

**SOURCE OF OPERATIONAL CHALLENGES**

- **Changing Profile of the Investment Client**
- **Speed of Change in Product Development**
- **Complexity of Products > Operational Capabilities**
- **Lack of Standards Across Markets**
- **Increasing Demand for Custom Services**
- **Pressures to Reduce Cost of Services**

2

**Changing Profile of the Investment Client**



The opportunities are anything but “standard”

<b>Client strategy:</b>	Local Advisors	Fund of Funds	Global Advisor	3 <sup>rd</sup> Party Mgr			
<b>Role of consultants:</b>	Minimal	Local is Key	Global is Key	Both are Key			
<b>Investment vehicle:</b>	Separate Account	Mutual fund	Advice-Only	White Label			
<b>Currency used:</b>	€	¥	£	USD RMB			
<b>Primary language:</b>	English	Mandarin	Spanish	Italian	Cantonese	French	German
<b>Role of custodians:</b>	None	Low	Moderate	Sophisticated/High (as in U.S.)			
<b>Mandate:</b>	Class (Equity/FI / Alternative)	Geography (Global/Regional /Local)	Market Cap	Risk	Value/ Growth		
<b>Reporting standards:</b>	None (Custom)	Low	Moderate	Well-developed (Standard)			

3


**Speed of Change in Product Development**



- **Evolving Client Demands creates Reactive Product Development**
- **First Mover Advantage**
- **New regulatory or tax changes create “instant” opportunity or challenge**
- **Increasing Requirements from Regulators to Register Products or Client Accounts**
- **Lead Time to Establish Trading Accounts - ISDA**

4

**COMPLEXITY OF PRODUCTS vs OPERATIONAL CAPABILITIES**



- **Lack of Flexibility in Legacy Accounting Systems**
- **Financial Engineering of Securities**
- **Contractual Nature of Securities requires Manual Intervention for Settlement and Processing**
- **Valuation of Securities not actively traded**
- **Collateral Monitoring and Risk Management**
- **Integration of Information from Outsource Providers**

5

**Operations Required to Support Investment Management & Distribution in Worldwide Locations**





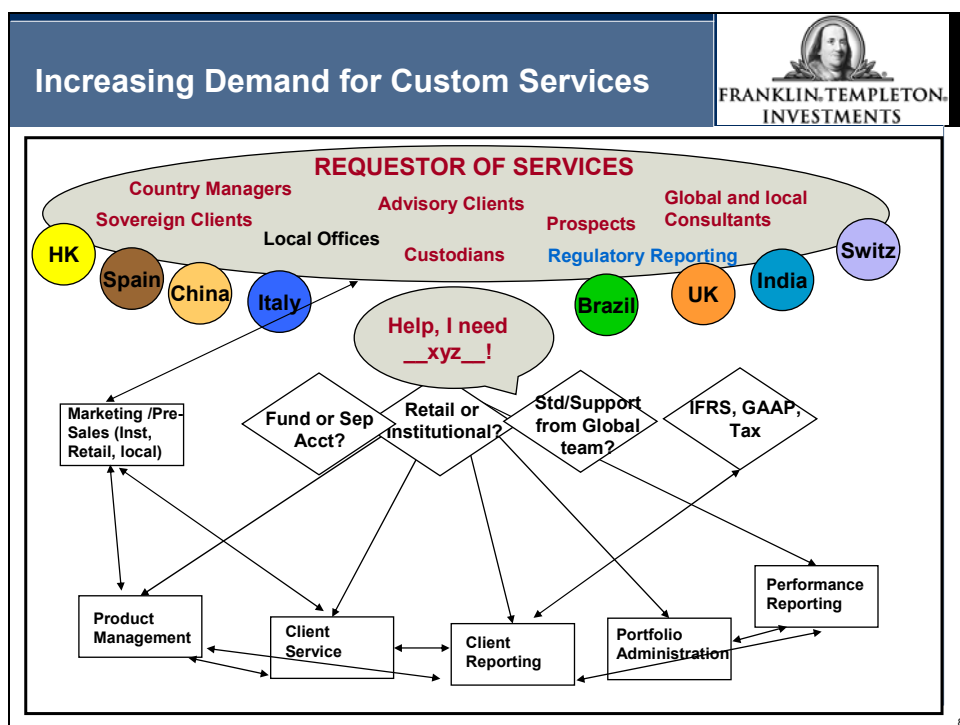
6

LACK OF STANDARDS ACROSS MARKETS



- **Giovannini Group – 15 Barriers to Clearing & Settlement**
- **Investor Protection Initiatives - MIFID**
- **Tax Treatment of Income & Capital Gains**
- **Developed vs Emerging vs Frontier Markets**
- **Market Acceptance of New Security Types**
- **Regulatory Requirements for Retail vs SMA, etc**

7




PRESSURES TO REDUCE COST OF SERVICE



- Standardized Global Systems
- Technology Efficiencies to Provide Scalability
- Data Warehouse to Support Custom/Adhoc Reporting
- Centralizing Functions to Reduce Training Costs
- Risk Management Controls to Reduce Errors
- Global Sourcing for Compensation Arbitrage

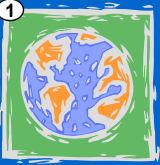
9

HIGH-LEVEL FUTURE GLOBAL SERVICE MODEL



Overarching Global Business Strategy & Philosophy

1



2

¥ Pts £  
Pts £  
€ ¥  
Pts €

3

Screen to ensure the business makes sense in terms of strategy, risk, capabilities, servicing approach, and long-term profitability

4

Product Mgmt Sales Performance  
Legal Client Service Client Reporting  
Integration Team (for new business)  
3rd parties

5

Product Management
Client Service
Client Reporting
Portfolio Administration
Performance Reporting
Relationship Management

Global, Flexible Technology Platform

1

Understand and prioritize universe of opportunities wherever they are and however they come to us

- Opportunity matrix
- Evaluate Risk

2

Increase our access to the opportunities:

- Global consultant database & outreach
- Global RFP platform
- Global marketing support + branding
- Portfolio specialists
- Global footprint

3

Screen biz for fit:

- Product profitability
- Product matrix
- Strategic value of client and mandate
- Std and custom service offerings
- Underwriting Committee

4

Integrate new clients:

- Coordinator-internally and externally with custodians and clients
- Standards, checklists and procedures

5

Serve clients (including 3<sup>rd</sup> party custodians and consultants well and profitably:

- Std and custom service offerings
- Enabled by IT (CRM, data, automation)

\*\*\*

©International Securities Services Association

14<sup>th</sup> ISSA Symposium, 3-6 June 2008