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SECURITIESLENDINGTIMES

ISSUE091
10.12.2013
TUESDAY
securitieslendingtimes.com

Northern Trust extends mandate with UK government pension scheme

Northern Trust has re-secured a mandate with UK government pension scheme Strathclyde for the fourth consecutive term.

Strathclyde is the largest local government pension scheme in the UK by asset size.

Under the terms of the agreement, Northern Trust will continue to provide global custody, securities lending, cash management and foreign exchange services for the fund's £13.7 billion in pension assets, with the addition of tailored investment risk and performance services.

Richard McIndoe, head of pensions at Strathclyde, said: "Northern Trust understands our specific requirements and through their range of high-quality tailored solutions continues to demonstrate their commitment to the local government pension sector."

"Our relationship with the team at Strathclyde spans more than 15 years and we are truly delighted to continue to support them in the years ahead," said Penelope Biggs, head of Northern Trust's institutional investor group.

"Our dedicated local government pension fund client service team, our information delivery portal Passportand the evolution of our institutional governance services product suite are designed to support our local government pension fund clients as they face increasingly complex investment and administration challenges and operate in an evolving regulatory environment."

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OneChicago volume rises 30 percent year-on-year

Equity finance exchange OneChicago has announced that its volume for November 2013 was 629,935—a drop from the 747,797 recorded in October.

However, volume year-on-year increased by 148,211, or 30.77 percent (November 2012 volume: 481,724)

"The record year-to-date volume underscores that the combination of a complex regulatory environment and a market with tighter capital has an increasing number of discerning investors turning to these products as vital components of their overall portfolios," said David Downey, CEO of OneChicago.

Other November highlights included open interest, which stood at 635,637 contracts on the equity finance exchange at close-of-market, up 19 percent year-on-year.

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Eurex repo rises year-on-year

Eurex Repo, which operates Swiss Franc Repo, Euro Repo and GC Pooling markets, reported in November 2013 for all Eurex Repo markets an average outstanding volume of €230.3 billion, rising from the €226.4 billion recorded in November 2012.

The secured money market GC Pooling recorded an average outstanding volume of €160.5 billion (November 2012: €154.2 billion). The Euro Repo market reached an average outstanding volume of €41.5 billion, an increase of 14 percent year-on-year. The Swiss Franc Repo market reached €28.3 billion

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Northern Trust extends mandate with UK government pension scheme

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Northern Trust provides custody and related services to approximately 35 percent of all UK local government pension schemes and has serviced clients in the segment since 1996. It was also recently named as one of six custodians listed by National LGPS Frameworks from which local government pension schemes can procure custody and related services.

"We understand local government pension schemes face unique challenges and being part of the Framework Agreement, under which local government pension schemes can benefit from pre-agreed tariffs and services underlines our continued commitment to the sector," said Douglas Gee, head of institutional sales at Northern Trust. "Through our retirement solutions practice, we continue to look for innovative ways to invest in the depth and complexity of services we can offer pension funds."

OneChicago volume rises 30 percent year-on-year

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There were 607,709 exchange futures for physicals (EFPs) and blocks traded, and November 2013 EFPs and blocks activity represented $3.2 billion in notional value.

Fifty-one percent of November 2013 month-end open interest was in OCX.NoDivRisk products. The OCX.NoDivRisk product suite is an equity finance tool, which removes dividend risk for customers carrying equity delta exposure through derivatives.

Eurex repo rises year-on-year

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The group also recorded a year-on-year decline for contract volume on its international derivatives markets.

In November 2013, the international derivatives markets of Eurex Group recorded an average daily volume of 7.4 million contracts (November 2012: 7.5 million).

Of those, 4.9 million were Eurex Exchange contracts, and 2.5 million contracts were traded at the US-based International Securities Exchange (ISE). In total, 103.4 million contracts were traded at Eurex Exchange and 51.2 million at ISE.

At Eurex Exchange, the equity index derivatives segment totaled 43 million contracts (November 2012: 49.3 million). The future on the EURO STOXX 50 Index recorded 16.3 million contracts. The options on this blue chip index totalled 15.9 million contracts. Futures on the DAX index recorded 1.9 million contracts while the DAX options reached another 3.2 million contracts.

The equity derivatives (equity options and single stock futures) segment at Eurex Exchange reached 24.9 million contracts (November 2012: 25.1 million).

Equity options totalled 15.2 million contracts and single stock futures equalled 9.7 million contracts.

Eurex Exchange's interest rate derivatives segment totalled 34.4 million contracts (November 2012: 34.4 million). The Euro-bund-future reached 12.8 million contracts, the Euro-bobl-future 9.9 million contracts and the Euro-schatz-future 6 million contracts.

OCC cleared contract volume up in 2013

The Options Clearing Corporation, the equity derivatives clearing organisation, has confirmed that cleared contract volume in November reached 318,233,056 contracts, a 6 percent decrease from the November 2012 volume of 339,206,527.

Despite this monthly volume decline, OCC reported a year-to-date increase in options, futures and securities lending activity. OCC's year-to-date total cleared contract volume reached 3,844,949,842 contracts in November, up 3 percent from 2012.

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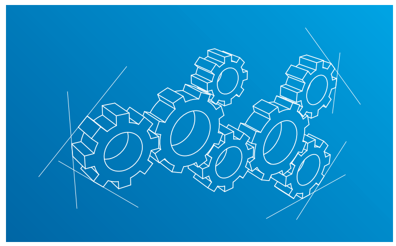

The firm's securities lending CCP activities saw an 18 percent increase in new loans from November 2012 with 85,810 transactions last month. Year-to-date stock loan activity is up 27 percent from 2012 with 1,140,434 new loan transactions in 2013. The average daily loan value at OCC in November was 76,701,389,064, marking the highest average notional value to date.

BSE cuts two securities from SLB segment

The Bombay Stock Exchange has disallowed two securities, Dena Bank and Vijaya Bank, from being lent or borrowed in its securities lending and borrowing segment.

The exchange sent out a circular informing members that two securities have ceased to fulfill eligibility criteria in accordance with SEBI guidelines, and will not be available for trading in the SLB segment with effect from 2 December 2013.

In May of this year, the Indian regulator announced that it would increase the number of stocks allowed to be borrowed and lent, in efforts to ramp up the securities lending market in the country.

Stocks that fulfill certain criteria, such as an average monthly trading turnover of at least Rs 100 crores ($17.8 million), were allowed to be borrowed and lent out.

It is not the first time that the regulator has attempted to relax what some as seen as particularly severe rules. In November 2012, the board stated in a circular that lenders and borrowers of shares could carry forward their positions up to three months, instead of one month as is the current norm.

The "roll-over facility" states that any lender or borrower that wishes to extend an existing lent or borrow position shall be permitted to roll-over such positions for three months, although rollover shall not permit netting of counter positions.

SEBI also indicated the introduction of liquid index exchange traded funds as eligible for trading, with the ETF deemed liquid provided it has traded on at least 80 percent of the days over the past six months and its impact cost over the past six months is less than or equal to 1 percent.

October positive for hedge fund inflows

Multi-strategy hedge fund flows outpaced all others in October while macro strategies continued to attract allocation, according to eVestment.

In October, investors allocated heavily to hedge funds for the fourth consecutive month. An estimated $9.3 billion was added during the month totalling $56.4 billion during the four-month streak. October's performance gains increased assets under management by an additional $47.6 billion.

The estimated asset weighted performance of 1.74 percent is the industry's largest since December 2010. With $2.802 trillion in assets under management, the industry is nearing its all-time pre-financial crisis peak.

Investor interest in equity hedge funds appears to have turned positive with another month of elevated inflows in October. After 24 months of negative investor sentiment, which appears to have ended in June, $18.4 billion has been allocated in the ensuing four months, pushing 2013 flows into positive territory.

Zürcher Kantonalbank joins EurexOTC Clear

Zürcher Kantonalbank has joined EurexOTC Clear as a clearing member. The number of participants on EurexOTC Clear now stands at 19.

Eurex is a German derivatives exchange that covers major and alternative asset classes. The Swiss bank provides OTC derivates clearing in its prime services offering.

Felix Oegerli, head of short term interest rates and prime finance at Eurex, said: "EurexOTC Clear offers Zürcher Kantonalbank and our clients with an efficient access to interest derivative clearing which means they meet regulatory requirements without major investment. We are pleased to welcome Zürcher Kantonalbank as a new clearing member."

Matthias Graulich, head of business relations and OTC development at Eurex, said: "Connecting one of Switzerland's largest banks reinforces our presence in this important market."

Pension funds anxious for good steering

An annual survey of pension funds' engagement with investee companies shows continued growth in the desire from pension funds for good quality stewardship of their investments. However, this does not appear to be mirrored in the pension fund adviser industry.

Pension funds responding to the survey were nearly unanimous (96 percent, up from 93 percent in 2012) in their view that institutional investors, including themselves, have stewardship responsibilities that include engaging with companies and voting shares.

The perceived financial value of this is borne out by 82 percent of respondents agreeing that environmental, social and governance factors can have a material impact on their fund's investments in the long-term. Only 6 percent disagreed with this.

There has been a 30 percent increase in pension fund signatories to the Stewardship Code since the beginning of 2013. The vast majority of responding funds had incorporated their stewardship expectations within their Statement of Investment Principles (SIP).

This clear understanding of their stewardship responsibilities is feeding through to their selection of asset managers—71 percent of respondents indicated they take stewardship policies and activities into account when selecting asset managers.

The survey findings also indicated that other areas of the investment community are failing to demonstrate their commitment to the Stewardship Code. Only 25 percent of survey respondents were able to say that their investment consultants had raised the issue of stewardship with them this past year and in only 17 percent of those cases did respondents say that their investment consultants had suggested signing up to the Stewardship Code.

Joanne Segars, the National Association of Pension Funds's chief executive, said: "The vast majority of respondents to our survey believe good quality stewardship is important in protecting and enhancing the value of their investments. I am encouraged by the indications that the funds are continuing to embrace their responsibilities and drive a market for stewardship—I trust their investment managers will answer this challenge.

"Three years on from the formal introduction of the Stewardship Code, it is time all those who have signed the code support both its spirit and letter. Pension funds should be able to rely upon their key advisers to do so and therefore I urge the consultant community to reflect upon the evidence in our survey, which demonstrates the importance attached to stewardship by pension funds, and respond accordingly. "

A full copy of the NAPF Engagement Survey 2013 can be found on the NAPF's website.

New help for HK's electronic trading rules

Markit will provide members of the Asia Securities Industry and Financial Markets Association (ASIFMA) an online solution to help compliance with new electronic trading rules from Hong Kong's Securities and Futures Commission (SFC).

The new rules take effect on 1 January 2014 and require Hong Kong-licensed brokers to attest that their electronic trading systems are properly supervised, tested and risk managed. The rules also require customers to acknowledge that they understand the algorithms and other technologies used by their brokers.

Markit will use its counterparty manager technology to provide a solution that aims to help financial institutions exchange the information required under the new rules easily and efficiently.

Using the Markit counterparty manager regulatory module, broker-dealers will upload their answers as required in the questionnaire and circulate them to their buyside counterparties. Buyside firms will be able to review the answers from each broker-dealer and electronically acknowledge that they have done so.

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The right securities – at the right place – at the right time

This acknowledgement will be transmitted directly to their counterparties, allowing sellside institutions to see which customers have fulfilled their compliance requirements.

George Molina, senior vice president and director of Asian trading at Franklin Templeton Investments, said: "For several months now the Asia TraderForum buyside industry group has been seeking an efficient solution to facilitate compliance with the SFC's new electronic trading rules. We are pleased the industry has selected a single platform to assist us in managing the process."

US Airways Group at top of the shorting pile

SunGard Astec Analytics released its top 10 hottest stocks from a securities lending perspective, which gave US Airways Group the top spot.

"As news of the DOJ agreement continues to dominate headlines for US Airways Group (LCC), the week beginning 18 November saw its share price pull back a little, although it managed to squeeze out a positive session [on 22 November]," said a statement from SunGard.

On the short selling front, the securities lending numbers from SunGard's Astec Analytics seemed to show a clear pattern. The number of LCC shares being borrowed continued to build, up an additional 12 percent for an overall increase of 175 percent since the beginning of November, hinting that those on the short side may see the share prices gains as somewhat overheated.

Second in the top 10 was Advanced Micro Devices, which saw its share price ease back slightly on the week beginning 18 November, even as news emerged it would be receiving $3.1 million from the US Department of Energy as part of the DOE's extreme-scale computing programme.

"In addition, a battle of computer consoles looks set to come underway over the Christmas period, with Sony's PlayStation 4, which uses AMD chips, and Microsoft's Xbox One set to compete of the gift-giving season."

"Meanwhile, on the sec lending front, volumes actually seem to be on the decline overall, with the number of AMD shares borrowed falling about 8 percent in the week starting 18 November. Likewise, higher levels of short covering seem to be taking place, with the total number of closed loans in the week beginning 18 November more than double the number of new loans opened."

Opko Health, Polypore International, and Tesla Motors took places three, four and five respectively. Twitter and Royal Mail also made the top 10, with SunGard stating that relatively muted borrowing meant that drawing too much conclusion about short-selling activity is perhaps hasty at this point, "particularly as the cost of borrowing having lost its initial levels in the first days of trade has been holding steady ever since."

The Royal Mail Group has been in the news recently, as a parliamentary committee began an inquiry into the reasoning behind the company's listing price, seen by many as too low following the large gains made in the first days of trade.

Meanwhile, data from Astec Analytics has strengthened the early perspective that short sellers were not betting against these gains, with borrowed volumes now only one-tenth of the levels at the end of October, now at levels that would suggest the short side has little to no real interest in the stock.

SEC charges Charles Langston

The US Securities and Exchange Commission has brought a complaint against Charles Raymond Langston III, charging him with insider trading and illegal short selling.

The SEC alleged that Langston conducted insider trading in advance of a public announcement that significantly decreased the price of AutoChina International Ltd's stock.

Langston, the complaint read, received material, non-public information concerning a registered follow-on offering of AutoChina's stock and then used that information to sell short 29,000 shares of AutoChina in advance of the company's public announcement on 24 March 2010 that it had completed the offering.

Langston made more than $193,108 in trading profits based upon the material, non-public information.

Langston is a resident of Miami Beach, Florida, who actively traded securities through numerous accounts owned by CRL Management and Guarantee Reinsurance at several broker-dealers.

It has been reported that he has settled with the SEC by way of paying a fine, and neither admitted nor denied the charges.

Eurex to launch Taiwan Exchange product

The Taiwan Futures Exchange (TAIFEX) and Eurex Exchange have confirmed their plan to launch the Eurex / TAIFEX Link on 15 May 2014. With this link, Eurex Exchange will list TAIEX futures and options as daily expiring futures on Eurex Exchange. Derivatives on the TAIEX index are one of the most heavily traded Asian equity index contracts.

The cooperation has also been approved by Taiwan's regulator, the Financial Supervisory Commission. They stated that they encourage the development of mutually beneficial endeavours of this kind.

Dr Tony Fan, TAIFEX chairman, said: "We are excited about our tie-up with Eurex and the launch of the link, which enables global investors to trade TAIEX futures and options after Taiwanese market hours. The ability to transfer open positions to TAIFEX will also enhance the efficiency and increase the liquidity and depth of Taiwan's derivatives market. This cooperation is a win-win for our two market places."

Andreas Preuss, CEO of Eurex, said: "With this link, we further broaden our presence in Asia and complement our global product suite. Our members will benefit from direct access to one of the most successful index derivatives contracts in Asia, while Taiwanese market participants will be able to trade Taiwan's most liquid index derivatives contracts during Taiwanese after hours. This will also attract new customers for TAIEX products outside of Taiwan."

The link will further increase the liquidity and efficiency of the Taiwanese derivatives market. In 2013, the average daily volume of TAIEX was around 95,000 futures contracts and 455,000 options contracts. The options are the fourth most heavily traded index derivatives contract in the Asia-Pacific region.

BNY Mellon ramps up collateral management

BNY Mellon is enhancing its AccessEdge portal via a new link with Bloomberg to help clients further optimise their collateral management.

BNY Mellon's AccessEdge portal connects dealers with investors, enabling real-time collateral transfers for repurchase agreements, securities lending, OTC, central counterparty and other collateralised transactions.

The connectivity allows collateral receivers and providers to instruct collateral trades from the Bloomberg Professional service. By leveraging Bloomberg's straight-through processing services, AccessEdge enables clients to consolidate multiple deal confirmations into a single group instruction. The link will only be available to BNY Mellon's clients outside the US.

Staffan Ahlner, managing director of global collateral services at BNY Mellon, said: "The big attraction of this connectivity for our clients is to reduce post trade risks and improve the post trade efficiency. It will help them grow their business more efficiently in all securities finance markets, while minimising their investment in back-office infrastructure and technology. We will continue to invest in technology and infrastructure to offer our clients secure and innovative ways of managing the growing collateral universe."

Future liquidity

Short-sellers could arguably increase their profits by shorting single-stock futures rather than engaging in securities lending. So why aren't they doing so? SLT takes a look

A single-stock future (SSF) is a contract to facilitate the exchange of shares for a price agreed in advance for a delivery on a specified future date. The contracts are traded on an exchange. The buyer hedges on a price rise and the seller on a fall. Unless the share price remains as it was when the contract is signed, one or the other of the two parties will benefit from the deal, while the other makes a loss.

The prudence of a single-stock future investment is determined in accordance with the standard theoretical pricing model for futures. The only underlying factor in its success is the position of the stock on the date agreed between the two parties.

The value of the SSF contract is nil upon establishment. This value changes to reflect the increase or decrease in the price of the stock, minus the originally established cost of the futures contract.

By convention, SSFs are traded in batches of 100. They come without voting rights or dividend expectations—because they are futures contracts they are traded on margin—but crucially they are not subject to the same short selling limitations as shares.

They are predominately traded in the South Africa, the US and the UK. The largest SSF market in the world is in South Africa, where more than 700,000 contracts are traded daily.

Out of favour

In the 1980s in the US, SSFs were disallowed from all exchange listings. The Commodity Futures Trading Commission and the Securities and Exchange Commission could not agree which body was responsible for the regulation of the instruments.

Following the Commodity Futures Modernization Act in 2000, a joint jurisdiction plan was shaped, and the first SSFs were traded in the US in late 2002.

Initially, two exchanges offered the product, although one has since closed. OneChicago, the remaining market, enjoyed record growth in November, surpassing the 8.3 million mark in year-to-date volumes.

The volume increase, 31 percent over November 2012, was largely driven by participants diversifying their holdings using SSFs. "The record year-to-date volume underscores that the combination of a complex regulatory environment and a market with tighter capital has an increasing number of discerning investors turning to these products as vital components of their overall portfolios," said David Downey, CEO of OneChicago, in a statement.

Supporters of SSFs believe that the instruments have advantages over securities lending transactions. Thomas Halikias of Light Horse Market Solutions says: "Since the SSF market matches both the lender and borrower directly, funds often get improved pricing over what their prime brokers may offer. Additionally, there are select opportunities to be paid to replace a short equity position with the corresponding short equity futures position."

In the futures market, there are no lending fees. Because traders in SSFs know in advance the date by which the stock must be returned, the nature of the market eliminates the risk that a securities loan will be called in a higher value than when it was borrowed.

To trade in an SSF does not specifically require registration with the Commodity Future Trading Commission. Exemptions are available from the commission for most equity-based strategies.

Short sellers could arguably increase their profits by shorting single-stock futures rather than engaging in securities lending. Why aren't more of them doing it? Halikias believes that this is due, in part, to ignorance of the opportunity that SSFs can offer, as well as a conflict of interest for prime brokers.

"Unfortunately, most prime brokers or custodians don't promote the market, they're worried about losing stock lending and financing revenues. The product's fixed term can be an issue for some strategies, but it's mostly because managers don't know about the opportunities."

Another bonus in single-stock futures for US equity holders internationally is that the use of SSFs can significantly reduce US dividend withholding tax exposure. Fund managers can finance US equities and improve net equity and portfolio retentions considerably. The US Treasury's 4 December 2013 proposed legislation regarding "equity linked investments" implies that the simplicity of the SSF 1C contract, solely requiring future delivery of the underlying equity, provides no payment or dividend adjustment to be withheld.

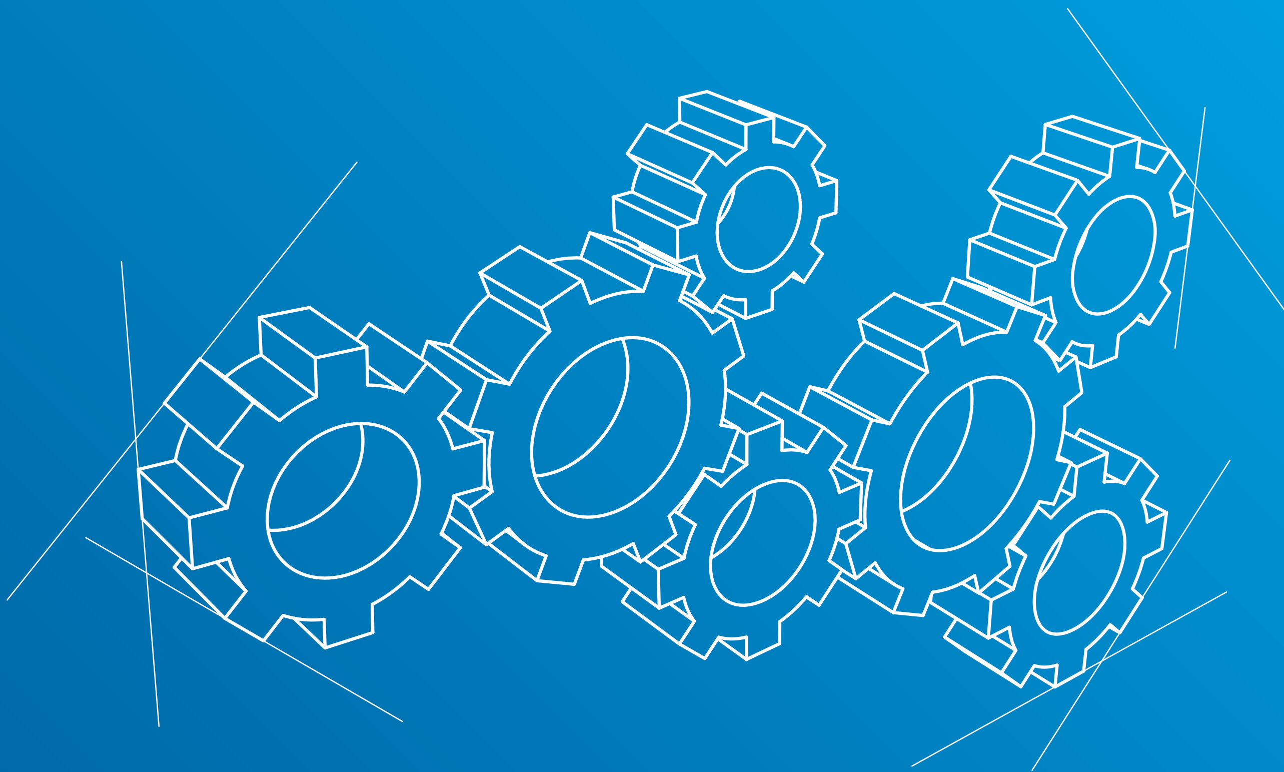
Halikias says: "The futures economics don't warrant withholding; they are completely indifferent to the dividend process. We've discussed this with the US Treasury and believe the recently released 2013 proposed regulations support this view."

SSFs may benefit organisations in ways that are not immediately obvious to portfolio and asset managers. As opposed to counterparts and public exchange transactions, with the enhanced credit rating of the Options Clearing Corporation structure, Basel capital reporting can be improved.

Implementing a trading platform for SSFs can take time, but for firms with options or futures activity, the trading and risk mechanisms are similar.

When the framework has been laid, trading in SSFs is as simple as any other institutional futures transaction. Existing risk accountancy capabilities can be easily applied to SSFs, and so implementation costs can be kept to a minimum.

Single-stock futures are a valuable commodity in a market struggling for alternative sources of capital and could prove to be the next big success story in the years ahead. **SLT**



A new approach

State Street's Leslie Levine, Glenn Horner and Jeffrey Trencher introduce new metrics for comparing securities lending and asset allocations

Since their introduction, securities lending programmes have proved to be significant sources of income to institutional investors. Like all investment strategies, the utility of these programmes relies on a thorough understanding of associated risks. Although risk management strategies for securities lending have generally been effective with regards to borrower default risk, the industry has focused greater attention on liquidity risk since the global financial crisis. The crisis also re-focused lending agents and their clients on a long-standing goal: developing a tool that enables investors to evaluate the risks and benefits of securities lending generally, and specifically with respect to other investment opportunities.

In a recent report, analysts at State Street (including the authors of this article and representatives from State Street's research arm, State Street Associates) built upon the standard risk-return analysis by introducing the concept, 'loan portfolio balance-at-risk', and defined certain metrics around it. Loan portfolio balance-at-risk refers to how much the balance of a loan portfolio may change as the result of shifts in the market prices of underlying securities on loan and changes in utilisation (the portion of a lendable portfolio actually on loan). Since changes in loan balance directly affect the cash collateral balance, tracking fluctuations in both prices and security utilisation

Figure 1: Risk and Return of Lending Securities

Collateral Portfolio			
Collateral Vehicle	**Treasury Repo**	**Money Market Fund**	**Enhanced Cash**
Collateral Yield	18.6	32.0	41.3
(in Bps, Annualized)			
Collateral Risk			
(1-Month NAV Changes in Bps)			
Standard Deviation	0.1	2.2	4.1
Tail Risk (5% cVaR)	0.2	3.9	8.9
Loan Portfolio			
Asset-Weighted Rebate Rate	-19.9	-19.9	-19.9
(in Bps, Annualized)			
Integrated Portfolio			
Gross Integrated Spread	38.5	51.8	61.2
(in Bps, Annualized)			
Net Integrated Spread	28.9	38.9	45.9
(in Bps, Annualized, 75%/25% Split)			
Net Integrated Spread	2.4	3.2	3.8
(in Bps, 1-Month)			

can help lenders better assess the adequacy of their cash collateral reinvestment portfolio liquidity.

A new approach to comparing portfolio strategies

In a follow-up report, ‘Asset Allocation vs. Securities Lending: Comparing Risk-Adjusted Returns’, the analysts assessed how securities lending as a source of incremental returns compares with possible underlying portfolio re-allocations aimed at increasing return. To address this question, it compared the incremental risk-return from lending a portfolio versus the risk-return of a marginal shift in the portfolio’s underlying asset mix from a lower-expected-return asset to a higher one. The analysis employed models using empirical data describing both normal and extreme market conditions—and concluded that securities lending can be used as an adjunct management strategy to improve the overall efficiency of the underlying portfolio.

As a baseline, the analysts acknowledge that all investment decisions, including whether to engage in securities lending, ultimately rely on an investor’s return goals and risk appetite. Securities lending, by its nature, is also a secondary decision to any broad investment strategy and asset allocation decision. Additionally, the inputs used in the described analytical model, including historical market volatility and returns, inevitably shape the results. The analysts assumed a hypothetical investment portfolio typical of a large institutional investor and lending securities versus cash collateral. Given that the correlation of cash collateral with loaned securities is generally lower than loaned securities’ correlation with most types of non-cash collateral, the authors believe the focus provides a relatively conservative risk-return analysis.

Asset allocation: measuring risk and return

Using this hypothetical portfolio, three sample asset allocation scenarios are proposed, each involving reallocations into higher-risk assets intended to increase returns. For example, an investor might shift 1 percent (by value) of its assets in US equities into emerging markets equities. Computing simulated time series of historical returns for each reallocated portfolio, the authors calculate how much incremental risk—measured against the original portfolio—results from each scenario. They use a mean-variance risk model to measure tracking error assuming normal market conditions, and use an incremental tail-risk model to measure the 5 percent conditional value-at-risk, or cVAR, to capture market extremes.

Securities lending: measuring risk and return

Next, the analysts model risk and return, assuming both normal and extreme market conditions, for an investor that maintains its existing asset allocation and pursues a securities lending programme. The analysis assumes the entire investment portfolio is subject to lending, with an average 15 percent utilisation rate. A sample loan portfolio, based upon historical borrow demand for securities from the original investment portfolio described, is apportioned between equities from eight global markets (64.3 percent) and US fixed income securities (35.7 percent). Three sample scenarios for collateral reinvestment portfolios—based on treasury repo, money market fund and enhanced cash strategies—were analysed to model potential changes in net asset value unit prices. Figure 1 sets out the results.

Side-by-side comparison

Ultimately, the analysis provides a meaningful comparison between estimated incremental risks and returns from three reallocation strategies and the incremental risk-return from securities lending. Using the money market fund and enhanced cash collateral reinvestment options measured against the three reallocation scenarios, Figures 2 and 3 illustrate the results of this comparison for, respectively, return-to-tracking error risk and return-to-tail risk ratios. The results suggest that a securities lending strategy may offer greater return per unit of risk.

Overall, the described methodology is meant to provide a tool to support investors in their decision-making around securities lending. Given the relative scale of both types of investment portfolio strategies, returns from reallocating assets within a portfolio are likely to outweigh returns from lending and, of course, a portfolio’s underlying assets will ultimately dictate actual lending performance. **SLT**

Figure 2: Return/Risk for Asset Reallocation vs. Securities Lending

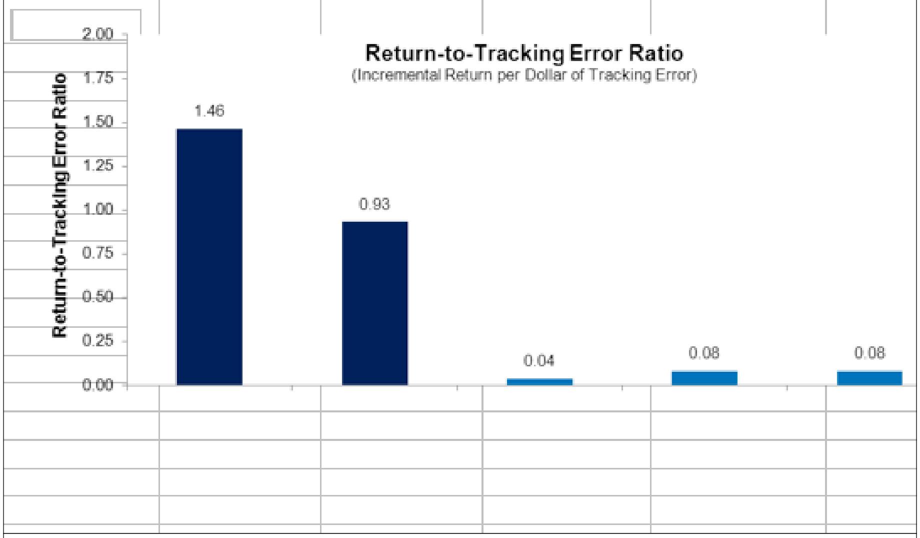
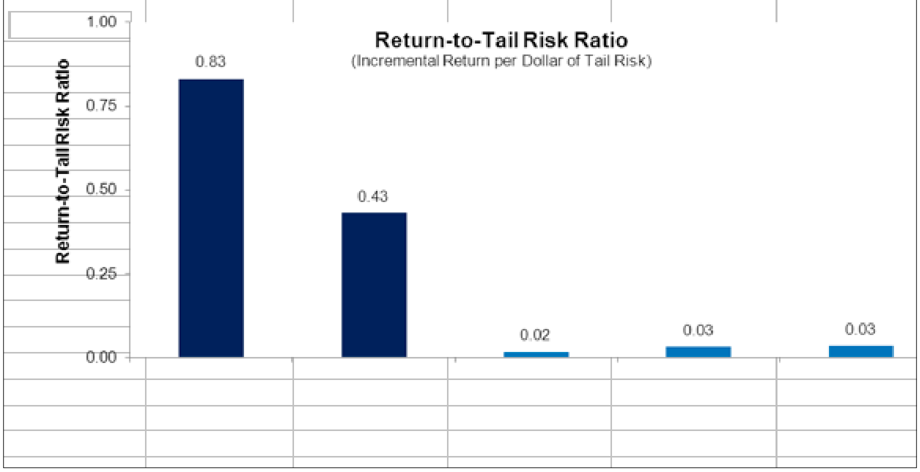


Figure 3: Return/Tail Risk for Asset Reallocation vs. Securities Lending



Out of control shorts

Andrew Laird of Markit Securities Finance assesses how short sellers have fared in the face of the most bullish market in more than 10 years

It is no secret that year-to-date the most shorted stocks have outperformed the broader market. This counterintuitive paradigm has forced many short-focused hedge funds to close their doors.

While questions still remain as to the actual root cause, ranging from the US Federal Reserve intervention to short covering, we are seeing some relief for US short sellers as the share prices of some of these highly shorted companies have tumbled over the past few weeks.

Whether the trend will continue with the onset of tapering remains to be seen, yet the market is still very much in 'risk on' mode, with recent record low short interest across the constituents of the S&P 500.

Crowded shorts outperform

If a portfolio of the 50 most crowded shorts of the S&P 500 were purchased at the beginning of the year, it would have outperformed the S&P 500 by almost 16 percentage points year-to-date.

'Crowdedness' is measured by utilisation, the ratio of inventory currently on loan over available inventory sitting in custodian accounts.

Note that this volatility works both ways as these crowded shorts have experienced a bit of a snapback recently. Over the past week, the most shorted names declined by 1.5 percent, while the S&P only fell by 0.1 percent.

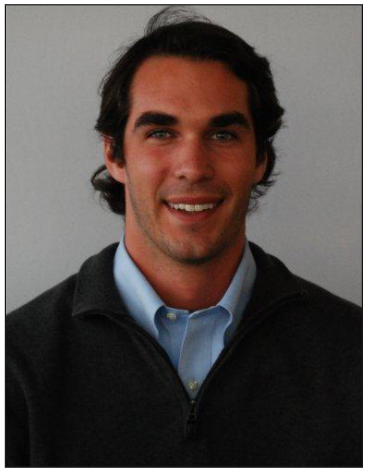
Stock highlights

Short interest as a percentage of shares outstanding for Gamestop Corp (GME) has fluctuated between 11 and 14 percent over the past three months. This year, GME was up over 100 percent, but has fallen sharply in the past two weeks.

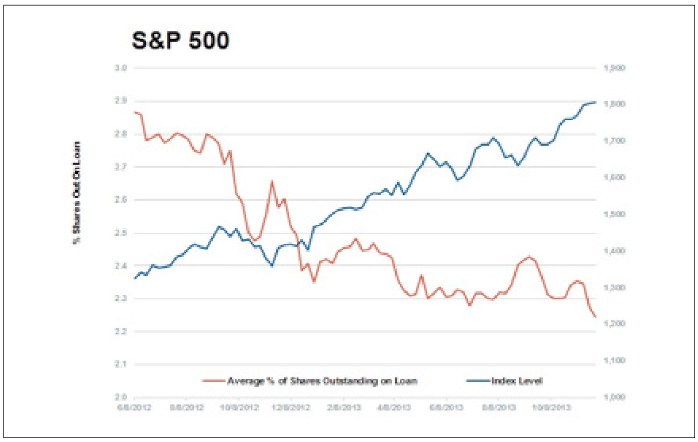
Salesforce.com Inc (CRM) has remained a popular short and consistently has about 10 percent of its outstanding shares on loan. As of 15 November, CRM had gained 36 percent year-to-date, however, it has given back more than 8 percent in the past week.

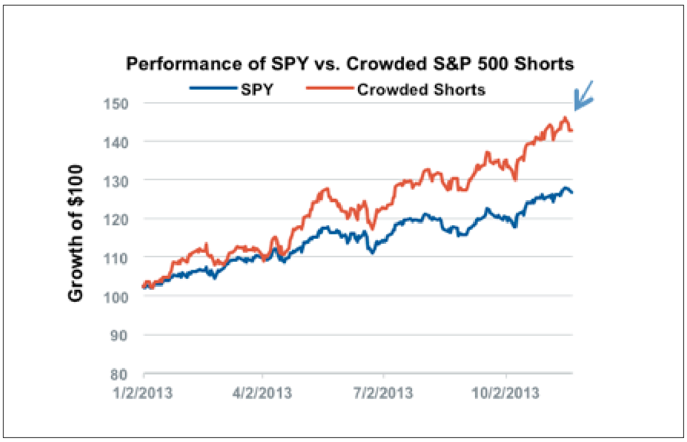
Chesapeake Energy Corp (CHK) had close to 11 percent of its shares outstanding sold short at the beginning of the year. As of the end of October, CHK gained 68 percent, yet it has fallen more than 9 percent in the past three weeks. CHK now has 44.5 million shares sold short, which is 6.7 percent of its shares outstanding.

Although not a member of the S&P 500, Tesla Motors is a good example of a heavily shorted company that is giving back some of its gains from earlier this year. We saw short interest shrink as this company returned more than 400 percent. Tesla has dropped more than 33 percent since mid-October and short interest is once again on the rise. SLT



Andrew Laird
Analyst
Markit Securities Finance





Industry appointments

April Rathe has joined the consultancy firm Doran Jones as its chief technology officer.

Prior to joining Doran Jones, Rathe was a director of software engineering at UBS, focused on counterparty and treasury and finance IT.

She is a senior technologist who specialises in leading teams and delivering applications, while driving continuous improvement, and has experience working in large-scale organisations across the development lifecycle.

In May, Doran Jones strengthened its prime brokerage offering with the addition of Lou Lebedin and Gerard Muldoon. The pair joined as partners.

Their arrival at Doran Jones followed that of Duncan Rawls, who most recently served as managing director and global head of prime brokerage/equity finance technology at J.P. Morgan.

LUCRF Super, the Australian labour union cooperative retirement fund, has appointed **Roger McIntosh** as the fund's new head of investments. McIntosh will manage $3.8 billion in funds under management.

McIntosh was previously principal head of investment strategy and research at Vanguard Investments Australia, where he held leadership roles in the areas of investment strategy, research, fixed interest and global equities.

LUCRF recently signed up to the carbon asset risk initiative, a global investment firm lobby aiming to put pressure on the world's largest fossil fuel and energy companies to ascertain the financial risks of climate change.

Neeraj Sahai is to depart as head of Citi's securities and fund services business and join Standard & Poor's Ratings Services as president.

Sahai, who also acts as chief fiduciary officer of Citigroup, will take over from Douglas Peterson, current president and chief executive officer of McGraw Hill Financial—which owns Standard & Poor's—on 6 January 2014.

Peterson said that Sahai's significant experience serving global capital markets and background in risk and governance will be "enormously valuable" to the ratings firm.

Sahai, who started with Citi in 1984, has led Citi's securities and fund services since 2005. Before that, he was CFO of Citi's Global Transaction Services.

Algomi, the provider of information-matching solutions to optimise fixed income liquidity, has hired **Stephen Gallagher** as head of its operations in the US.

Gallagher will be responsible for launching the rapidly growing firm into the US market, helping to transform buy-side and sell-side firms' fixed income businesses as they come to terms with the new market structure.

He will be based in Algomi's New York office, which is due to open on 2 January 2014, and will work closely with Algomi chairman Michael Schmidt and CEO Stu Taylor in taking the firm's proposition to market.

Algomi allows buy-side and sell-side firms to centrally organise, process and distribute its liquidity flows, so that trade opportunities are prioritised and pushed to the appropriate salespeople on a per trade basis. This allows firms to service trades in a strategic and coordinated effort, delivering the best balance sheet visibility.

From 2006 to 2011, Gallagher was head of MarketAxess Europe & Asia, where he worked with institutional clients and dealers in established and emerging markets. Previously, he was head of high grade trading at Wachovia Securities (now Wells Fargo) responsible for cash, credit default swaps, private placements, emerging markets and crossover trading.

Prior to joining Wachovia Securities in 2004, he held similar positions with Bank of America Securities, Bear Stearns and Merrill Lynch from 1987 to 2003.

BCS, a trader of equities and derivatives on the Russian exchange, has hired **Gareth Johnson** as senior trader to the London office, as of the beginning of October.

The appointment highlights the sustained growth of BCS's UK business which has made a number of key hires over the past 12 months.

Relocating to London, Johnson has joined BCS to support the team's sales-trading efforts and start-up the equity trading arm of the international business. He recently returned to the UK after living in Russia for seven years, where he was most recently senior equity trader at Troika Dialog.

Prior to his time with Troika, Johnson held head of equity trading positions at both Alfa Bank and Uralsib Capital.

Additionally, **Tim Bevan** has been promoted to executive director of the board of BCS Prime Brokerage, effective 13 November 2013. His previous title was head of international prime sales and he will continue his duties in this capacity along with his board responsibilities.

BCS's UK business has made a number of key hires over the past twelve months in its push to become the main hub for trading securities between London and Moscow.

In November last year, the firm nabbed Audrey Faveeuw from the London Stock Exchange as a director for prime brokerage sales, reporting to Bevan. Then in April 2013, one of the founding partners of BCS Financial Group Edward Golosov rejoined as an executive director, after five years at Barclays.

A month later, Dipak Rajani was hired as director of international prime brokerage sales. **SLT**

SECURITIESLENDINGTIMES

Editor: Mark Dugdale
editor@securitieslendingtimes.com
Tel: +44 (0)20 8663 9620

Deputy editor: Georgina Lavers
georginalavers@securitieslendingtimes.com
Tel: +44 (0)20 8663 9629

Reporter: Daniel Jackson
danieljackson@securitieslendingtimes.com
Tel: +44 (0)20 663 9622

Publisher: Justin Lawson
justinlawson@securitieslendingtimes.com
Tel: +44 (0)20 8663 9628

Marketing director: Steven Lafferty
design@securitieslendingtimes.com

Published by Black Knight Media Ltd
Provident House, 6-20 Burrell Row,
Beckenham, BR3 1AT, UK

Company reg: 0719464