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The Science of Finance

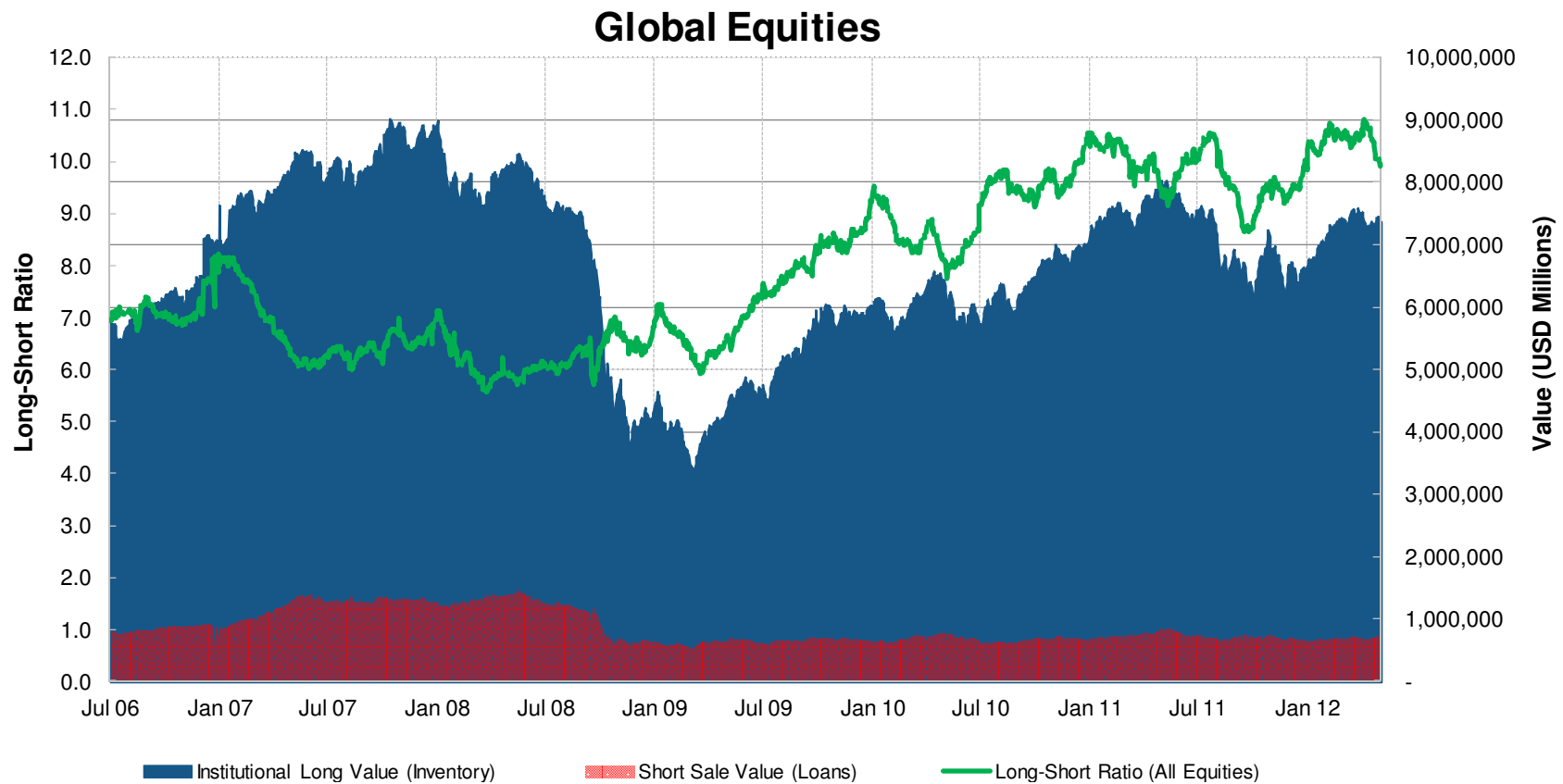
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# Securities Lending Market Update CASLA

Melissa Gow \ Director \ 9 May 2012

## Scale of the Equity Securities Lending Market

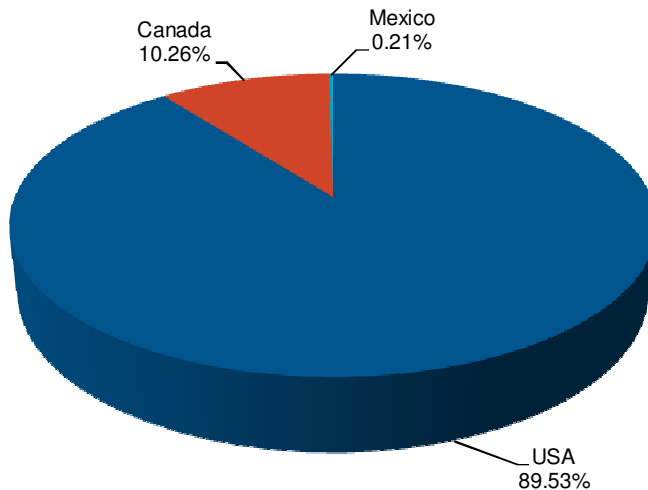
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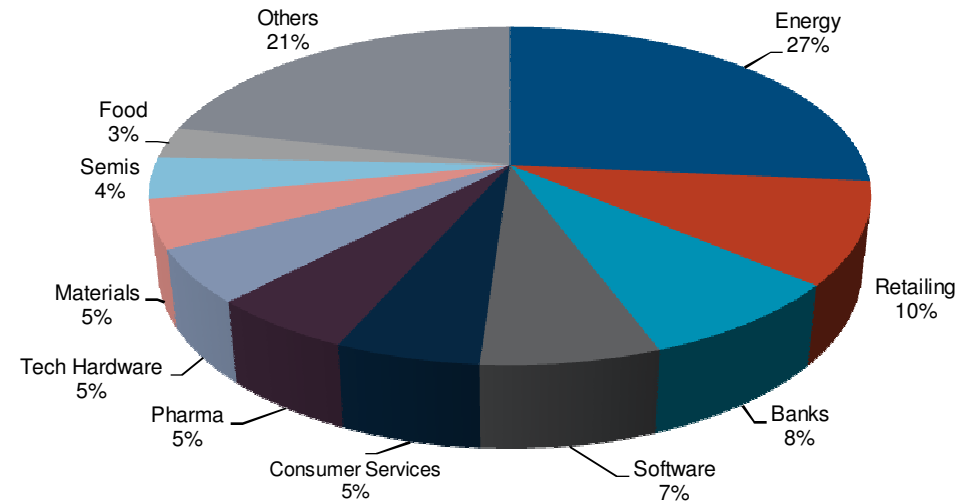
## Equity Lending Income by Region

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### North America SL Revenue



### Lending Revenue by Sector



- Canada Represents 10% of the North American SL Revenue, roughly the same as last year
- Energy shares have the highest revenue contribution with the highest fee and balance out of any sector
- Banks have the second highest balance, while consumer services has the second highest fee



## Global Equities: SL Fees & Reinvestment Rates

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### SL Fees

- 2008 averaged 78% securities lending revenue from SL Fees
- 2009 increased to 87% globally
- 2010 increased to 92%
- 2011 average revenue share from SL Fee was nearly 95%

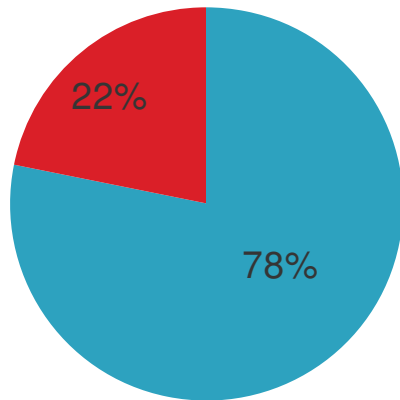
### Reinvestment

- Average revenue from Reinvestment was 22% in 2008
- Decreased to 14% in 2009
- 2010 was 9%
- 2011 averaged 5% of total securities lending revenue

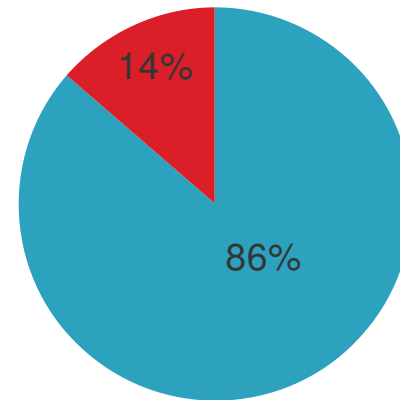
## Global Equities: SL Fees and Reinvestment Rates

Revenue Share % ■ SL Fee ■ Reinvestment

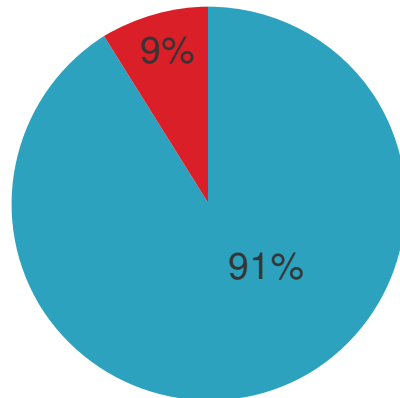
2008



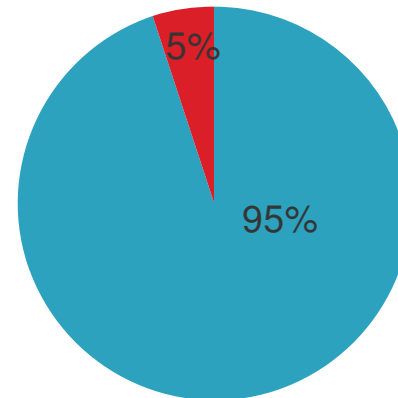
2009



2010



2011





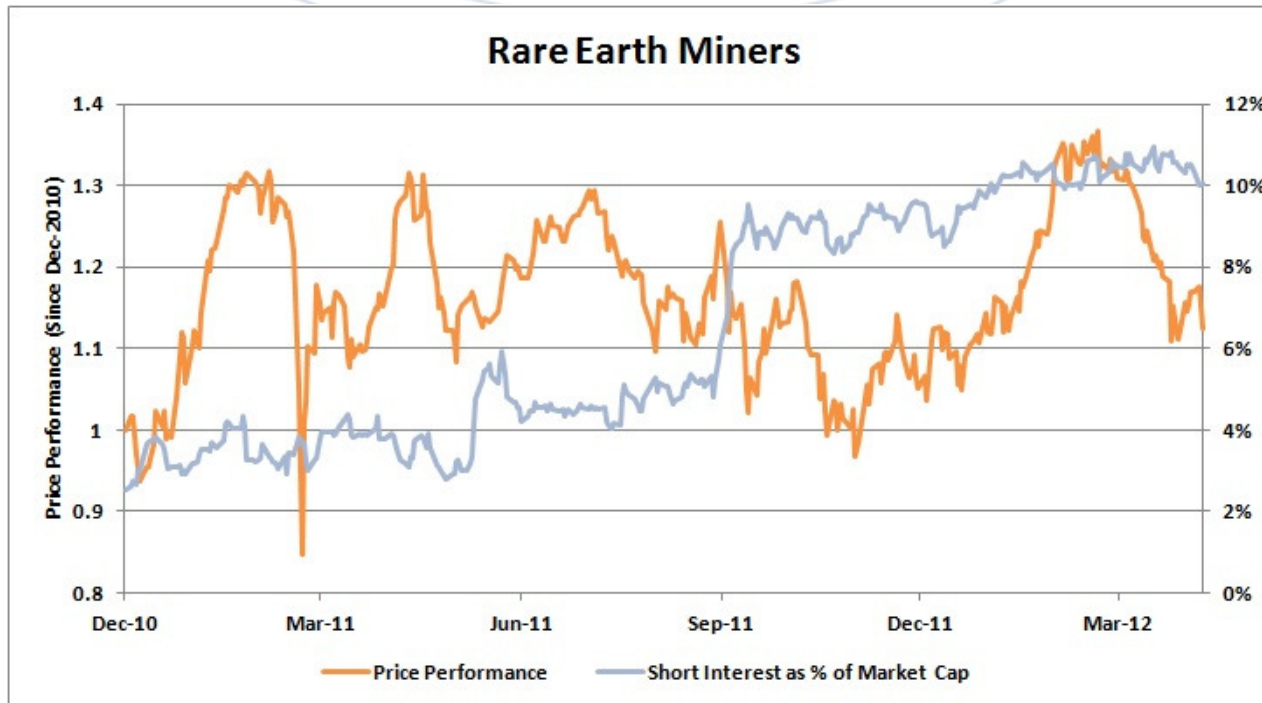
## Trends in Global Securities Financing

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- Focus on “intrinsic” lending fee due to low interest rates and low risk appetite for cash re-investment
- Pressure on Agent Lender/Prime Broker trading relationship with high fees for the “hard to borrow” names
- Lending supplies have returned to pre-crisis levels but demand remains relatively low
- Uncertain and evolving regulatory environment
- Challenges and opportunities of increased transparency

## SECTOR ANALYSIS - Rare Earth Elements

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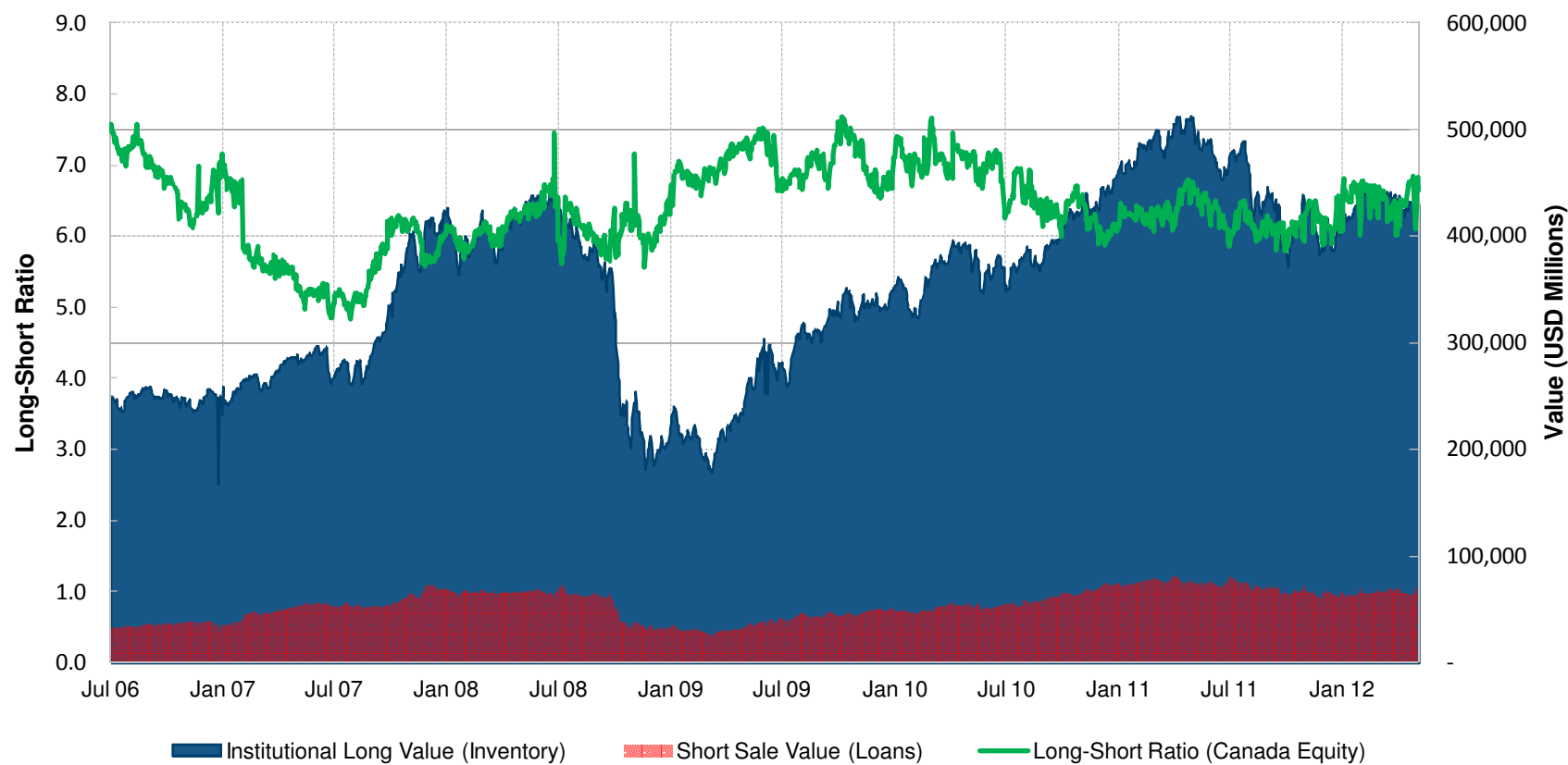
- China dominates the current production of rare earths
- Firms have started developing new fields in Canada, USA, Australia and Japan aiming to diversify worldwide supply of this strategic resource

- Market forces and political interference create high volatility in rare earth share prices, which draw short sellers
- Currently 10% of the total market cap across the sector is shorted
- Molycorp is the most shorted company with 18.8% of its shares out on loan, twice where it was last year
- Short sellers are steering clear of Chinese and Japanese domiciled companies which have political support behind their industry

## Scale of the Equity Securities Lending Market - Canada

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### Canada Equities





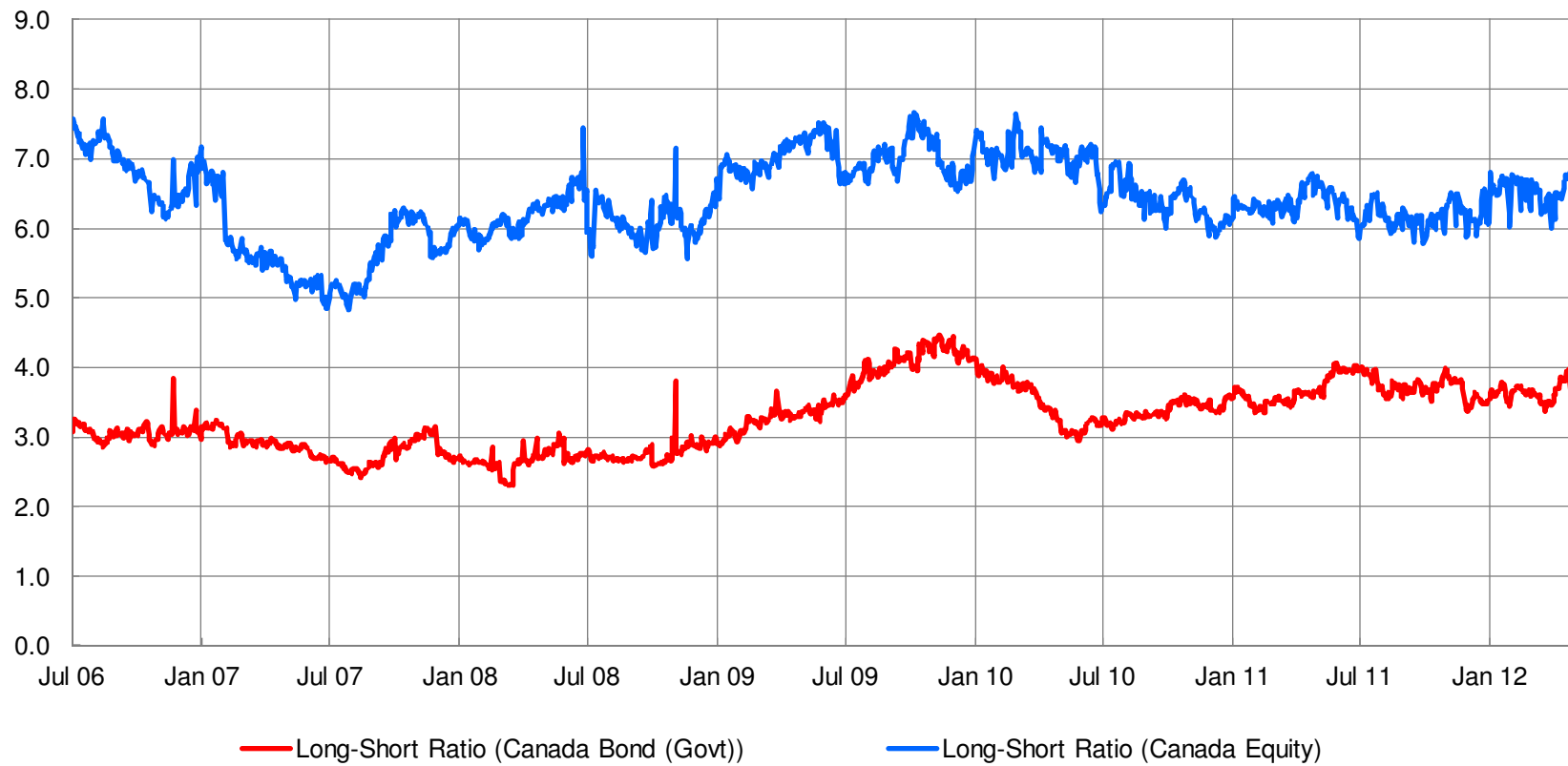
## Securities Lending Market Statistics

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	As at end March 2012		Group Average Results Quarter Ended March 2012			
Asset Class	Lendable Assets (USD Million)	Total Balance (USD Million)	Utilization (%)	SL Fee (bps)	Securities Lending Return to Lendable (bps)	Total Return to Lendable (bps)
Canada Equity	445,412.61	80,635.97	10.52	37.09	5.00	5.30
Canada Equity (TSX60)	308,897.35	50,909.24	9.02	29.81	4.08	4.33
Canada Equity (TSX Midcap)	103,243.91	24,103.88	15.49	36.69	6.49	6.91
Canada Equity (Others)	33,271.36	5,622.85	8.89	112.06	8.69	9.09
Canada Government Bonds	274,772.18	79,079.90	23.36	8.87	2.06	2.67
Canada Govt Bonds (Domestic)	127,476.43	60,481.06	38.52	8.28	3.14	4.00
Canada Govt Bonds (International)	1,860.37	221.13	11.14	24.77	2.85	4.35
Canada Govt Bonds (Prov. Domestic)	128,363.66	16,699.96	10.28	9.73	1.03	1.30
Canada Govt Bonds (Prov. International)	17,071.72	1,677.75	9.26	17.78	1.63	2.78
CAD Corporate Bonds	265,328.46	13,446.49	4.93	9.22	0.44	0.56

## L/S Ratio for Canada Govt. Bonds and Equities

### Canada Govt Bond vs. Equity





## Canada Equities: SL Fees & Reinvestment Rates

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### SL Fees

- 2008 averaged 86% securities lending revenue from SL Fees
- 2009 increased to 88% globally
- 2010 increased to 96%
- 2011 average revenue share from SL Fee was 96%

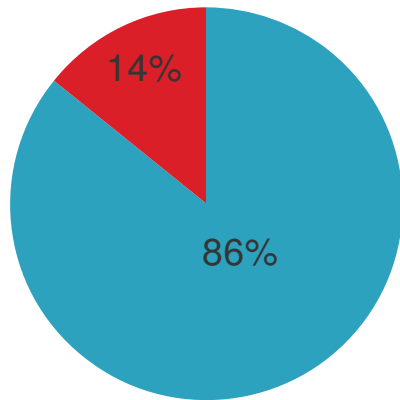
### Reinvestment

- Average revenue from Reinvestment was 14% in 2008
- Decreased to 12% in 2009
- 2010 reinvestment revenue decreased significantly to 4%
- 2011 averaged 4% of total securities lending revenue

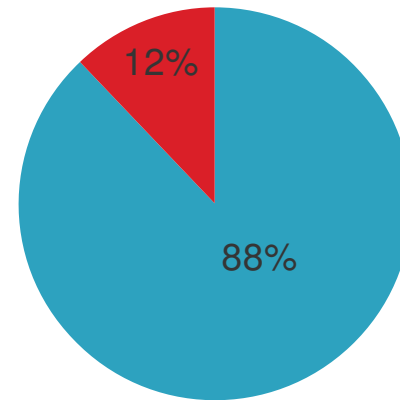
## Canada Equities: SL Fees and Reinvestment Rates

Revenue Share % ■ SL Fee ■ Reinvestment

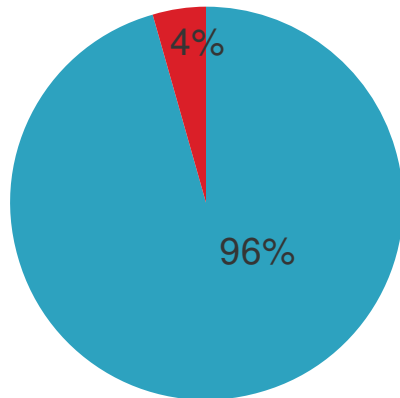
2008



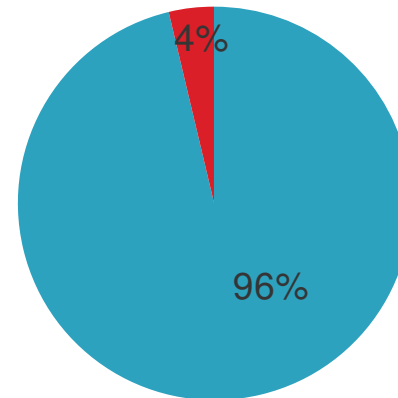
2009



2010

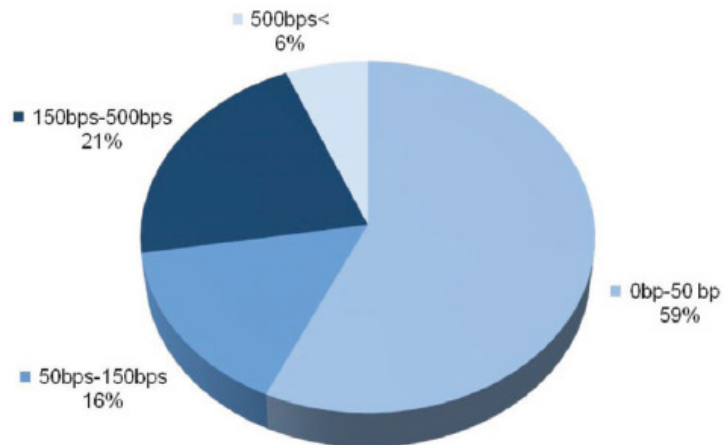


2011



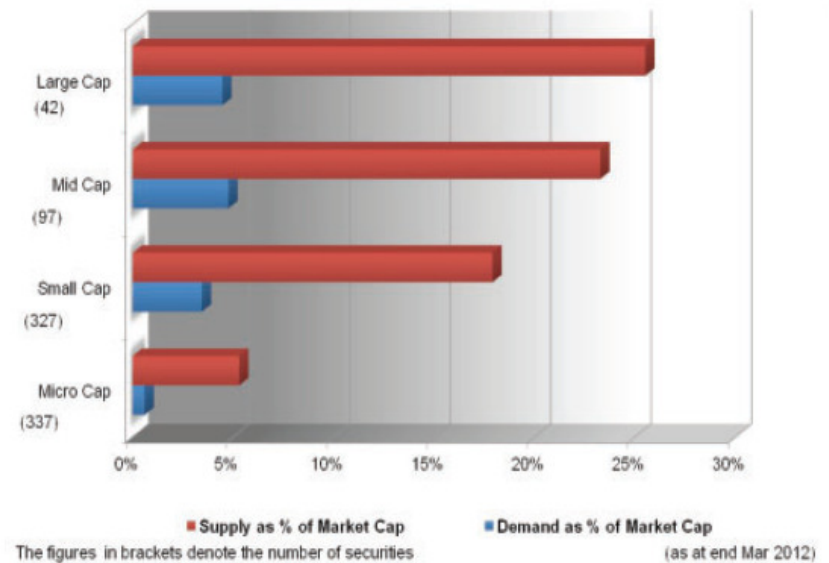
## Canada: Fee Breakdown and Supply & Demand

### Securities Lending Fee Breakdown



total number of securities: 1,165 (as at end Dec 2011)

### Supply & Demand - by % of Market Cap





## Canada: Security Ranking by Total Daily Return

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Rank	Stock Description
1	Enbridge Inc*
2	Bank Of Montreal*
3	Manulife Financial Corp*
4	Canadian Imperial Bank Of Commerce
5	Royal Bank Of Canada*
6	Toronto Dominion Bank*
7	Crescent Point Energy Corp
8	Sun Life Financial Inc*
9	Bank Of Nova Scotia*
10	Sino-Forest Corp



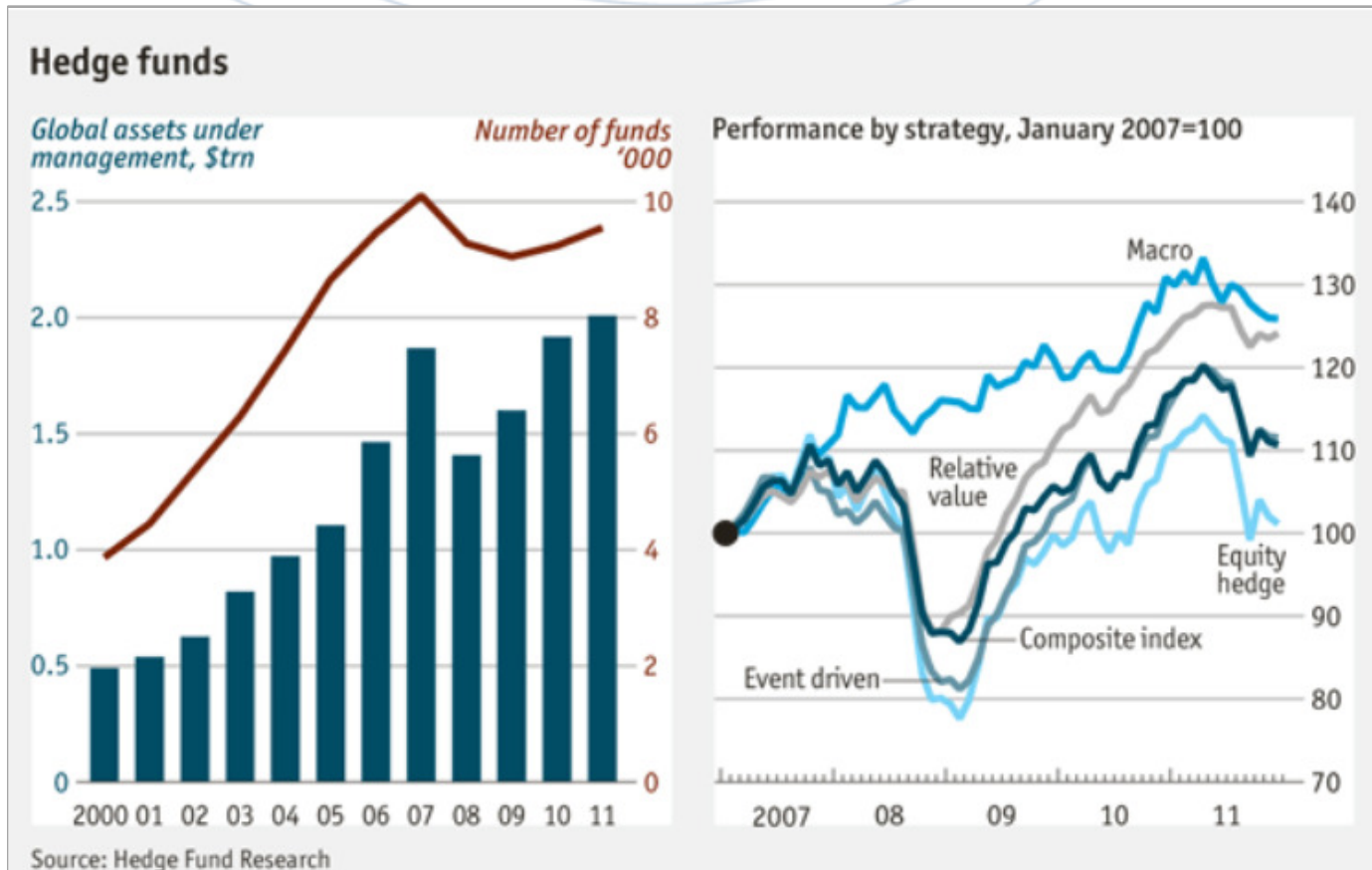
## **Trends in Global Securities Financing - Canada**

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- Lending supply has increased to pre-crisis levels
- Demand has steadily increased since the crisis, but remains low relative to supply
- There has been a decrease in both supply and demand since a peak in May 2011
- IMF report and the “Canada bubble”?
- Regulatory harmonization

## Demand Side: The hedge fund market

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### Hedge Funds

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