly looking at ways to assist in streamlining liquidity in fragmented markets and promoting and creating global access products tied to ETFs.

Now and in the Future
In 2011 and beyond, we expect that ETFs and their related products will continue to evolve into very important, increasingly mainstream vehicles within the investment community’s allocation tools. Broadening investment demand and product innovation on a global scale could open up new avenues for growth for the asset class for years to come.
The Industry by the Numbers

**Mutual Funds**

*Worldwide Mutual Fund Assets*
Trillions of U.S. dollars, end of quarter

![Graph showing worldwide mutual fund assets from 2007 to 2010](graph1)


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**Worldwide Assets of Equity, Bond, Money Market and Balanced/Mixed Funds**
Billions of U.S. dollars, end of quarter

![Graph showing worldwide assets of equity, bond, money market, and balanced/mixed funds](graph2)

**Percent of Worldwide Mutual Fund Assets by Type of Fund, 2010:Q2**

Note: Other/unclassified includes the total net assets of Ireland and the Netherlands.

By region, 56% of worldwide assets were in the Americas in the second quarter of 2010, 32% were in Europe and 12% were in Africa and the Asia and Pacific region.

**Percent of Worldwide Mutual Fund Assets by Region, 2010:Q2**

Note: Components do not sum to 100% because of rounding.

The number of mutual funds worldwide stood at 65,971 at the end of the second quarter of 2010. By type of fund, 40% were equity funds, 22% were balanced/mixed funds, 18% were bond funds and 5% were money market funds.

Securities Lending

**All Bonds**

![Graph showing utilization and lendable amounts over time for All Bonds.](image)

Source: [www.dataexplorers.com](http://www.dataexplorers.com)

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**All Equities**

![Graph showing utilization and lendable amounts over time for All Equities.](image)

Source: [www.dataexplorers.com](http://www.dataexplorers.com)
This report has been prepared by members of Citi ICG Analytics and Prime Finance and is not a research report. This report does not constitute advice on investments or a solicitation to buy or sell any financial instrument.

**AUM, Performance**

Data as of November 2010

- Composite hedge fund performance, equal-weighted across funds, was mixed in November 2010 with losses/gains ranging from -0.3% to +0.2%. Returns were lower than last month’s (October 2010 +1.12% to +2.15%) and below performance year-ago November 2009 (+1.34% to +1.66%). Year-to-date performance in 2010 ranged from +2.77% to +7.37%.

- Markets were somewhat volatile as uncertainty surrounding deflation/inflation scenarios has yet to subside. Across broad economic measures, the U.S. industrial production grew by 0.4% in November, after a downwardly revised 0.2% decline in October and China’s inflation rate jumped to 5.1% in November from the previous month’s 4.4%. In Britain the unemployment rate rose to 7.9% and the inflation rate to 3.3%.

- Hedge fund indices generally outpaced major equity market indices in November: the MSCI World Index (-2.1%), S&P 500 0.0%, MSCI Emerging Markets (-2.6%) and the Bond markets (Citi U.S. BIG Index -0.5%). However, a bright spot was the U.S. dollar index which returned +5.1%.

- Industry AUM, estimated at $2.41t trillion according to HFN, was slightly up from October’s $2.407 trillion - posting the high mark of 2010. November AUM is up 11% year-to-date. Depending on the source, estimates of industry AUM ranges from $1.8 to $2.41 trillion compared to the Q2 2008 peak range of $1.9 to $3.0 trillion.

**Industry Performance: November 2010/YTD**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Nov-10</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>HFRX EqWt</td>
<td>-0.3%</td>
<td>7.1%</td>
</tr>
<tr>
<td>HFRI EqWt</td>
<td>0.3%</td>
<td>7.4%</td>
</tr>
<tr>
<td>HFN EqWt</td>
<td>0.2%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

Source: HedgeFund.net (HFN)

**Monthly Industry AUM and Performance**

Source: HedgeFund.net (HFN); Hedge Fund Research, Inc. © 2010; www.hedgefundresearch.com

**Note Pad:**

- MSCI World Index: -2.1% November; +4.6% YTD
  MSCI Emerging Markets Index: -2.6% November; +11.2% YTD

- S&P 500: +0.0% November; +7.9% YTD

- Citi U.S. BIG Index: -0.5% November; 7.5% YTD

- S&P GSCI: +1.1% November; -0.3% YTD

- U.S. Dollar Index: +5.1% November; +4.3% YTD

- FN Country Indices November/YTD:
  Brazil: -0.12%/+10.39%
  Russia: +1.95%/+13.35%
  India: -5.46%/+10.72%
  China: +0.87%/+6.21%
Change in Industry Assets
Data as of November 2010

- According to HFN, the estimated change in industry assets for November 2010 was +$4.73 billion. Gains stemmed solely from investor inflows (+$13.04 billion) as performance accounted for losses of -$8.31 billion.

- November 2010 is the first month since June 2010 – and the third in 2010 – to see a decrease in industry assets due to negative performance. However, year-to-date Performance gains are positive at +$159.5 billion and account for the majority of the Industry AUM increase this year.

- Net investor inflows of +$13.04 billion marked the fifth consecutive month of net inflows – a steady sign of more positive sentiment after choppy flows in the first half of the year. Year-to-date net investor flows are estimated at $79.3 billion – up from (-$118.9 billion) YTD-09 but down from the +$148 billion seen May - Nov 2009 (the period posted the large 2008/2009 outflow).

- HFN estimates total industry AUM at $2.41 trillion for November 2010, slightly up from October 2010 – and the fifth consecutive month-over-month gain. YTD, Industry AUM is estimated up +11% or roughly +$239 billion (Performance: +$159.5 billion; Net Investor Flows: +$79.3 billion).

Composition of Change in Assets:
November 2010 Amounts in ($ bn)

| Source: HedgeFund.net (HFN) |

Note Pad:
- The Citi Prime Finance calculation for end-October gross leverage (as measured on a mean basis) was 1.81x, up from 1.80x at end-October

- Gross leverage (mean); defined as sum of (LMV + abs SMV)/Net Equity
## Hedge Fund Stats by Strategy

Data as of November 2010

### Hedge Fund Strategy Breakdown by Assets

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convert Arb</td>
<td>1.7%</td>
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<tr>
<td>CTA/Managed Futures</td>
<td>12.7%</td>
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<tr>
<td>Dedicated Short Bias</td>
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<tr>
<td>Distressed</td>
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<tr>
<td>Emerging Markets</td>
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<tr>
<td>Equity Long/Short</td>
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<td>Equity Market Neutral</td>
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<td>Event Driven</td>
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<tr>
<td>FI Arbitrage</td>
<td>10.1%</td>
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<tr>
<td>Global Macro</td>
<td>20.8%</td>
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<tr>
<td>Multi-Strategy</td>
<td>4.3%</td>
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### Hedge Fund Strategy Breakdown by Number of Funds

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<tr>
<th>Strategy</th>
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<td>Dedicated Short Bias</td>
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<td>Distressed</td>
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<tr>
<td>Emerging Markets</td>
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<tr>
<td>Equity Long/Short</td>
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<td>Equity Market Neutral</td>
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<td>Global Macro</td>
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<td>Multi-Strategy</td>
<td>4.8%</td>
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Source: Citi ICG Analytics

### Hedge Fund Performance by Strategy

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<tr>
<td>Dedicated Short Bias</td>
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<tr>
<td>Distressed</td>
<td>0.3%</td>
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<tr>
<td>Emerging Markets</td>
<td>-0.4%</td>
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<tr>
<td>Equity Long/Short</td>
<td>0.5%</td>
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<tr>
<td>Equity Market Neutral</td>
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<tr>
<td>Event Driven</td>
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<tr>
<td>FI Arbitrage</td>
<td>0.5%</td>
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<tr>
<td>Global Macro</td>
<td>-0.1%</td>
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<tr>
<td>Multi-Strategy</td>
<td>0.1%</td>
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</table>

Source: Citi ICG Analytics

### Hedge Fund Leverage Ratios by Strategy

Gross Leverage (Mean): Defined as the sum of (LMV + abs SMV)/Net Equity

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<tr>
<th>Strategy</th>
<th>Leverage</th>
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<td>Global Macro</td>
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<tr>
<td>Multi-Strategy</td>
<td>5.1</td>
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</tbody>
</table>

Source: Citi Prime Finance

Note: Hedge fund data is self-reported; each calculation is based on the respective data from funds who have reported for the current period.
Feedback Form

Please fax to: 212-816-7812/denise.grant@citi.com

We are constantly seeking to improve the quality and relevance of IMR. Please spare a few moments to answer the questions below and return to us.

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Company: ____________________________________________________________________________________________________________
Position: _____________________________________________________________________________________________________________
Tel: ______________________________ E-mail: ____________________________________________________________________________

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Comments: _________________________________________________________________________________________________________
____________________________________________________________________________________________________________________

Is the content relevant to you?  ☐ Always  ☐ Mostly  ☐ Occasionally  ☐ Never

Comments: _________________________________________________________________________________________________________
____________________________________________________________________________________________________________________

Which topics would you like to see discussed in the future?

☐ Strategic/forward-looking  ☐ Liquidity  ☐ Risk management  ☐ OTC derivatives
☐ Collateral management  ☐ Distribution  ☐ Emerging markets  ☐ Outsourcing
☐ Regulation  ☐ Alternative investments  ☐ Asset pooling  ☐ Foreign exchange
☐ Securities lending

Comments: _________________________________________________________________________________________________________
____________________________________________________________________________________________________________________

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How many people in your business usually read IMR?  ☐ 1  ☐ 2 - 3  ☐ 4 - 5  ☐ 5+

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Company:____________________________________________ Company:___________________________________________
Position:____________________________________________ Position:___________________________________________
Address:____________________________________________ Address:___________________________________________
Tel:_________________________________________________ Tel:_______________________________________________
E-mail:____________________________________________ E-mail:____________________________________________

Thank you.

The information submitted on this form is confidential and will not be shared with any third parties.
## Calendar of Events

### FEBRUARY:

<table>
<thead>
<tr>
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<th>Event</th>
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<tr>
<td>11</td>
<td>Global Investor/ISF Magazine Master Class Series</td>
<td>Dubai</td>
</tr>
<tr>
<td>13 – 16</td>
<td>17th Annual Beneficial Owners’ International Securities Lending Summit</td>
<td>Scottsdale, AZ</td>
</tr>
<tr>
<td>13 – 16</td>
<td>National Investment Company Service Association (NICSA) Annual Conference and Expo</td>
<td>Florida, USA</td>
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<tr>
<td>15 – 18</td>
<td>International Transfer Agency Summit</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>16 – 17</td>
<td>SuperReturn Latin America</td>
<td>Sao Paulo, Brazil</td>
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### MARCH:

<table>
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<tbody>
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<td>3</td>
<td>Hedge Funds Care</td>
<td>New York, USA</td>
</tr>
<tr>
<td>15 – 16</td>
<td>PEI Emerging Markets Forum</td>
<td>New York, USA</td>
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<tr>
<td>15 – 16</td>
<td>ALFI Spring Conference</td>
<td>Luxembourg</td>
</tr>
<tr>
<td>23 – 25</td>
<td>Barron’s Top Independent Advisors Summit</td>
<td>Florida, USA</td>
</tr>
<tr>
<td>27 – 30</td>
<td>Investment Company Institute (ICI) Mutual Funds and Investment Management Conference</td>
<td>California, USA</td>
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### MAY:

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1</td>
<td>AIMA Canada</td>
<td>Toronto, Canada</td>
</tr>
<tr>
<td>1 – 4</td>
<td>GAIM Operations</td>
<td>Cayman</td>
</tr>
<tr>
<td>4 – 6</td>
<td>Investment Company Institute (ICI) General Membership Meeting</td>
<td>Washington, DC, USA</td>
</tr>
<tr>
<td>10 – 11</td>
<td>IFC Global Private Equity Conference</td>
<td>Washington, DC, USA</td>
</tr>
<tr>
<td>11</td>
<td>Global Investor/ISF Magazine Master Class</td>
<td>Turkey</td>
</tr>
<tr>
<td>11 – 13</td>
<td>Skybridge Alternative Conference (SALT)</td>
<td>Nevada, USA</td>
</tr>
<tr>
<td>18 – 20</td>
<td>Canadian Pension &amp; Benefits Institute (CPMF) Annual Conference</td>
<td>Vancouver, BC Canada</td>
</tr>
<tr>
<td>19</td>
<td>Hedge Funds Care</td>
<td>Illinois, USA</td>
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</tbody>
</table>