

NORTHERN TRUST

Global Securities Lending Review

Prepared for Link Fund Solutions : Wales Pension Partnership

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NORTHERN TRUST

SECURITIES LENDING LINK FUND SOLUTIONS (WALES) RELATIONSHIP TIMELINE



Summary of Lending Programme

- Commenced lending March 2020
- LF WALES have a bespoke non-cash collateral account.
- GBP £71,807 in 2020 YTD net revenue earnings
- Total Gross Revenue in 2020 has been GBP £84,475
- Fee Split : 85/15 with WALES receiving 85% of the total revenue and Northern Trust receiving 15%
- All costs for running the securities lending programme are taken from Northern Trust's share of the fee split
- All loans are collateralised at 102/105% (subject to de minimis) depending on the currency of the loans/collateral
- Agent shall only lend Securities to Borrowers with a short-term rating at the time the loan is made of no lower than A1/P1
- A maximum on loan of 25% of total AUM at any one time; notwithstanding changes to prices and lendable assets
- A minimum of 5% of the nominal quantity of each individual equity holding shall not be available for Loan at any one time

ACCOUNT PERFORMANCE

Account Number	Account Name	Market Value (GBP)		% on	Gross	On Loan	Gross BP	Net
		Avg. on Loan	Avg. Available	Loan	Earnings (GBP)	Spread (bp)	Return (bp) *	Earnings (GBP)
WCOF05	LF WALES PPGOEF SW MITCHELL	14,114,567	75,210,219	18.8%	37,280	155.9	29.3	31,688
WCOF08	LF WALES PPGOEF OAKTREE	10,276,074	128,626,138	8.0%	19,374	111.3	8.9	16,469
WPPF04	LF WPP GGF - BAILLIE GIFFORD	39,353,316	597,286,980	6.6%	13,531	20.3	1.3	11,502
WCOF09	LF WALES PPGOEF SANDERS CAP	3,477,847	349,441,035	1.0%	4,703	79.8	0.8	3,998
WCOF06	LF WALES PPGOEF JACOBS LEVY	4,367,379	195,785,188	2.2%	3,764	50.9	1.1	3,201
WCOF03	LF WALES PPGOEF - MSTANLEY	9,448,582	116,082,383	8.1%	2,485	15.5	1.3	2,113
WPPF03	LF WPP GGF - PZENA INV MGT LLC	7,820,930	351,274,347	2.2%	2,297	17.3	0.4	1,953
WPOE03	W PP UK OPPTS EQ RC	2,033,314	76,594,721	2.7%	374	10.8	0.3	318
WCOF07	LF WALES PPGOEF NUMERIC	1,264,494	68,951,932	1.8%	354	16.5	0.3	301
WCOF04	LF WALES PPGOEF NWQ INV MGMT	677,051	180,789,618	0.4%	195	17.0	0.1	166
WPPF02	LF WPP GGF - VERITAS AM LLP	402,553	371,818,101	0.1%	117	17.2	0.0	100
Total		93,236,108	2,511,860,661	3.7%	84,475	53.5	2.0	71,808

* Gross Basis Point Return equals On Loan Spread multiplied by % on Loan. GBPR is the measure of total return on a given asset class or portfolio.

** Market Value and Earnings were converted using the month-end FX rate.

- The Gross Basis point return for the period was 2.0 bps
- The PPGOEF SW Mitchell Fund has contributed the majority of the revenue (44%)
- Primary demand has been seen directional trading of French stock Vallourec, South African MTN Group and US name Seadrill.
- These three stocks accounted for 50% of total revenue to date.
- Utilisation at 3.7% across all funds, we expect this to increase over time as more borrowers approve the Wales funds.

TOP 10 SECURITIES BY REVENUE

Rank	Security Name	CUSIP/SEDOL	Net Earnings	% Of Total Net Earnings	Market Value On Loan (GBP)	Average % Utilization	Average Spread
1	VALLOUREC SA EUR2.00	B197DR6	19,577.15	27.26	990,244.60	80.36	1,334.61
2	MTN GROUP LTD ZAR0.0001	6563206	8,568.31	11.93	545,592.29	47.38	1,095.90
3	SEADRILL LTD COM USD2.00	BFWY7Q9	8,163.37	11.37	51,484.15	30.52	9,900.00
4	PHARMARON BEIJING CO LTD 144A	BK72QD3	3,506.71	4.88	483,217.90	16.66	500.00
5	CATHAY PACIFIC AIR NPV	6179755	3,275.42	4.56	206,475.69	36.86	1,072.16
6	PING AN INSURANCE GROUP H	B01FLR7	2,958.17	4.12	13,612,468.32	78.91	15.00
7	PING AN HEALTHCARE 144A	BDRYVB3	2,281.95	3.18	2,196,228.52	71.85	72.39
8	MMG LTD NPV	6728793	2,143.50	2.99	362,957.25	55.64	374.08
9	CONTINENTAL RES INC COM	212015101	2,085.24	2.90	297,171.59	93.30	501.77
10	TESLA INC COM USD0.001	88160R101	1,060.89	1.48	4,998,353.72	67.57	15.00
Sub Total Of Top 10 Securities			53,620.71	74.67	23,744,194.03	68.45	156.45
All Other			18,187.07	25.33	69,491,913.94	2.81	18.28
Total			71,807.78	100.00	93,236,107.97	3.71	53.68

- Demand in the top ten securities was primarily driven by demand for French and HK directional stocks.
- The top ten performing securities accounted for 74% of net earnings (£53,620)
- The average spread for the top 10 was 156.45 bps compared to 18.28 bps for all other securities.

LENDING BREAKDOWN ASSET AND COUNTRY

Security Type	Country Of	Market Value (GBP)		% on	Gross	On Loan	Gross BP	Net
	Quotation	Avg. on Loan	Avg. Available	Loan	Earnings (GBP)	Spread (bp)	Return (bp) *	Earnings (GBP)
US Equities	United States	42,446,882	1,475,352,252	2.9%	14,019	19.5	0.6	11,919
Total For US Equities		42,446,882	1,475,352,252	2.9%	14,019	19.5	0.6	11,919
Global Equities	Australia	1,659,564	25,877,978	6.4%	421	15.0	1.0	358
	Belgium	0	0	0.0%	0	0.0	0.0	0
	Brazil	0	0	0.0%	0	0.0	0.0	0
	Canada	0	13,105,994	0.0%	0	0.0	0.0	0
	Denmark	0	24,402,673	0.0%	0	0.0	0.0	0
	France	10,015,369	99,634,692	10.1%	26,336	155.2	15.6	22,386
	Germany	0	0	0.0%	0	0.0	0.0	0
	Hong Kong	19,501,420	125,621,964	15.5%	17,637	53.4	8.3	14,992
	Hungary	0	2,025,407	0.0%	0	0.0	0.0	0
	India	0	0	0.0%	0	0.0	0.0	0
	Indonesia	0	0	0.0%	0	0.0	0.0	0
	Ireland	0	6,041,576	0.0%	0	0.0	0.0	0
	Israel	0	0	0.0%	0	0.0	0.0	0
	Italy	0	17,445,530	0.0%	0	0.0	0.0	0
	Japan	2,097,702	296,511,368	0.7%	583	16.4	0.1	496
	Korea, Republic of	0	0	0.0%	0	0.0	0.0	0
	Mexico	0	0	0.0%	0	0.0	0.0	0
	Netherlands	4,472,589	47,807,383	9.4%	1,933	25.5	2.4	1,643
	New Zealand	0	463,861	0.0%	0	0.0	0.0	0
	Norway	256,989	14,276,266	1.8%	9,693	2,226.0	40.1	8,239
	Singapore	0	14,716,690	0.0%	0	0.0	0.0	0

LENDING BREAKDOWN ASSET AND COUNTRY

Security Type	Country Of Quotation	Market Value (GBP)		% on Loan	Gross Earnings (GBP)	On Loan Spread (bp)	Gross BP Return (bp) *	Net Earnings (GBP)
		Avg. on Loan	Avg. Available					
Global Equities	South Africa	2,512,556	21,174,708	11.9%	11,251	264.3	31.4	9,564
	Spain	2,807,326	12,105,136	23.2%	1,141	24.0	5.6	970
	Sweden	0	27,670,019	0.0%	0	0.0	0.0	0
	Switzerland	144,518	57,093,192	0.3%	56	22.9	0.1	48
	Taiwan	0	0	0.0%	0	0.0	0.0	0
	Thailand	0	5,940,059	0.0%	0	0.0	0.0	0
	United Kingdom	7,321,194	224,593,914	3.3%	1,404	11.3	0.4	1,193
Total For Global Equities		50,789,226	1,036,508,410	4.9%	70,456	81.9	4.0	59,889
Total		93,236,108	2,511,860,661	3.7%	84,475	53.5	2.0	71,808

* Gross Basis Point Return equals On Loan Spread multiplied by % on Loan. GBPR is the measure of total return on a given asset class or portfolio.

** Market Value and Earnings were converted using the month-end FX rate.

BORROWER UTILISATION AND COLLATERAL AS OF 30TH APRIL

Borrower Name	Borrower Domicile	Market Value on Loan Vs Cash	Market Value on Loan Vs NonCash	Total Market Value on Loan	Market Value of Cash Collateral	Market Value of NonCash Collateral	Total Market Value of Collateral	Cash Margin %	Non Cash Margin %	Total Margin %
<i>WCOF01CF - Wales WCOF01 CF</i>										
BNP PARIBAS PRIME BROKERAGE INTERNATIONAL	IE	0.00	22,452,435.04	22,452,435.04	0.00	23,614,579.13	23,614,579.13	0.00	105.18	105.18
CITIGROUP GLOBAL MARKETS INC.	US	0.00	1,528,008.23	1,528,008.23	0.00	1,585,061.43	1,585,061.43	0.00	103.73	103.73
CITIGROUP GLOBAL MARKETS LIMITED	UK	0.00	719,291.32	719,291.32	0.00	769,245.64	769,245.64	0.00	106.94	106.94
CREDIT SUISSE SECURITIES (EUROPE) LIMITED	UK	0.00	8,545,367.75	8,545,367.75	0.00	9,283,583.05	9,283,583.05	0.00	108.64	108.64
CREDIT SUISSE SECURITIES (USA) LLC	US	0.00	7,306,066.09	7,306,066.09	0.00	7,467,040.79	7,467,040.79	0.00	102.20	102.20
ING BANK NV, LONDON BRANCH	UK	0.00	15,356,317.10	15,356,317.10	0.00	17,507,422.21	17,507,422.21	0.00	114.01	114.01
MACQUARIE BANK LIMITED, LONDON BRANCH	UK	0.00	7,688,929.61	7,688,929.61	0.00	8,318,211.23	8,318,211.23	0.00	108.18	108.18
MERRILL LYNCH INTERNATIONAL	UK	0.00	3,740,563.35	3,740,563.35	0.00	4,065,996.24	4,065,996.24	0.00	108.70	108.70
SOCIETE GENERALE, PARIS BRANCH	FR	0.00	2,390,005.20	2,390,005.20	0.00	2,581,209.85	2,581,209.85	0.00	108.00	108.00
TD PRIME SERVICES LLC	US	0.00	260,479.99	260,479.99	0.00	266,458.59	266,458.59	0.00	102.30	102.30
UBS AG, LONDON BRANCH	UK	0.00	16,273,388.31	16,273,388.31	0.00	17,620,882.81	17,620,882.81	0.00	108.28	108.28
Subtotal -		0.00	86,260,851.99	86,260,851.99	0.00	93,079,690.97	93,079,690.97	0.00	107.90	107.90
Total - WCOF01CF - Wales WCOF01 CF		0.00	86,260,851.99	86,260,851.99	0.00	93,079,690.97	93,079,690.97	0.00	107.90	107.90

BORROWER UTILISATION AND COLLATERAL AS OF 30TH APRIL

Borrower Name	Borrower Domicile	Market Value on Loan Vs Cash	Market Value on Loan Vs NonCash	Total Market Value on Loan	Market Value of Cash Collateral	Market Value of NonCash Collateral	Total Market Value of Collateral	Cash Margin %	Non Cash Margin %	Total Margin %
<i>WPOE03CF - WALES WPOE03 Non CF</i>										
ING BANK NV, LONDON BRANCH	UK	0.00	12,926,077.42	12,926,077.42	0.00	14,736,755.52	14,736,755.52	0.00	114.01	114.01
MACQUARIE BANK LIMITED, LONDON BRANCH	UK	0.00	3,198,607.88	3,198,607.88	0.00	3,460,390.33	3,460,390.33	0.00	108.18	108.18
SOCIETE GENERALE, PARIS BRANCH	FR	0.00	3,447,642.46	3,447,642.46	0.00	3,726,063.02	3,726,063.02	0.00	108.08	108.08
Subtotal -		0.00	19,572,327.76	19,572,327.76	0.00	21,923,208.87	21,923,208.87	0.00	112.01	112.01
Total - WPOE03CF - WALES WPOE03 Non CF		0.00	19,572,327.76	19,572,327.76	0.00	21,923,208.87	21,923,208.87	0.00	112.01	112.01

BORROWER UTILISATION AND COLLATERAL AS OF 30TH APRIL

Borrower Name	Borrower Domicile	Market Value on Loan Vs Cash	Market Value on Loan Vs NonCash	Total Market Value on Loan	Market Value of Cash Collateral	Market Value of NonCash Collateral	Total Market Value of Collateral	Cash Margin %	Non Cash Margin %	Total Margin %
<i>WPPF01CF - Wales WPPF01 CF</i>										
BNP PARIBAS PRIME BROKERAGE INTERNATIONAL	IE	0.00	23,850,454.14	23,850,454.14	0.00	25,084,960.07	25,084,960.07	0.00	105.18	105.18
CITIGROUP GLOBAL MARKETS INC.	US	0.00	2,402,817.33	2,402,817.33	0.00	2,481,046.87	2,481,046.87	0.00	103.26	103.26
CREDIT SUISSE SECURITIES (EUROPE) LIMITED	UK	0.00	16,444,923.06	16,444,923.06	0.00	18,131,787.13	18,131,787.13	0.00	110.26	110.26
CREDIT SUISSE SECURITIES (USA) LLC	US	0.00	12,834,325.50	12,834,325.50	0.00	13,117,103.74	13,117,103.74	0.00	102.20	102.20
ING BANK NV, LONDON BRANCH	UK	0.00	5,901,014.48	5,901,014.48	0.00	6,727,625.44	6,727,625.44	0.00	114.01	114.01
MACQUARIE BANK LIMITED, LONDON BRANCH	UK	0.00	7,985,779.51	7,985,779.51	0.00	8,629,081.75	8,629,081.75	0.00	108.06	108.06
MERRILL LYNCH INTERNATIONAL	UK	0.00	655,428.09	655,428.09	0.00	708,883.08	708,883.08	0.00	108.16	108.16
TD PRIME SERVICES LLC	US	0.00	12,904,741.36	12,904,741.36	0.00	13,200,932.37	13,200,932.37	0.00	102.30	102.30
UBS AG, LONDON BRANCH	UK	0.00	1,378,436.22	1,378,436.22	0.00	1,496,557.75	1,496,557.75	0.00	108.57	108.57
Subtotal -		0.00	84,357,919.69	84,357,919.69	0.00	89,577,978.20	89,577,978.20	0.00	106.19	106.19
Total - WPPF01CF - Wales WPPF01 CF		0.00	84,357,919.69	84,357,919.69	0.00	89,577,978.20	89,577,978.20	0.00	106.19	106.19
Grand Total		0.00	190,191,099.44	190,191,099.44	0.00	204,580,878.04	204,580,878.04	0.00	107.57	107.57

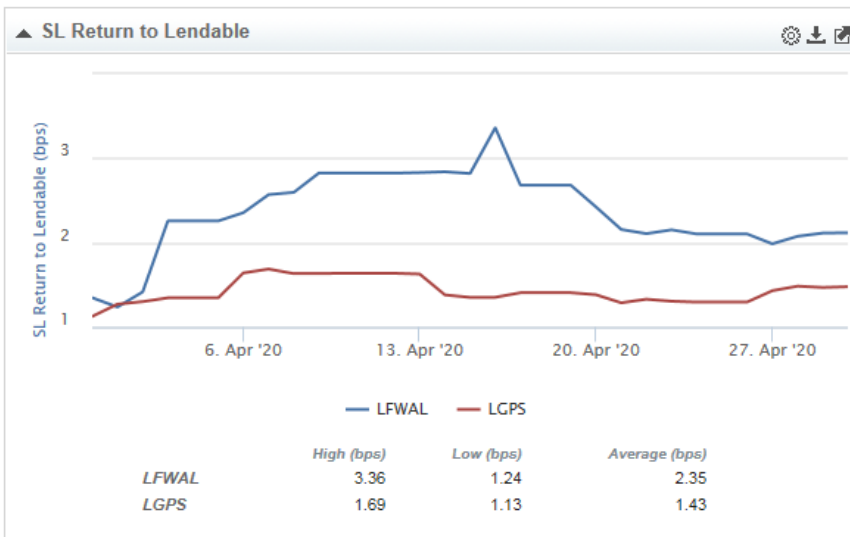
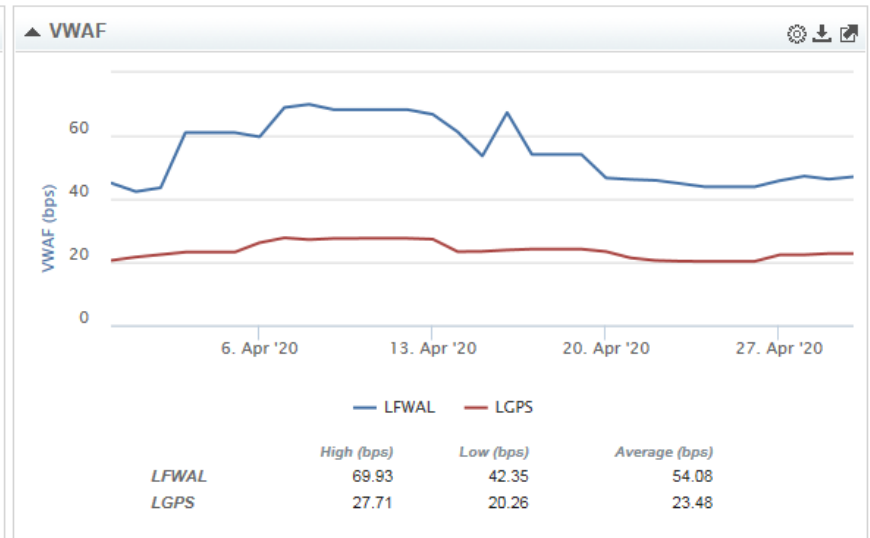
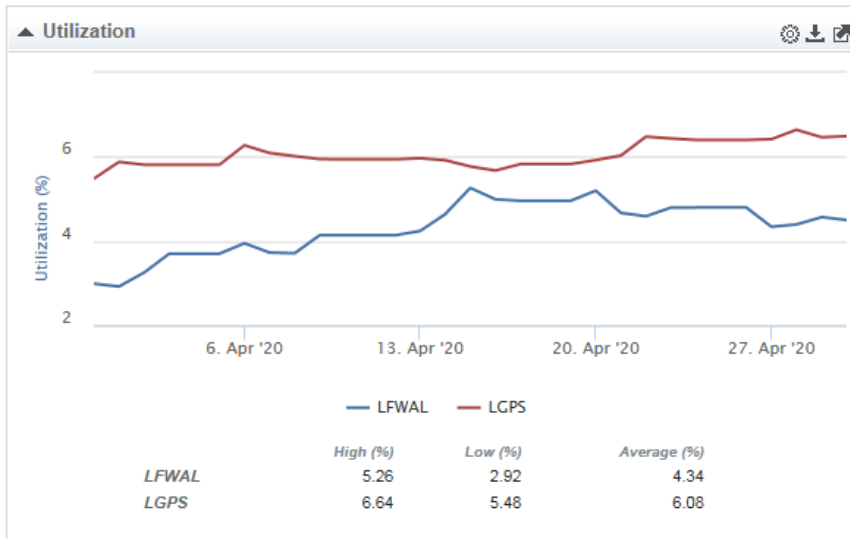
NON-CASH COLLATERAL SUMMARY: 30TH APRIL

Non-Cash Collateral Asset Breakdown

Country	Equities	Govt Debt	Total
Australia	403,310	164,343	567,653
Austria		267,193	267,193
Canada	52,746	26,092	78,837
Denmark	272,229		272,229
Finland		113	113
France	1,663,806	699,283	2,363,089
Germany	3,076,070	2,943,734	6,019,804
Hong Kong	6,055,820		6,055,820
Japan	10,263,528		10,263,528
Netherlands	2,507,125	882,730	3,389,855
Norway	501,087		501,087
Sweden	225,976	1,239	227,215
Switzerland	2,382,733	140,797	2,523,530
United Kingdom	18,095,571	1,099,843	19,195,219
United States	112,835,959	40,019,551	152,855,510
Total	158,335,960	46,244,918	204,580,878

- As of 30th April LF Wales largest three borrowers were:
 - *BNP Paribas Prime Brokerage* – £46,302,889
 - *ING Bank NV London Branch* - £34,183,408
 - *Credit Suisse Securities (Europe) Ltd* – 24,990,290
- The top 3 borrowers made up 52% of the total market value on loan.
- Same-currency fixed income collateral (and US equities) at 102% margin; cross-currency fixed income and all other equities at 105% margin
- Average margin across all loans was 107.57%

BENCHMARKING 2020



Wales underperformed the LGPS Benchmark from a utilisation perspective, with average of 4.34% versus 6.08%, this is due to launch of the funds and the approval process of borrowers having access to the assets.

Wales outperformed on a weighted fee basis with an average bps spread of 54.08 bps versus LGPS benchmark of 23.48 bps, this was due to the demand for directional specials held by Wales.

Due to greater fees on the Wales assets the SL Return to lendable was superior to its peer group at 2.35bps versus 1.43bps.

Benchmarking versus LGPS Benchmark (Exclude funds in client filter, weighted to client lendable ,Only dividends in client filter, UK Fiscal location , Non Cash collateral – Flexibility 1 and 2, Agency Only)

MANUFACTURED DIVIDEND RATE (MDR)

Market	Dividends	Market	Dividends
Australia ¹	100	Mexico	90
Austria	100	Netherlands	100
Belgium	100	New Zealand	85
Brazil ²	100	Norway	100
Canada	100	Poland	81
Czech Republic	65	Portugal	75
Denmark	85	Singapore	100
Finland	100	Singapore REIT's	100
France	100	South Africa ⁴	80
Germany	90	South Korea	85
Hong Kong	100	Spain	100
Hungary	100	Sweden	100
Ireland	100	Switzerland	100
Israel ³	100	Taiwan	79
Italy	85	Thailand	90
Japan	100	UK ⁵	100
		USA	100

- Manufactured Dividend Rates (MDR's) are used in the Securities Finance industry to define the rate at which Dividend Payments, accrued whilst securities are on loan, should be manufactured back to a beneficial owner.
- Due to the nature of Securities Lending Transactions, these rates are inclusive of individual beneficial owners' reclaim ability.



For example, a beneficial owner may suffer 30% Withheld Tax (WHT) on French dividend payments with the ability to reclaim 15% from the Local Tax Authority. In this scenario, the MDR of the lending transaction would be set to 85% being the net of the 30% WHT and 15% reclaim.

- Please note that this is our understanding of the MDR's as applicable to you, but is not intended to be a comprehensive analysis of the tax regulations relating to securities lending.
- Clients may at any time instruct the Agent in writing to apply an applicable tax rate to your manufactured dividend income that is different from the rate stated. Until such notice is received, your agent will continue to apply the rates set forth herein. Any future changes in the market that affect your rates will continue to be actioned unless otherwise advised by you.

¹Some dividends are unfranked and will pay with WHT (Withholding Tax).

² Some dividends pay as IOC (Interest Over Capital) and will suffer WHT.

³ Some securities may pay at differing WHT.

⁴ Inward listing securities may pay at differing WHT.

⁵ For UK the rate reflects the net rate distribution.

GLOBAL EQUITY REPORT

- **Executive Summary**

Global equity markets experienced their highest level of volatility since 2008. The leading index for global equities, MSCI World, fell more than 13% over the month, the biggest single monthly decline since October 2008 and the 3rd worst monthly decline since the index started in 1970.

Stock markets came under massive pressure, with the S&P falling 12% in one day alone mid-month, and the index recording eight days with gains or losses greater than 5%

Central banks across the globe cut interest rates and introduced numerous liquidity-providing measures to help support markets

Governments announced wide reaching stimulus packages to help those most impacted by the global public health crisis.

Short selling restrictions were introduced in some countries including; Austria, Belgium, France, Greece, Italy, Spain, Turkey, Malaysia, South Korea in an effort to protect declining equity markets

Global dividend distributions are expected to experience unprecedented declines as governing bodies and regulators encourage companies, especially banks, to cut, cancel or postpone 2020 distribution to help preserve capital. Some analysts are forecasting that dividend cuts for the S&P could be as much as 25-30%

Overall utilization rates across our global equity lending book (once adjusted for market movements) increased as a function of increased short interest.

By mid-month, hedge fund's risk appetite declined, with widespread de-risking and deleveraging taking place as highly volatile and uncorrelated markets negatively impacted performance.

GLOBAL EQUITY REPORT

- **APAC**

Major Asian markets fell sharply through the month as investor sentiment over the spread of the coronavirus, which emanated from the region, remain highly negative.

In Hong Kong, the Hang Seng limited its monthly declines to single digits with the HSI receding +9.5% for the period. The decline was limited mainly due to the knock-on effect of stimulus measures previously announced in China although even the mainland markets were being dragged down again by month end due to the overriding negative global sentiment.

Loan volumes declined amidst falling market prices. Furthermore, we also saw borrowers unwind many of their most expensive cost to carry trades as their hedge fund clients reduced risk and rotated short exposures

In Korea, the FSC announced an outright ban on short selling activity for a 6 month period starting 16th March, ending 15th September. Korea has introduced similar measures previously, notably after the GFC. However, the measures did not do anything to differentiate the market from other major markets indices and the KOSPI finished 11.69% down for the month.

This impact from a securities lending perspective was modest, however on loan volumes have fallen as short positions are naturally unwound and not replaced.

Japan represented the one market to buck the trend in region. Japan's march month-end dividend record dates was the catalyst for the usual increase in seasonal activity

Toward month end the market was eagerly awaiting the announcement of further stimulus measures from the Abe government to combat the economic downturn. The Nikkei225 declined 10.53% through the month.

Australian lending activity was somewhat buoyed by dividend record date activity as we moved through earnings season. However, attrition caused by falling share prices was apparent by month end as on-loan values fell markedly. By 30th March the Australian government followed the lead of other major economies by announcing an A\$130bn stimulus on top of measures previously announced. The ASX 200 however finished the month down a jaw dropping 21.18%

We continued to see a number of capital raising activities across APAC and expect this trend to continue as companies race to raise cash in order to shore up their reserves.

GLOBAL EQUITY REPORT

- **EMEA**

Securities lending volumes increased as a function of increased short interest, specifically within those sectors most exposed to the effects of the COVID-19.

A reduction in global mobility, along with global supply chain disruption have been the main underlying demand drivers – key sectors include; Airlines, Travel & Tourism, Energy and Industrials

An increase in equity market volatility resulting in borrowers holding less internal equity inventory, as client's and internal trading desk sold out of index positions. This reduction in internal inventory created a greater need to source supply from securities lending market, helping support higher utilisations rates.

A number of short sale ban were announced across Europe in reaction to the increasing price volatility. They vary in scope and time scale. The impact from an SL has been minimal and largely indirect.

Overall lending spreads softened in March due to the combination of the completion of significant corporate events in February and a number of markets implementing a short sale ban's in response to sharp falls in the equity markets, which limited hedges funds short interest activity.

Existing short interest in the retails sector remained high, given the social mobility impact of virus. That said, demand remained focused on companies burdened with high debt

The Prudent Regulation Authority, the supervisory arm of the Bank of England actively encouraged UK Banks to cancel dividend payments in order preserve capital. Many of the country's largest banks (including HSBC, Barclays and Standard Chartered) all cancelled payment.

Demand for ETFs has been elevated, both sector specific ETFs and those that tracking broad based indices. More specifically, we have also seen elevated demand to borrow ETFs that replicate the performance of baskets of High Yield corporate bonds. As investors looked to reduce their exposure to risk assets, there has been a significant outflow of capital from the corporate high yield space. This has been the catalyst for increased short interest, at materially higher lending spreads. We have seen this dynamic play out in both Europe and the US.

GLOBAL EQUITY REPORT

- **AMERICAS**

All major U.S. indices declined, with the S&P 500, Dow Jones and Nasdaq falling 12.5%, 13.7% and 10.1% respectively. The S&P 500 decline ended its longest bull market in history.

U.S. Federal Reserve lowered its main interest rate close to zero, announce unlimited purchases of US Treasuries and mortgage-backed securities guaranteed by government agencies and resurrected a series of facilities dating back to 2008 to support credit markets.

Securities lending volumes decreased in March as a function of negative mark-to-market given the market sold off. Borrower demand was up but only partially off-setting market depreciation.

Hedge fund managers de-risked their portfolio to reduce their exposure to market volatility. Short interest increased across those sectors most exposed to the restricted global mobility (airlines, travel and tourism).

There was a significant increase in demand to borrow index tracking ETFs. This asset class represents an efficient tool to hedge investor's long exposures to declining equity market valuations.

Elsewhere, a move to safe-haven assets has been a catalyst for significant outflows from corporate high yield. Several high yield ETF, including BlackRock's flagship high-yield ETF (HYG) experienced material outflows. This was a catalyst for a significant increase in short interest at wider lending spreads.

In Canada, the SPTSX Composite Index ended the month falling 18.83% despite the introduction of several significant fiscal stimulus packages

In an effort to soften the economic impact of COVID-19, the BoC cut the overnight benchmark rate three times through March, each by 50bps, with the rate falling from 1.75% to 0.25%.

Hospitality, real estate and travel sectors saw an increased in short interest. Financial stocks suffered through aggressive rate cuts initiated by the BoC, while energy prices tested new lows with the price war between Saudi Arabia and Russia, triggering a major fall in crude prices.

NORTHERN TRUST ACCEPTABLE GOVERNMENT DEBT COLLATERAL

- Northern Trust accepts OECD government debt as collateral on behalf of our clients if it is listed as acceptable collateral per the client's collateral guidelines. OECD government debt may be accepted as collateral for the lending of either fixed income or equity securities.
- Northern Trust currently accepts OECD government debt of the following countries, although this is subject to change. Northern Trust may operate with more conservative requirements at its discretion.

Country	Standard & Poor's Rating	Moody's Rating	Fitch Rating
Austria	AA+	Aa1	AA+
Australia	AAA	Aaa	AAA
Canada	AAA	Aaa	AAA
Denmark	AAA	Aaa	AAA
Finland	AA+	Aa1	AA+
France	AA	Aa2	AA
Germany	AAA	Aaa	AAA
Japan	A+	A1	A
Netherlands	AAA	Aaa	AAA
New Zealand	AA	Aaa	AA
Norway	AAA	Aaa	AAA
Sweden	AAA	Aaa	AAA
Switzerland	AAA	Aaa	AAA
UK	AA	Aa2	AA
USA	AA+	Aaa	AAA

SECURITIES FINANCING TRANSACTION REPORTING - SFTR

Scope of the Regulation

Detail and Challenges

Considerations

Next Steps

- Transaction reporting regime aimed at giving regulators insight into market activity.
- Loan data to be submitted on a T+1 basis with collateral data on SD+1.
- All EU domiciled participants are required to report with a current go live date estimate of Q2 2020.
- The scope extends to non-EU domiciled participants, in order to support the reporting obligations of those that are domiciled within the EU.

- 140+ reportable fields depending on the structure of the transaction
- Each transaction will require a “UTI” (Unique Transaction Identifier) which must match on both sides of the transaction.
- Each transaction will require an execution timestamp which must match within a reasonable tolerance.
- The new regulation will require beneficial owner to report every transaction, every day.
- Provision of loan and collateral allocation data for non-EU lenders is mandatory when lending to EU domiciled borrowers.

- The reporting obligation resides with the beneficial owner – not the agent lender – and an EU domiciled borrower.
- Northern Trust will offer reporting services on behalf of its clients.
- All clients participating in the Northern Trust lending program will need to have an LEI.
- There will need to be amendments to SLAA contracts to cater for SFTR.

- Northern Trust are working with multiple vendors to evaluate the best solution.
- Additionally, heavily engaged with ISLA in developing market practice to support the implementation
- An internal IT project is underway to make necessary changes to support reporting
- A series of client communications is planned in 2018 and 2020 to educate and prepare lending clients for the implementation.



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