Market Liquidity Solutions
Creating Opportunity in a Challenging Environment
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30% of institutional asset owners and managers say their investment portfolio has become less liquid in the past three years.

42% face either a significant or moderate challenge in reporting their liquidity position to their board or regulators.

44% plan to improve their risk-reporting capabilities over the next year.

47% of institutional asset owners and managers are planning to invest in external resources over the next year to improve their regulatory compliance.

48% of institutional asset owners and managers think that decreased market liquidity is a secular shift that is here to stay.

1 State Street 2016 Liquidity Survey. During June and July 2016, Longitude Research surveyed 150 asset owners and 150 asset managers, including 30 hedge funds, in 14 countries. All figures cited came from this research unless otherwise noted.
The New Liquidity Standard

Market liquidity has become a major focus for today’s investment institutions. Regulatory reforms such as Basel III and Dodd-Frank have compelled banks to strengthen their capital positions, and the extent to which asset managers represent systemic risk has become a major regulatory concern.

Many global investment banks are scaling back or withdrawing from their market-making roles. As a result, liquidity in some security types has deteriorated. Central banks’ quantitative easing programs have also changed the market, as their bond-buying strategies reduce the supply of many lower-risk securities. At the same time, regulators have turned more attention to the fund management industry in an effort to strengthen the ability of open-ended funds to meet investor redemptions. Many fund managers must adopt new liquidity risk-management guidelines and fulfill many new reporting obligations.

A new liquidity environment is taking shape. Trading roles have been transformed and market entrants are emerging, while electronic platforms and peer-to-peer lending are changing the way firms transact business.

To succeed, you need strategies that help manage liquidity across complex, multi-asset investment portfolios. This includes improving the way you measure liquidity risk; reassessing how you manage it across portfolios; and using advanced tools to analyze and report it quickly and accurately. Most important, you should know your options and have the right solutions in place to access liquidity when you need it.

State Street brings specialized expertise to liquidity management. We offer a suite of services that can help asset owners and managers navigate complex market conditions:

- **Regulatory Insight** — Knowledge and experience to help you keep pace with the changing regulatory environment.
- **Liquidity Risk Analytics** — Flexible, efficient ways to access, evaluate and report portfolio exposures and risk profiles across asset classes.
- **Alternative Sources of Financing** — Opportunities to capitalize on new and complementary sources of liquidity.

48% of institutional asset owners and managers think that decreased market liquidity is a secular shift that is here to stay.
The Reality of Regulation: Navigating the New Environment

To keep pace with the fast-moving regulatory environment, it’s important to understand how changing regulations will affect your organization.

You have to be ready to deliver real-time reporting to regulators on liquidity issues. We offer the right tools and knowledge to help ensure compliance across your global footprint.

Whether you’re looking to establish a liquidity risk program in response to the new US Securities and Exchange Commission’s (SEC) reporting and liquidity risk ruling or meet the depositary, reporting, monitoring and risk needs of the Markets in Financial Instruments Directive (MiFID), you can rely on us.

We have the experience and solutions to help you efficiently meet your growing regulatory obligations. Our solutions are backed by years of partnering with traditional investment managers, alternative managers, institutional asset owners and insurance companies.

Our Regulatory Resource Center (RRC) portal combines the latest global regulatory news and information with thought leadership and expert analysis — all at your fingertips.

Using the RRC’s web interface, you can delve deeper into regulatory reforms, rules and requirements, and learn more about our solutions to meet your regulatory, financial and tax reporting needs.

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Rationalizing the Risk: New Solutions for Analyzing and Reporting Liquidity

A granular, current market view of your liquidity risk position helps all of your funds meet redemption requests and other funding liabilities, while satisfying regulators’ disclosure requirements.

**Liquidity Risk Reporting: truView®**

Our truView platform provides an advanced approach to risk management and disclosure. It helps you assess overall fund liquidity and your ability to meet potential liabilities and redemption requests. This flexible solution can adapt to your specific requirements, giving you insights into the impact of liquidity events. It also facilitates analysis across asset-liquidity profiles, redemption ratios and stress scenarios.

Working closely with your risk, compliance, and investment teams, we can aggregate and manage data from your providers to produce a complete reporting solution that helps you manage your liquidity risk across all asset classes. The platform measures portfolio performance and assesses risks by:

- Comparing your portfolio liquidity profile against your redemption liability profile in a variety of scenarios
- Helping funds report their ability to cover redemption requests
- Supporting a variety of stress-tests, including testing against historical crisis events and market events such as rising interest rates, widening credit spreads, and beta-adjusted shocks

Our integrated analytics solution offers the tools, information and advisory services needed to enhance risk analysis, make investment decisions with confidence, and communicate these insights more effectively.

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New Rules, New Tools: Financing Solutions

As the environment changes, asset owners and managers may need to find alternative sources of liquidity. Whether you’re on the buy-side or the sell-side, you can choose from a growing number of innovative financial products from State Street.

Financing Solution for Long/Short Portfolios: Enhanced Custody

Using our global Enhanced Custody solution, you can borrow and finance securities directly with us within a segregated custody account. This provides a new channel for financing, while giving you greater visibility and control over your assets.

Enhanced Custody is unlike traditional brokerage, as the majority of our financing isn’t reliant on the short-term wholesale funding market. You can choose to borrow your own securities from accounts within the same legal entity — safe in the knowledge that State Street is one of the largest agent lenders. Securities held in custody are segregated from those of other clients. We don’t “pool” assets as you’d find in a traditional prime brokerage program — our approach can result in lower levels of credit risk.

Using the platform, you have several ways to finance your portfolio:

• **Cash**

• **Memo Pledge** — “Pledging” securities to State Street as collateral. Absent a default event, these securities remain in your custody account and may not be rehypothecated by State Street

• **Self-Finance** — Lending your fund’s long positions to generate cash collateral

• **Self-Borrow** — Borrowing securities from accounts within the same legal entity requires no financing

This stable, differentiated financing option can simplify your operations and help efficiently manage your risk, compliance, financial reporting, collateral and general oversight functions.
Enhanced Custody Convertible Bond Solution

A leading alternative asset manager with more than $100 billion in assets under management wanted to diversify the financing sources for its convertible arbitrage strategy.

**Challenge**

Changing regulations were putting pressure on the financing structure for this client’s 40 Act convertible arbitrage strategy. Due to pricing pressures and balance sheet constraints, the client wanted to explore other financing options that would provide greater transparency and stability.

**Solution**

We deployed our Enhanced Custody solution to help diversify financing sources and achieve stable pricing. By using convertible bonds as collateral through Enhanced Custody, the client is maintaining stable pricing for its investors in an operationally efficient manner, with State Street Bank & Trust as their counter party.
State Street is an established leader in 40 Act and UCITS fund financing, with more than 20 years of experience. Offering both leverage and liquidity, we provide credit arrangements and traditional debt facilities, syndication services, and alternative self-financing structures.

**Leverage and Liquidity Solution**

We’ve provided leverage, liquidity and cash solutions to our clients for decades. And our Securities Finance team offers a range of options as regulations challenge the traditional framework.

Our Leverage and Liquidity solution combines traditional debt facilities with self-financing mechanisms, such as securities lending and repurchase agreements (repo). We act as agent and administrator, and raise cash on your funds’ behalf using our Agency Lending and Repo platform, or as Principal using the bank’s balance sheet, for liquidity purposes. As shifts in lending and repo demand occur, we supplement this offering with a committed line of credit when necessary.

This solution increases available liquidity to your funds, and diversifies credit risk across a wide array of high-quality counterparties, by using or accessing State Street’s broad distribution network.
Peer-to-Peer Repo Solution: Cash Cross

Our Cash Cross solution matches clients with cash to clients that are seeking to finance their US Treasuries. With this peer-to-peer solution, we act as agent to facilitate reverse repo agreements between clients, without using intermediaries. The key benefit of this program is that it facilitates increased liquidity in the repo markets while helping cash providers find an overnight investment option, thereby avoiding excess deposit fees. It also helps collateral providers expand their repo counterparty network, reducing the negative impacts of diminished balance sheet availability.

Our infrastructure provides substantial operational and risk benefits, while our large custody client base provides extensive access to liquidity.
New Rules, New Tools: Digital Liquidity Management

Technology is at the core of today’s market innovation. New digital solutions provide access to alternative sources of liquidity and help democratize access to trading.

**Liquidity Management Portal: Fund Connect™**
Among our electronic trading solutions, Fund Connect offers an automated liquidity management solution. Fund Connect allows you to diversify your short-term investment portfolio across a range of global funds through a single interface. We give you the tools you need to streamline and consolidate your daily investment and reporting processes, coupled with an experienced client service team.

With the holdings information of more than 400 funds available across multiple currencies, you have access to one of the most comprehensive portfolio holdings and trading tools available.

**Liquidity Access Solution: FX Connect™**
Our global FX execution solution helps you manage multiple portfolios and various regulatory obligations. FX Connect is an end-to-end trading platform that simplifies and automates your entire trading process, allowing you to efficiently net, execute and allocate trades with your chosen counterparties, selected from a large pool of banks and global liquidity providers.
Fund Connect: Key Features

Trading Flexibility
Multiple trading styles (Direct, Omnibus and Nominee) with consolidated reporting across global treasury operations

Risk Management
Extensive compliance controls at the institutional, user and fund level

Straight-Through Processing
Streamlined investment research and operational workflow with fund information and integration into multiple treasury systems

Auto-Settlement
Ability to send custody settlement and payment instructions in real time, via SWIFT, to any global bank or custodian available on the SWIFT network

Portfolio Transparency
Clarity into your portfolio exposures in real time, at the security level

FX Connect: Key Features

Deep and broad liquidity

Wide choice of execution styles

Complete end-to-end workflow solution

Integration with OMS and accounting systems

Dedicated client support and account management
Conclusion: Setting a Course for Success

As a new liquidity environment emerges, liquidity management is now a focal point for financial market participants. The challenges are considerable, but we’ve developed a range of solutions to help you realize the opportunities.

With the right tools and expertise, you can manage liquidity, keep pace with regulation, and capitalize on new sources of finance — so you’re better positioned for success.
Important Risk Information
Investing involves risk including the risk of loss of principal. The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor’s particular investment objectives, strategies, tax status or investment horizon. All material has been obtained from sources believed to be reliable. There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. The whole or any part of this work may not be reproduced, copied or transmitted, or any of its contents disclosed to third parties without State Street’s express written consent.

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