IHS Markit™

Securities Finance Quarterly Review

Q1 2017

Hi,

We would like to welcome you to our securities finance quarterly review. Our team has been hard at work over the last few months to ensure that this report provides you with a comprehensive overview of the key trends that drove our market during Q1. Our only regret is that the reported revenue trends failed to match those generated in Q1 2016!

While there is no denying that this past quarter has been challenging for the industry, especially given the recent calm that had befallen equity markets previously, we are now encouraged to see some revenue opportunities in areas such as fixed income lending and scrip dividends which we highlight in this report.

Another encouraging trend is the return of cash reinvestment which had largely dried up in the era of ultra-loose monetary policy.

These opportunities provide their own specific challenges both in terms of sizing up opportunities and understanding the risks with pursuing them. Our mission at IHS Markit is to empower you with data and services to meet these challenges and ultimately place you in pole position to capture revenue generating chances.

Our firm's core competency also extends to alleviating the evolving regulatory burden that has been imposed on our industry over the last decade. For instance, our SFTR solution which we are currently developing in partnership with Pirum, addresses recent regulatory changes. Preparations will only accelerate in the coming months with the the Regulatory Technical Standards already setting the 15 month clock to implementation.

If SFTR impacts you or if you would like to hear about how we can help you tackle approaching challenges we encourage you to reach out to us at SFTR@IHSMarkit.com

Regards,

Pierre Khemdoudi & **Ed Marhefka**

Managing directors and global co-heads of Securities Finance and Delta One products, IHS Markit

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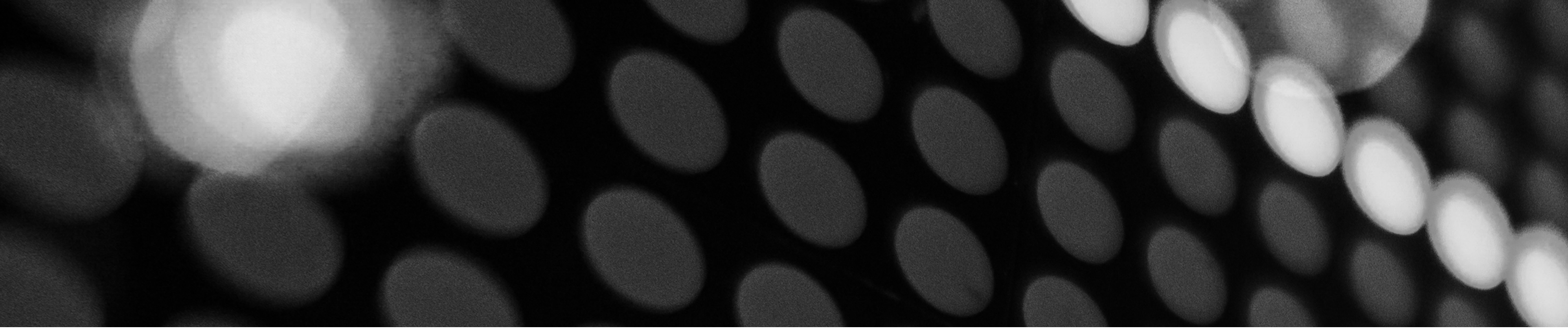


Specials dry up as volatility eases

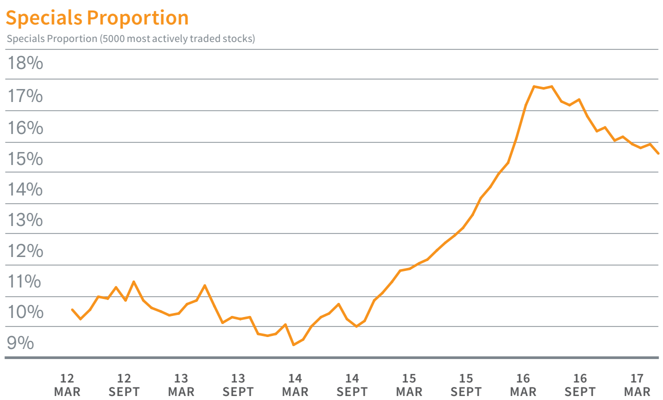
The number of equity specials, and the fees they generate, has fallen significantly in Q1 compared to the same period last year which has negatively impacted the industry's overall revenues.

Securities lending revenues earned by beneficial owners over the opening quarter of 2017 failed to match those earned in Q1 2016, when surging market volatility took the industry's profitability to levels not seen since the financial crisis. Overall industry revenues are down by over 6% from the same period last year and equities are the main culprit as the securities lending fees earned by the asset class came up short by a massive 21%. In dollar terms the overall revenue shortfall amounts to just over $113m for the entire group of beneficial owners that contribute to IHS Markit's Securities Finance dataset.

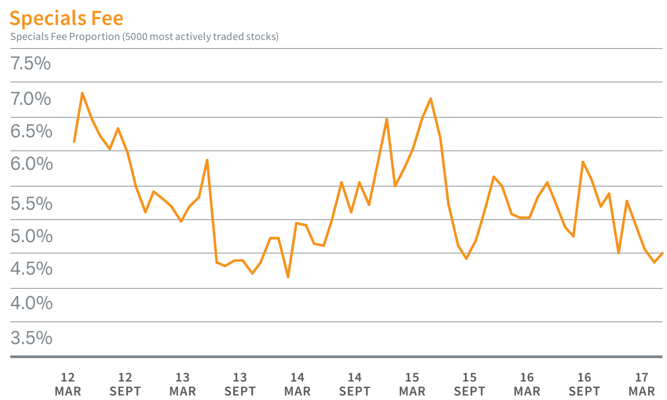
As the broader report highlights, declining equities revenues have been a global phenomenon as Asian, American and European markets all failed to match the revenue tally earned over last year's opening quarter.

The relative calm in the equities market experienced in Q1 compared to the same period a year ago has played a large role in this revenue slump as short sellers gave up fighting the global bull market that has gripped equities in the months since the US election. Decreasing appetite to sell shares short in the current market is perhaps best

PROPORTION OF EQUITIES TRADING SPECIAL



WEIGHTED AVERAGE SPECIALS FEE



highlighted by the fact that far fewer shares traded special over Q1 than during same time last year.

Specials, defined as the shares which trade with a fee of more than 100 basis points, made up 17% of the 5,000 most actively traded stocks at the end of Q1 last year. The recent calm has seen the proportion of specials shrink to 14.6% at the end of March, the smallest number since the end of 2015.

Not surprisingly, commodities related stocks, which were responsible for much of the market upheaval last year, have driven the specials retrenchment after commodities markets started to rebound from the lows set set in February 2016. Nearly a quarter of all energy names traded special in the first week of March 2016, the week after what turned out to be the lows set in oil prices. That number has since nearly halved as 15% of energy names traded north of 100 basis points at the end of Q1 which was the lowest proportion since the end of 2015.

The other commodities sector, materials, has also registered a significant decline in the number of its shares trading special which has fallen from 19% to 15% over the last 12 months.

The story isn't entirely driven by the commodities sector however, as the main protagonists of last year's volatility, a slowing growth in China and the threat of deflation in Europe, meant that virtually every other sector registered a material rise in the number of shares trading special. The market rebound means that 18 of the 22 non-commodities related sectors traded with a smaller proportion of specials at the end of March than the same period 12 months ago.

Telecommunications firms are one key holdout from this trend as 20% of the sector now trades special, up from 15% 12 months ago. This is only a small consolation for the industry however, as the sector is only responsible for 83 of the 5,000 most actively traded equities in the securities lending market, less than a quarter of those in the energy sector.

Borrowers are also less willing to pay up for the shrinking number of specials as the weighted average fee commanded by all special stocks fell to 4.5% at the end of Q1, down from 5.6% 12 months prior.

Both the falling proportion of specials and their increasing cheapness combined explain the near totality of the $299m revenue gap experienced in equities over Q1 as the average daily revenues from specials was $3m short of that delivered 12 months ago.

Not that special anymore

of equity specials down by 15% in the last 12 months

15%

of stocks now trade special

Commodities drive the downturn

Energy specials down by

30% ↓

Materials specials down by

15% ↓

Telecommunications equipment firms buck the trend

16

Telecommunications firms now trade special

30%

increase in 12 months

Pharmaceutical stocks most likely to trade special

1/3

of pharma stocks now trade special

Specials also getting cheaper

Fee to borrow specials

4.5%

down from 5% 12 months ago

Asian Equities

The region's revenues continue to slide as Hong Kong revenues slip further, however Japan manages to offset this decline after posting a hefty rise in revenues.

Asian securities lending wasn't immune from the global slump in securities lending revenues as the aggregate revenue tally earned across the region slipped by 8% year on year (yoy) in Q1 to $235m.

The slide in revenues was mostly driven by Hong Kong where earnings slipped by 30%, driven almost entirely by fee erosion.

Japanese equities offset this disappointment after the country's securities lending revenues jumped by over 40% to $90m. This number is driven by the fact that the market is trading increasingly special as the fees generated by Japanese equities surged by 50% to over 120bps. Surprisingly, average balances across the country slipped by 7% yoy.

Technology related stocks continue to be the most in demand Japanese stocks as healthcare, software and hardware manufacturers all feature in the top 10 largest revenue generating stocks in the region. This includes Cyberdyne, which generated over $7.8m in revenues in the quarter, the most out of any stock in the region over Q1.

Taiwan was the only one of the three remaining major markets to post an increase in revenues as Australia and South Korea are both 20% behind their Q1 2016 revenue contributions.

Overview

Quarterly Revenues
$235M ▼ 8%

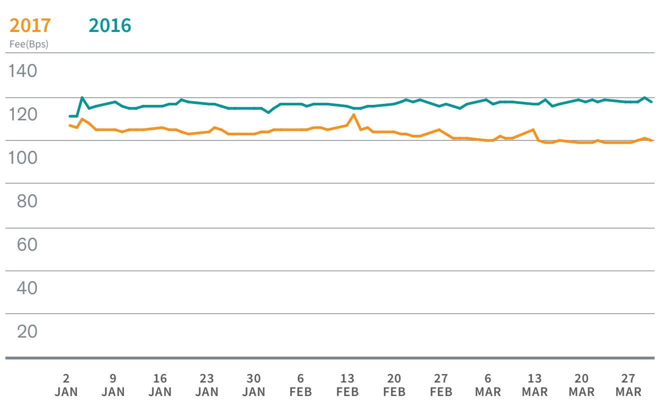
Average Balances
$68B ▼ 9%

Weighted Average Fee
1.32% ▼ 11%

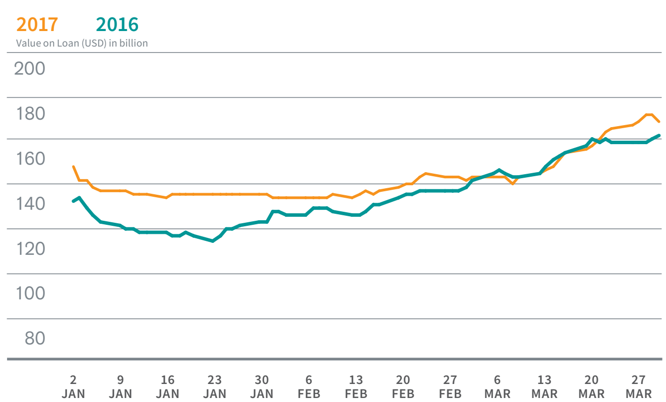
Average Inventory
$1.3T ▲ 22%

Utilisation
5.3 ▼ 25%

Q1 FEE TREND



Q1 BALANCE TREND



OVERVIEW

Japanese equities' securities lending revenues jumped by 40% yoy to $90m

Hong Kong registered a sharp fall in revenues after fees shrank by 30%

Software and Services stocks saw the greatest average demand to borrow over the quarter

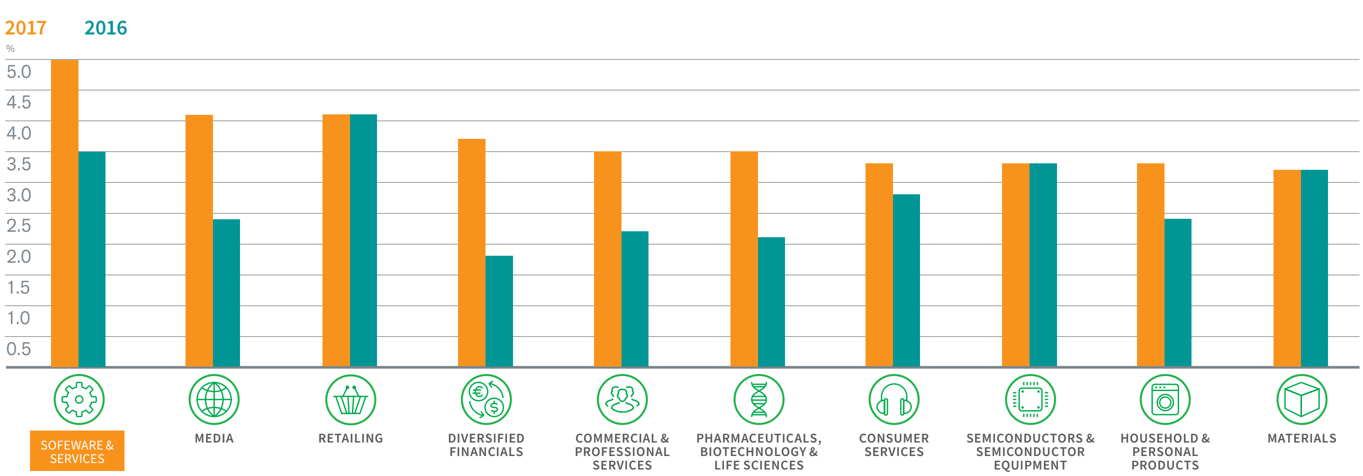
Singapore revenues shrank by over two thirds as average balances fell by 44% to $1.8bn

	Quarterly Revenues ($)	YoY Change	Average Balances ($)	YoY Change	Weighted Fees	YoY Change	Average Lendable ($)	YoY Change	Average Utilisation	YoY Change
Australia	16,775,451.78	-26%	12,477,830,110	-4%	0.44%	-31%	212,150,583,842	34%	5.9	-28%
Hong Kong	51,923,625.06	-30%	15,152,346,066	-3%	1.30%	-30%	259,421,732,136	22%	5.8	-21%
Indonesia	142,489.48	259%	58,590,106	135%	0.97%	53%	1,318,983,814	22%	4.4	91%
Japan	90,142,804.81	40%	28,780,836,773	-7%	1.22%	52%	602,498,936,923	14%	4.8	-19%
Malaysia	6,071,356.29	-33%	738,119,971	-35%	3.21%	3%	9,440,797,525	31%	7.8	-50%
New Zealand	627,221.58	4%	213,717,662	3%	1.07%	-4%	5,613,092,881	25%	3.8	-18%
Philippines	81,563.55	1%	17,455,213	12%	1.87%	-10%	1,265,974,703	16%	1.4	-3%
Singapore	3,445,885.48	-67%	1,798,833,301	-44%	0.69%	-43%	42,493,755,210	22%	4.2	-55%
South Korea	41,119,915.34	-22%	4,846,959,519	-16%	3.31%	-8%	93,577,408,603	36%	5.2	-38%
Taiwan	22,765,517.91	11%	3,469,267,015	-20%	2.56%	38%	42,854,406,508	30%	8.1	-39%
Thailand	1,997,346.65	76%	538,883,456	15%	1.45%	57%	11,872,029,810	51%	4.5	-24%

TOP 10 REVENUE GENERATING STOCKS

Instrument Name	Ticker	Sector	Country	Revenue Generated ($)
Cyberdyne Inc	068270	Health Care Equipment & Services	Japan	7,836,687.50
Celltrion Inc	1211	Pharmaceuticals, Biotechnology & Life Sciences	South Korea	7,654,177.50
Byd Co Ltd	3938	Automobiles & Components	Hong Kong	5,930,458.00
Line Corp	6863	Software & Services	Japan	5,377,935.50
China Huishan Dairy Holdings Company Ltd	010060	Food, Beverage & Tobacco	Hong Kong	3,285,674.00
Oci Co Ltd	3914	Materials	South Korea	2,853,438.50
Jig-Saw Inc	6753	Software & Services	Japan	2,797,635.75
Sharp Corp	9706	Consumer Durables & Apparel	Japan	2,352,103.75
Japan Airport Terminal Co Ltd	4565	Transportation	Japan	1,598,345.75
Sosei Group Corp	2498	Pharmaceuticals, Biotechnology & Life Sciences	Japan	1,560,745.88

AVERAGE % OF SHARES ON LOAN



European Equities

European equities securities lending revenues slipped by over 20% yoy in Q1 although some markets did manage to post significant increases from the revenues generated over the previous year.

France and Sweden were the main source of disappointment after posting a 41% and 32% decline in revenues from the previous Q1 respectively.

Italy managed to avoid the slump as Unicredit's rights issue, which generated over $9m of revenues for beneficial owners, meant that the country created over twice the revenues for beneficial owners than over the same period 12 months ago.

Germany, which was the single most challenging country for securities lending revenues in 2016, was another relative bright spot as the country generated 23% more revenues for beneficial owners. This was driven in large part by Wirecard which generated over 20% of the country's securities lending revenues.

UK equities, which have come under attack from short sellers in the wake of the Brexit referendum, weren't able to capitalize on the heightened levels of political uncertainty as their revenue tally slipped by over 40% from that garnered over Q1 2016.

Overview

Quarterly Revenues
$250M ▼ 22%

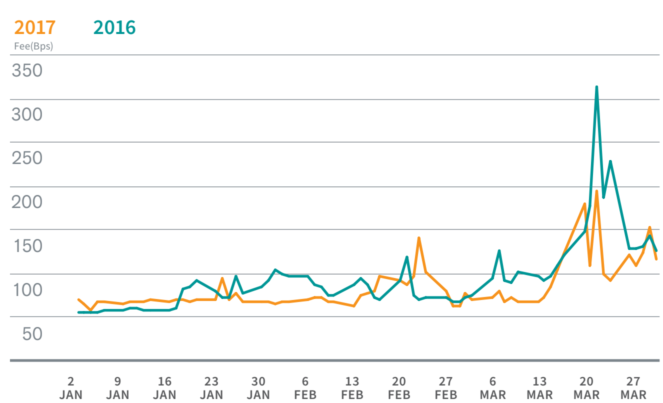
Average Balances
$111B ▼ 8%

Weighted Average Fee
0.86% ▼ 16%

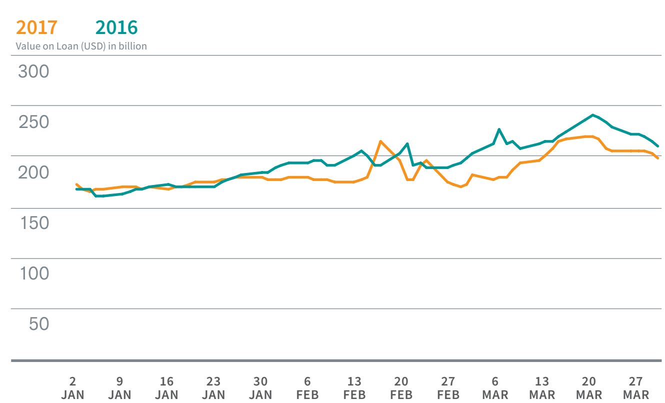
Average Inventory
$2.1T ▲ 6%

Utilisation
5.5% ▼ 13%

Q1 FEE TREND



Q1 BALANCE TREND



OVERVIEW

German revenues jumped by nearly 25% yoy over Q1 to $29m

French equities provided the largest disappointment for the region as revenues shrank by over 40% yoy

Uncredit's capital raising activities saw its stock generate $9.6m of securities lending revenues for beneficial owners

UK equities registered a fall in securities lending revenues after fees and balances shrank

	Quarterly Revenues ($)	YoY Change	Average Balances ($)	YoY Change	Weighted Fees	YoY Change	Average Lendable ($)	YoY Change	Average Utilisation	YoY Change
Austria	1,026,477.98	-17%	689,848,084	-19%	0.56%	1%	9,319,720,459	28%	7.4	-37%
Belgium	2,763,238.77	-9%	2,036,662,866	15%	0.51%	-20%	60,779,988,446	43%	3.4	-20%
Denmark	4,522,584.50	-69%	3,068,696,118	-19%	0.55%	-63%	50,776,040,061	-3%	6.0	-17%
Finland	12,246,294.57	-32%	3,630,110,171	-23%	1.31%	-12%	32,413,713,522	11%	11.2	-30%
France	39,643,636.13	-41%	16,836,810,559	13%	0.91%	-48%	283,102,445,932	13%	5.9	0%
Germany	29,183,105.83	23%	14,390,848,922	-6%	0.78%	33%	298,181,060,198	1%	4.8	-8%
Greece	346,978.29	210%	14,179,090	216%	9.68%	-2%	1,363,412,147	54%	1.0	105%
Ireland	554,731.24	-7%	275,915,751	21%	0.80%	-23%	14,739,518,316	16%	1.9	4%
Italy	22,726,316.76	109%	6,243,028,252	3%	1.41%	107%	71,933,026,213	2%	8.7	2%
Netherlands	7,517,548.85	-30%	5,029,973,720	-12%	0.56%	-22%	94,480,380,177	-7%	5.3	-6%
Norway	14,177,814.63	9%	2,412,345,633	-1%	2.30%	10%	24,001,272,286	32%	10.1	-25%
Poland	2,784,493.62	59%	1,179,669,074	55%	0.87%	3%	8,419,240,067	27%	14.0	21%
Portugal	988,195.86	45%	290,089,872	-49%	1.33%	202%	6,065,666,759	10%	4.8	-54%
Spain	11,819,448.19	-5%	4,349,363,928	-27%	1.02%	32%	84,108,127,346	15%	5.2	-36%
Sweden	41,717,659.59	-32%	8,133,939,849	4%	2.02%	-35%	95,108,524,351	18%	8.6	-11%
Switzerland	19,601,889.67	-2%	15,364,678,383	-13%	0.49%	15%	282,721,291,105	5%	5.4	-18%
Turkey	4,976,459.43	-14%	645,363,626	-29%	3.01%	22%	7,852,227,908	-5%	8.2	-26%
UK	33,213,396.20	-42%	27,181,483,145	-15%	0.47%	-32%	607,713,041,522	2%	4.5	-16%

TOP 10 REVENUE GENERATING STOCKS

Instrument Name	Ticker	Sector	Country	Revenue Generated ($)
Total Sa	FP	Energy	France	16,436,492
Nordea Bank Ab	NDA SEK	Banks	Sweden	15,101,594
Unicredit Spa	UCG	Banks	Italy	9,663,246
Fingerprint Cards Ab	FING B	Technology Hardware & Equipment	Sweden	7,001,725
Wirecard Ag	WDI	Software & Services	Germany	5,579,424
Statoil Asa	STL	Energy	Norway	5,459,333
Banco Popular Espanol Sa	POP	Banks	Spain	4,609,542
Seadrill Ltd	SDRL	Energy	Norway	4,469,755
Skandinaviska Enskilda Banken Ab	SEB A	Banks	Sweden	4,354,745
Kone Oyj	KNEBV	Capital Goods	Finland	4,276,865

AVERAGE % OF SHARES ON LOAN

Americas Equities

Falling balances and fees in US equities meant that securities lending revenues across the Americas fell 24% short of the total earned in Q1 of last year.

The 29% fall in yoy revenues experienced by US equities drove the challenges as seen in the US. As mentioned earlier in the report, the appetite to sell short in the current market has waned in recent months which has negatively impacted balances, which have fallen by 11% yoy on average. This lack of desire to short had an even stronger impact on the fees realized by securities lending transactions over the quarter which fell by nearly a third to 46bps.

Inventory may have played a role in the fee erosion seen over the last quarter as the average value of assets in lending programs grew by a material 22% over the last year.

Specials continue to make up a large part of the industry's revenue mix, evidenced by the fact that the 10 largest revenue generating stocks in the US were responsible for 21% of the total Q1 revenue tally.

Canadian equities helped offset some of the disappointment. Canadian stock lending revenues grew by 19% yoy to $87m. This was largely helped by bank Home Capital Group which delivered nearly 19% of the total beneficial owner revenue haul.

Overview

Quarterly Revenues
$646M ▼ 24%

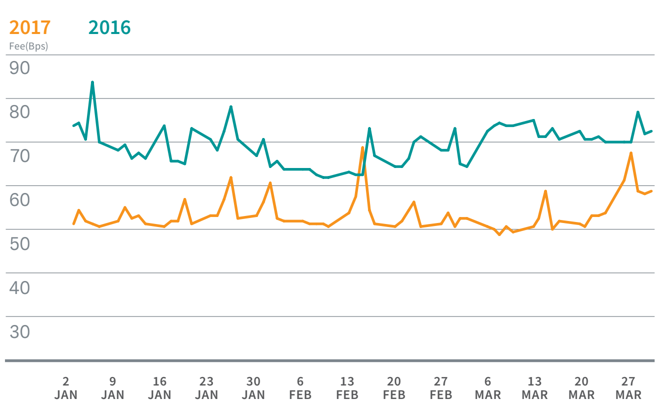
Average Balances
$361B ▼ 9%

Weighted Average Fee
0.5% ▼ 25%

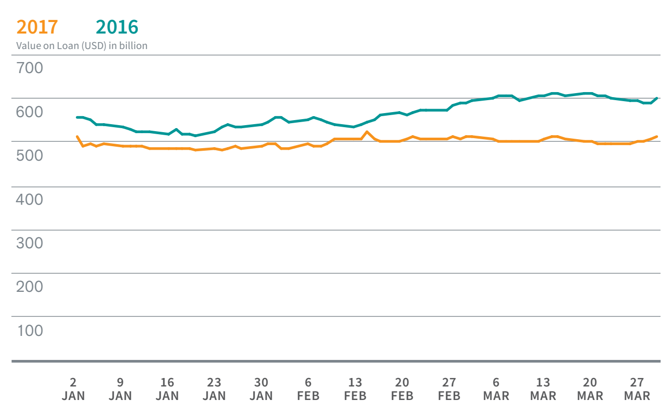
Average Inventory
$7T ▲ 22%

Utilisation
5.12% ▼ 26%

Q1 FEE TREND



Q1 BALANCE TREND



OVERVIEW

US revenues fell sharply over Q1 from the same period in 2016

Home Capital Group earned 18% of the $88m earned by Canadian securities lending over Q1

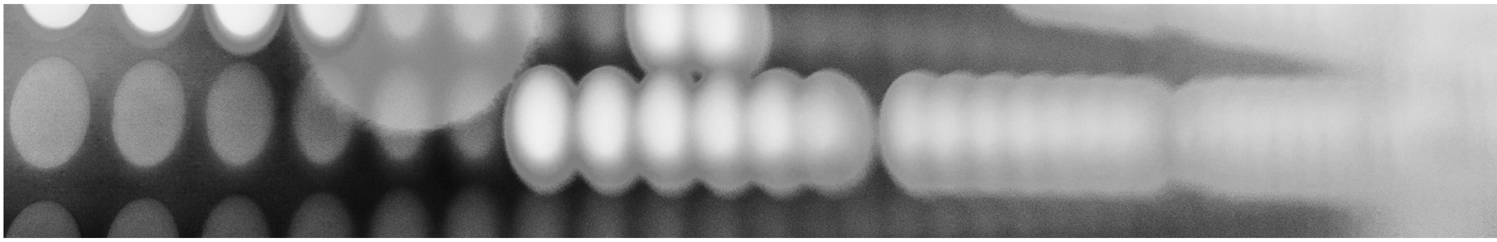
Mexican stocks registered a healthy 14% increase in securities lending revenues

Energy stocks saw a sharp decrease in demand to borrow their shares over Q1 compared to the same period in 2016

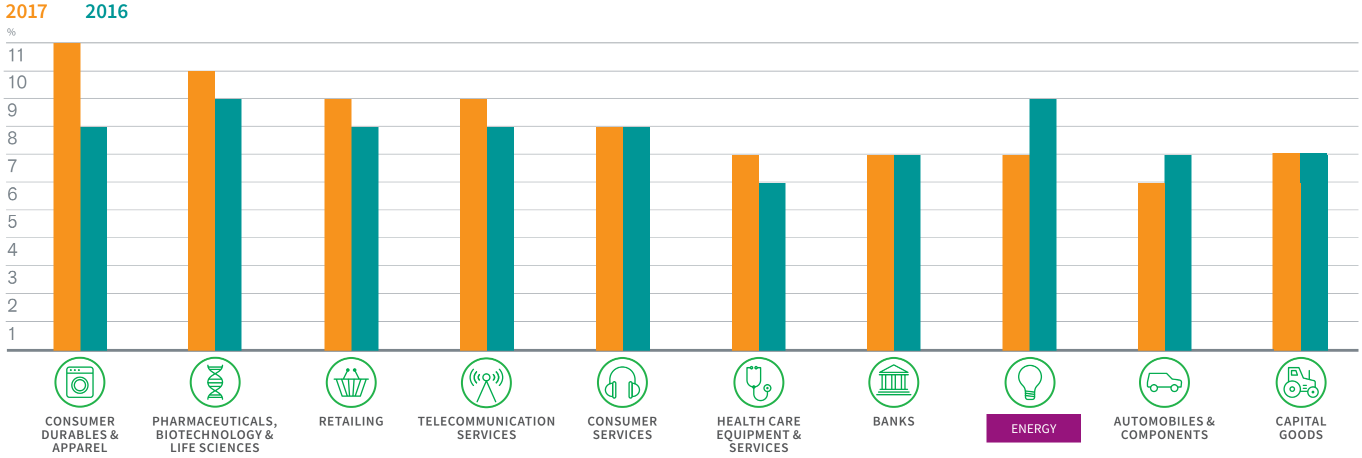
	Quarterly Revenues ($)	YoY Change	Average Balances ($)	YoY Change	Weighted Fees	YoY Change	Average Lendable ($)	YoY Change	Average Utilisation	YoY Change
Brazil	940,165.69	-	201,796,002	-	1.86%	-	2,761,372,971	75%	7.3	-
Canada	87,728,713.44	19%	39,954,256,919	3%	0.83%	13%	454,434,375,817	31%	8.8	-21%
Mexico	1,653,305.05	14%	732,466,732	-6%	0.68%	18%	22,812,439,871	1%	3.2	-7%
USA	555,930,287.00	-29%	320,510,835,280	-11%	0.46%	-31%	6,577,276,560,634	22%	4.9	-27%

TOP 10 REVENUE GENERATING STOCKS

Instrument Name	Ticker	Sector	Country	Revenue Generated ($)
Gopro Inc	GPRO	Consumer Durables & Apparel	USA	21,798,226
Tesla Inc	TSLA	Automobiles & Components	USA	20,169,102
Home Capital Group Inc	HCG	Banks	Canada	16,488,002
Under Armour Inc	UAA	Consumer Durables & Apparel	USA	15,456,684
Visa Inc	V	Software & Services	USA	11,367,268
Insys Therapeutics Inc	INSY	Pharmaceuticals, Biotechnology & Life Sciences	USA	11,262,872
Nutanix Inc	NTNX	Software & Services	USA	8,497,155
Seadrill Ltd	SDRL	Energy	USA	8,476,593
Vmware Inc	VMW	Software & Services	USA	8,001,499
Sears Holdings Corp	SHLD	Retailing	USA	5,967,871



AVERAGE % OF SHARES ON LOAN



Exchange Traded Funds

ETFs didn't escape the challenges faced by global equities revenues although European listed funds continued to defy the slump seen by their global peers.

Overall ETF revenues fell by 14% yoy over Q1. Falling fees, which have dodged conventional equities across the globe were again responsible for the slump in ETF revenues as they fell by 13% to 61bps. Balances held up relatively better over the quarter as they only fell by 6% on average.

North American listed funds were the main contributor to shrinking revenues as their revenues came 15% short of the tally earned in Q1 2016.

European listed products defied the slump however, as growing balances and steady fees saw them earn over 15% more revenues for beneficial owners over the first quarter than they did in 2016. The steady fees have come despite the fact that the asset class's overall inventory rose by a fifth over the last 12 months to just under $35bn.

European products weren't alone in registering a strong rise in inventory as the overall value of ETF assets in lending programs continue to rise as inventories were $188bn, over 20% higher over the quarter than at the same point last year. This highlights the growing popularity of ETFs among investors.

Overview

Quarterly Revenues
$39M ▼ 14%

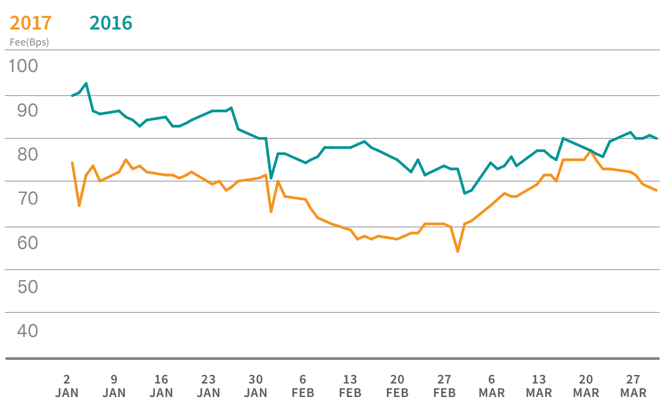
Average Balances
$22B ▼ 6%

Weighted Average Fee
0.61% ▼ 13%

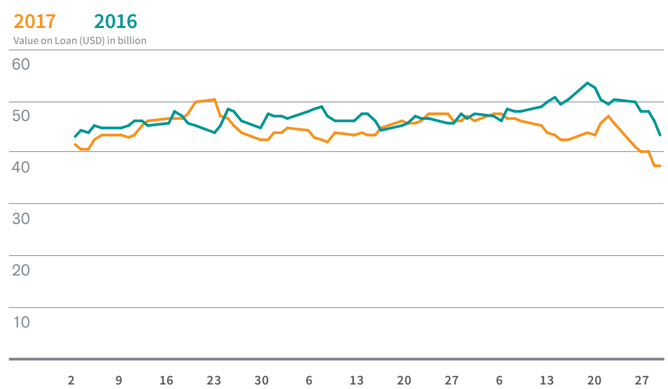
Average Inventory
$188B ▲ 22%

Utilisation
11.8% ▼ 22%

Q1 FEE TREND



Q1 BALANCE TREND



OVERVIEW

European funds saw securities lending revenues rise by 15% yoy, defying the wider revenue downturn

US and European listed ETFs both saw aggregate lendable inventories rise by more than 20% yoy

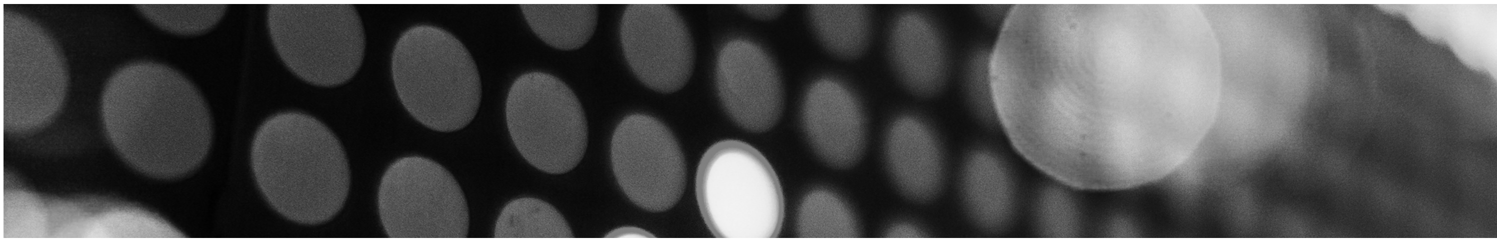
iShares iBoxx $ High Yield ETF (HYG) earned $4m for securities beneficial owners in Q1, the highest number of any ETF

Demand to borrow Asian listed ETFs fell by nearly 60% yoy over the first quarter

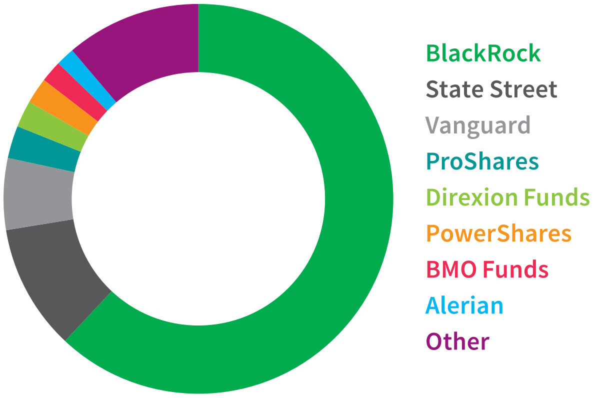
	Quarterly Revenues ($)	YoY Change	Average Balances ($)	YoY Change	Weighted Fees	YoY Change	Average Lendable ($)	YoY Change	Average Utilisation	YoY Change
North America	34,836,898.44	-16%	20,918,960,788	-5%	0.55%	-17%	123,468,291,823	20%	16.9	-21%
Asia	808,252.61	-25%	170,236,041	-59%	1.86%	86%	1,227,005,652	-42%	13.9	-29%
Europe	3,996,288.94	15%	1,220,227,632	12%	1.31%	3%	34,612,286,714	22%	3.5	-8%

TOP 10 REVENUE GENERATING STOCKS

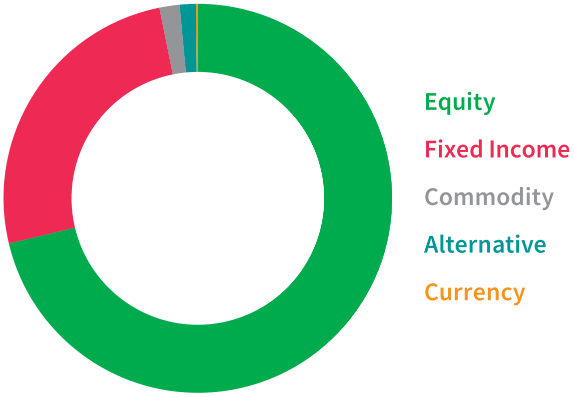
Instrument Name	Ticker	Aseet Class	Country	Revenue Generated ($)
Ishares Iboxx $ High Yield Corporate Bond Fund	HYG	Fixed Income	USA	3,967,260.75
Ishares Russell 2000 Etf	IWM	Equities	USA	3,644,682.00
Ishares Msci Emerging Markets Etf	EEM	Equities	USA	2,143,511.00
Ishares Msci Brazil Index Fund	EWZ	Equities	USA	955,898.38
Ishares Jpmorgan Usd Emerging Markets Bond Etf	EMB	Fixed Income	USA	805,205.94
Spdr S&P 500 Etf Trust	SPY	Equities	USA	783,509.81
Ishares Msci Mexico Investable Market Index Fund	EWW	Equities	USA	674,692.56
Ishares China Large-Cap Etf	FXI	Equities	USA	546,321.19
Spdr S&P Biotech Etf	XBI	Equities	USA	544,663.13
Ishares Trust Dow Jones United States Real Estate	IYR	Equities	USA	517,717.59



ETF SECURITIES LENDING REVENUES BY FUND ISSUER



ETF SECURITIES LENDING REVENUES BY FUND ASSET CLASS



Corporate Bonds

Corporate bonds defied the overall revenue downturn as securities lending revenues generated by the asset class over the quarter jumped by nearly a tenth from the same period 12 months ago.

This healthy rise in revenues was equally driven by high yield and investment grade bonds over the quarter. The former of the two bond types did earn more overall revenue however, as they gathered $100m of total revenues for the quarter, 50% more than the $72m generated by lending out investment grade bonds.

The revenue tilt towards high yield bonds is also reflected in the fact that nine high yield bonds feature among the ten largest revenue generating bond issuances over the quarter.

Convertible bonds, which trade like equities, weren't able to keep up with their conventional peers as the falling market volatility saw the asset class generate 10% less revenues for beneficial owners over the quarter.

Asset backed securities were another weak spot as the quarterly revenues generated from the asset class fell by 37% driven by a collapse in fees charged by lenders.

Overview

Quarterly Revenues
$176M ▲ 9%

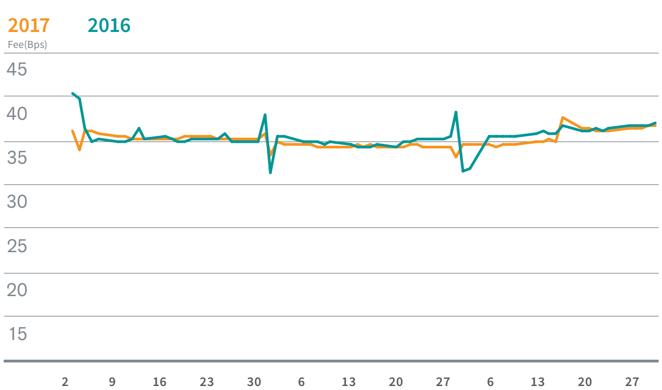
Average Balances
$143B ▼ 2%

Weighted Average Fee
0.34% ▼ 4%

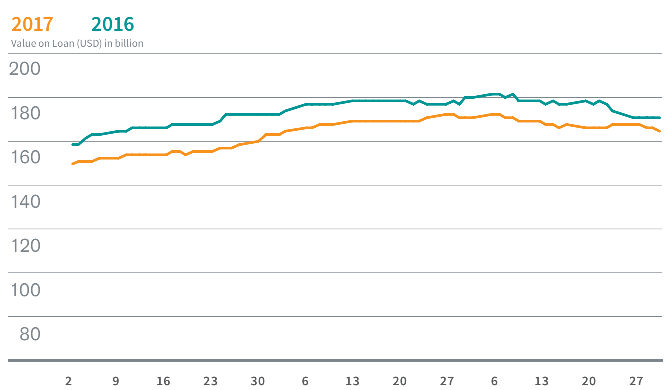
Average Inventory
$2T ▲ 7%

Utilisation
4.9% ▼ 9%

Q1 FEE TREND



Q1 BALANCE TREND



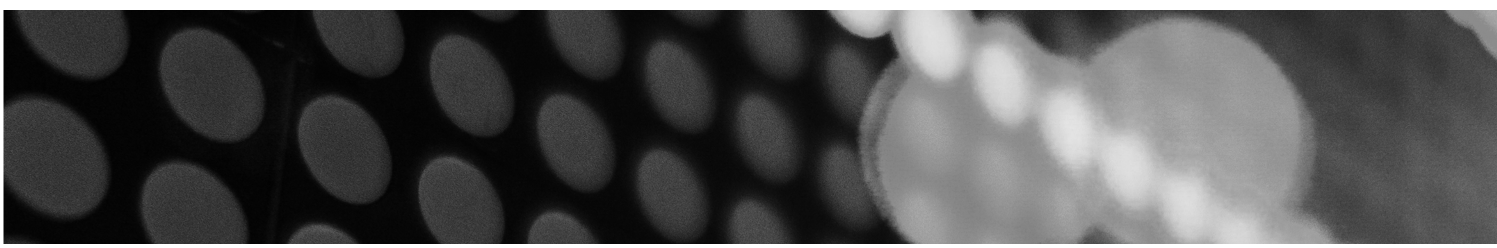
OVERVIEW

- High yield bonds continued to drive securities lending revenues in the corporate bond space
- Average balances fell across all three major corporate bond asset classes
- Revenues from lending out convertible bonds fell by 10% over Q1
- Dollar denominated bonds made up the entirety of the ten best revenue generating issuances over Q1

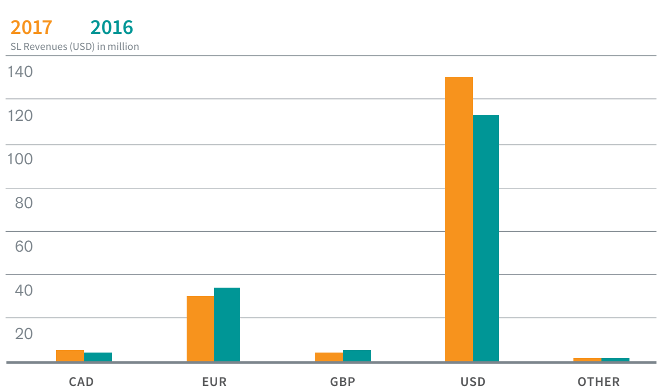
	Quarterly Revenues ($)	YoY Change	Average Balances ($)	YoY Change	Weighted Fees	YoY Change	Average Lendable ($)	YoY Change	Average Utilisation	YoY Change
Asset Backed Securities	139,149.61	-37%	237,867,552	-2%	0%	-44%	218,932,801,263	-3%	0.1	2%
Conventional Bonds	166,818,981.00	10%	139,351,721,483	-2%	0%	-3%	2,649,254,328,912	8%	5.3	-10%
Convertible Bonds	9,097,344.60	-10%	4,054,742,741	-7%	0%	-13%	42,665,042,557	-4%	9.5	-3%

TOP 10 REVENUE GENERATING BONDS

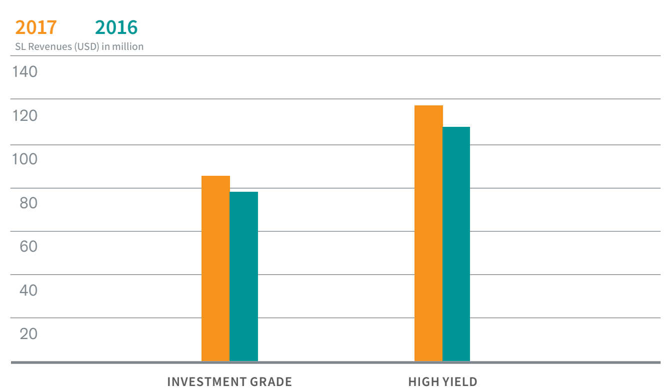
Instrument Name	ISIN	Aseet Class	Country	Revenue Generated ($)
Chs/Community Health Systems Inc (8% 15-Nov-2019)	US12543DAL47	High Yield	USA	957,760.94
Gap Inc (5.95% 12-Apr-2021)	US364760AK48	Investment Grade	USA	933,743.56
Micron Technology Inc (3% 15-Nov-2043)	US595112AY95	High Yield	USA	866,341.44
Oasis Petroleum Inc (6.875% 15-Mar-2022)	US674215AG39	High Yield	USA	811,980.88
Valeant Pharmaceuticals International Inc (6.75% 15-Aug-2018)	US92912EAC75	High Yield	USA	743,489.31
Weatherford International Ltd (Bermuda) (7.75% 15-Jun-2021)	US947075AJ68	High Yield	USA	715,705.50
Anadarko Petroleum Corp (5.55% 15-Mar-2026)	US032511BN64	High Yield	USA	698,729.00
Red Hat Inc (0.25% 01-Oct-2019)	US756577AD47	High Yield	USA	634,756.56
Windstream Services Llc (7.75% 01-Oct-2021)	US97381WAT18	High Yield	USA	626,408.31
Whiting Petroleum Corp (5.75% 15-Mar-2021)	US966387AH55	High Yield	USA	611,388.06



Q1 SECURITIES LENDING REVENUES BY DENOMINATION



Q1 SECURITIES LENDING REVENUES BY RATINGS CATEGORY



Government bonds

Government bonds were the single most positive area for the securities lending market as buoyant fees and strong demand drove a 64% increase in revenues.

The bumper revenues generated by government bonds over the quarter were driven by those issued by American governments as these bonds generated over $163m of extra revenues for beneficial owners over the quarter compared to the previous Q1. This number, which translates into a massive 86% uplift in overall revenues, was driven by an increase in fees generated for these bonds as well as a 24% increase in average loan balances.

European government bonds also drove results forward over the quarter although the 19% increase in aggregate securities lending revenues generated over Q1 was entirely driven by better pricing power as the fees realized over the quarter jumped by over 30%. Most of this fee increase occurred in the opening days of the year when high quality liquid assets were in high demand due to an overall shortage driven by the ECB's ongoing asset purchases.

Cash reinvestment has also played a part in the increase in revenues generated by the government bonds as beneficial owners generated $208m of revenues from reinvesting cash balances in Q1. This is over a third more than the $146m generated by this activity in Q1 2016.

Overview

Quarterly Revenues
$455M ▲ 64%

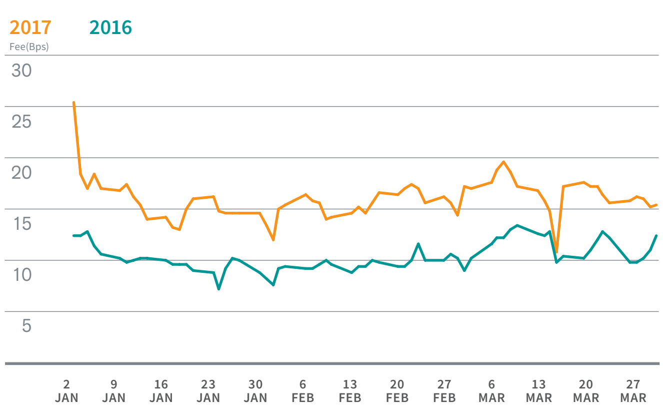
Average Balances
$693B ▲ 11%

Weighted Average Fee
0.14% ▲ 69%

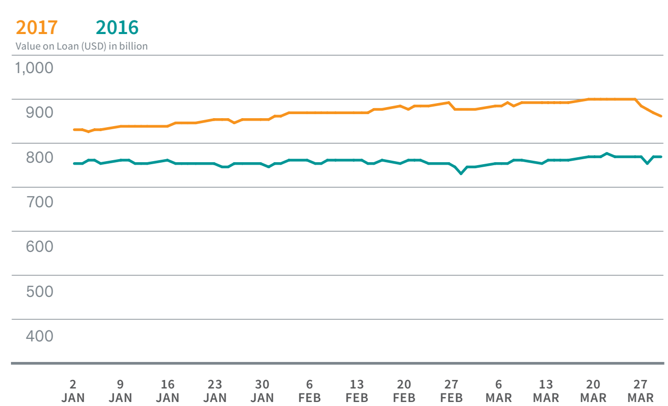
Average Inventory
$2T ▲ 3%

Utilisation
28.7% ▲ 8%

Q1 FEE TREND



Q1 BALANCE TREND



OVERVIEW

Bunds were the only European bonds to feature among the top 10 largest revenue generating government bonds in Q1

European government bonds commanded the highest average fee over the quarter

Reinvestment revenues fees grew by over a third yoy in Q1 to over $200m

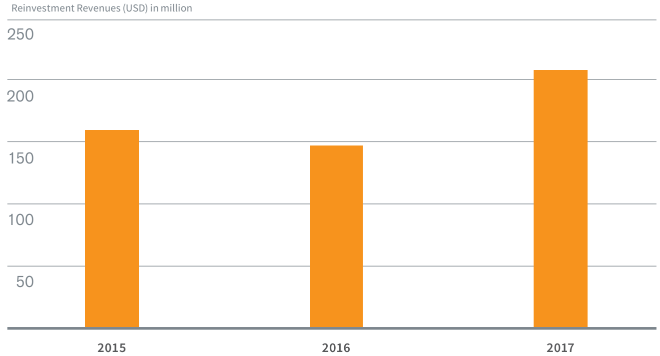
Utilisation rates for bonds issued by Americas governments rose by 16% to just shy of 30%

	Quarterly Revenues ($)	YoY Change	Average Balances ($)	YoY Change	Weighted Fees	YoY Change	Average Lendable ($)	YoY Change	Average Utilisation	YoY Change
Americas	355,097,476.00	86%	452,966,398,544	24%	0.13%	133%	1,532,290,055,100	7%	29.6	16%
Asia	1,235,182.50	-40%	5,275,162,726	-44%	0.05%	9%	43,741,165,340	-5%	12.1	-41%
Europe	99,438,611.31	19%	235,682,215,071	-5%	0.17%	32%	837,826,226,859	-4%	28.1	-1%

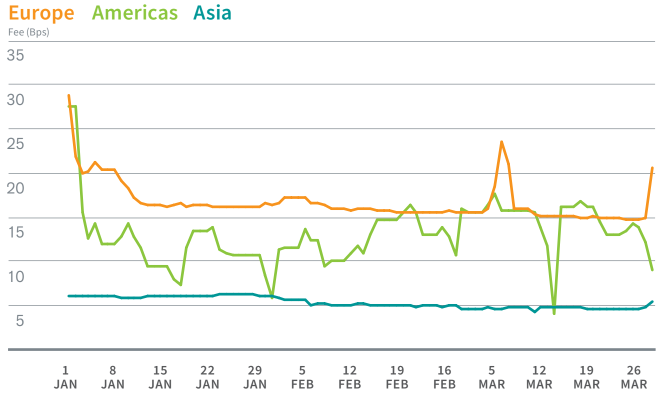
TOP 10 REVENUE GENERATING STOCKS

Instrument Name	ISIN	Aseet Class	Country	Revenue Generated ($)
United States Treasury (2.25% 15-Feb-2027)	US912828V988	USA	USD	7,293,895.50
United States Treasury (2.875% 15-Nov-2046)	US912810RU43	USA	USD	5,281,380.00
United States Treasury (2% 15-Nov-2026)	US912828U246	USA	USD	5,264,629.00
United States Treasury (2.25% 15-Aug-2046)	US912810RT79	USA	USD	5,207,411.50
Germany, Federal Republic Of (Government) (0.5% 15-Feb-2026)	DE0001102390	Germany	EUR	4,804,104.50
United States Treasury (2.875% 15-Aug-2045)	US912810RN00	USA	USD	3,282,626.75
United States Treasury (1.5% 15-Aug-2026)	US9128282A70	USA	USD	2,959,297.50
United States Treasury (3% 15-May-2045)	US912810RM27	USA	USD	2,939,833.75
Germany, Federal Republic Of (Government) (3.25% 04-Jul-2042)	DE0001135432	Germany	EUR	2,675,064.50
United States Treasury (3% 15-Nov-2045)	US912810RP57	USA	USD	2,490,119.75

Q1 SECURITIES LENDING REINVESTMENT REVENUES



GOVERNMENT BOND FEE BY ISSUER REGION



Scrip dividends boost European securities lending

European securities lending revenues are increasingly reliant on scrip dividends which have surged in popularity in the last decade.

The total value of European scrip dividends has jumped ten-fold over the last 10 years to reach €26bn in 2016. Economic headwinds in Europe have grown the cohort of cash conscious companies offering investors the option of receiving dividend payments in shares through scrip options. Unsurprisingly, financials and commodities companies have been some of the keenest scrip payers and have been responsible for two thirds of the €170bn of scrip payments in Europe paid out over the last decade.

The popularity of scrip dividends is showing no signs of slowing down any time soon as IHS Markit Dividend Forecasting is expecting 38 constituents of the Stoxx 600 index to pay at least one scrip dividend over 2017. This would see these firms issue €26bn of new shares, roughly the same as the 2016 total.

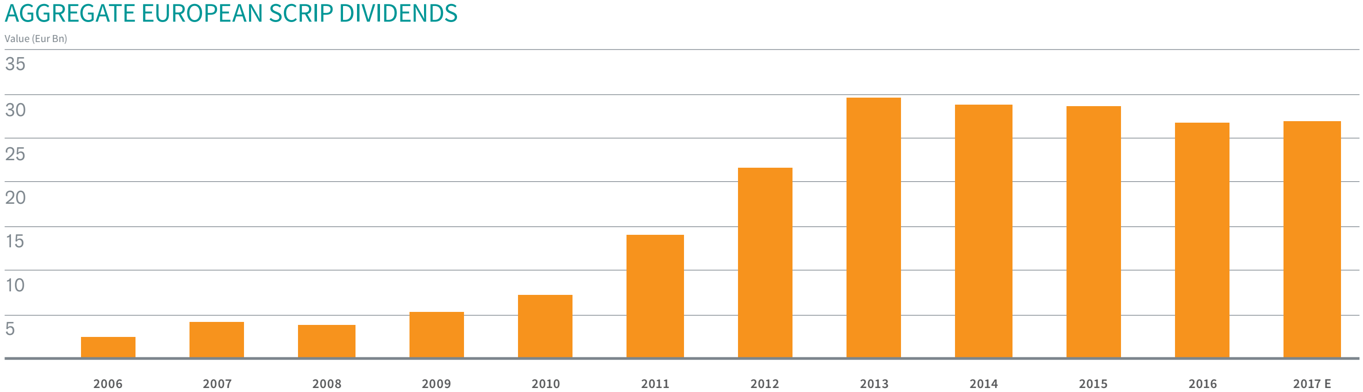
Securities lending market

While cash strapped companies benefit from offering scrip dividends, it's worth noting that scrip payments also offer advantages to shareholders. These advantages go beyond the discounted shares offered by some companies to entice investors to select shares over cash.

One key advantage is the optionality offered by scrip dividends as companies let investors make up their own minds on whether to receive payments in cash or in new shares. As both the share price and cash component of a scrip payment is set on the ex-date and investors generally have between one to four weeks to decide which type of payments to receive, scrips essentially offer an imbedded call option. Investors can strip this optionality by selling call options in secondary markets allowing them to receive more than the total cash value of the dividend on ex-date.

Shareholders who are mandated to only receive cash payments can still lock in this optionality through the securities lending market. The growing use of scrip dividends means that these payments are playing an increasingly large role in the European securities lending market. The numbers are significant as beneficial owners earned over $106m of

AGGREGATE EUROPEAN SCRIP DIVIDENDS



securities lending revenues from the 85 scrip dividends paid by Stoxx 600 constituents last year. This represented 7.2% of the entire European securities lending revenue generated last year. This is significant given that revenues generated around scrip payments used to be responsible for less than 4% of the industry's total revenue as recently as 2014.

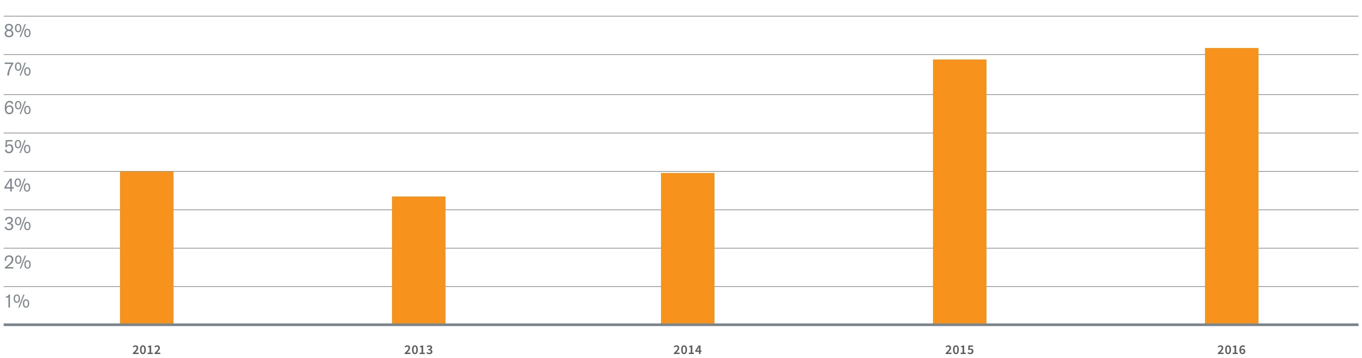
Optionality is most valuable among highly volatile companies so the fact that four of the firms which are forecast to make scrip payments in the coming 12 months are among the most volatile side of the market bodes well for securities lending revenues heading into 2017. These volatile scrip payers include utilities Aegon and EDF as well banks Barclays and Credit Suisse. The latter of the banks is especially significant as it is the third largest European scrip payer and generated $2.4m in revenues for the securities lending market the last time it paid a dividend back in June of last year.

While significant, these numbers still pale in comparison to the $7.3m of securities lending earned by lending shares of the largest scrip dividend payer, British bank HSBC. Its scrip optionality is doubly attractive as the bank pays its dividends in dollars, which allows investors to lock in both forex and equity volatility.

Spain set to trim payments

While scrip dividends have enjoyed runaway success in the last decade there are indications that firms may look to start dialing back their payments in the coming years to avoid dilution of their earnings base. This is especially true for Spanish scrip dividends which also offered investors tax advantages up until last month. The change in tax circumstances means that BBVA will discontinue their scrip policies beginning in 2017.

SCRIP DIVIDEND CONTRIBUTION TO EUROPEAN SECURITIES LENDING REVENUE



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