

McLagan Investment Services

Our offering to custodians

Dominic Hobson, Co-lead, McLagan Investment Services

Sibos
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Prepared by McLagan

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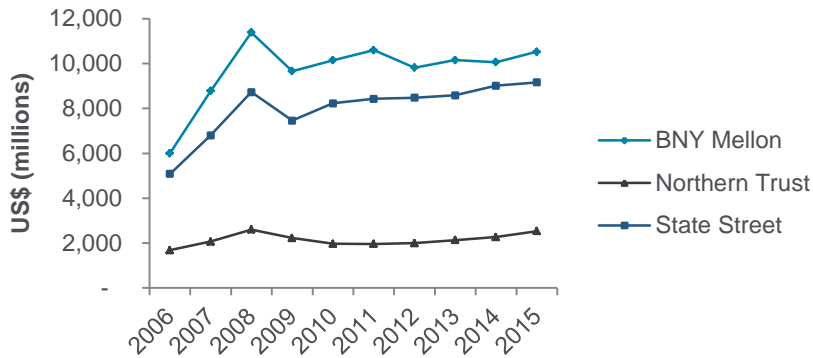


The Custody Industry is Strategically Challenged

Revenues
are not
growing

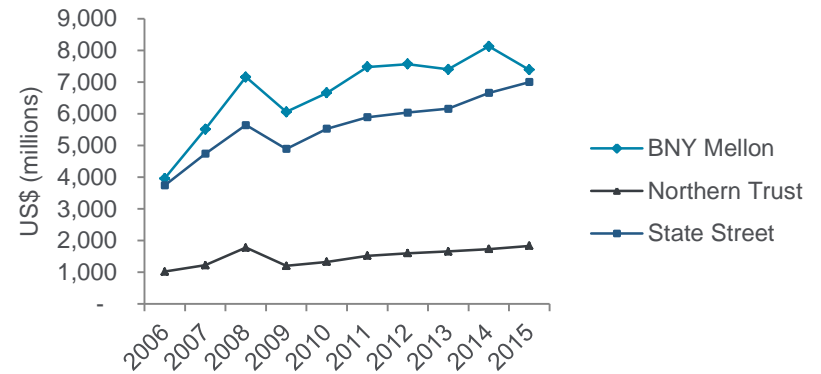
Costs are
not falling

Net revenues 2006-2015



Source: Bloomberg

Non-interest expense 2006-2016

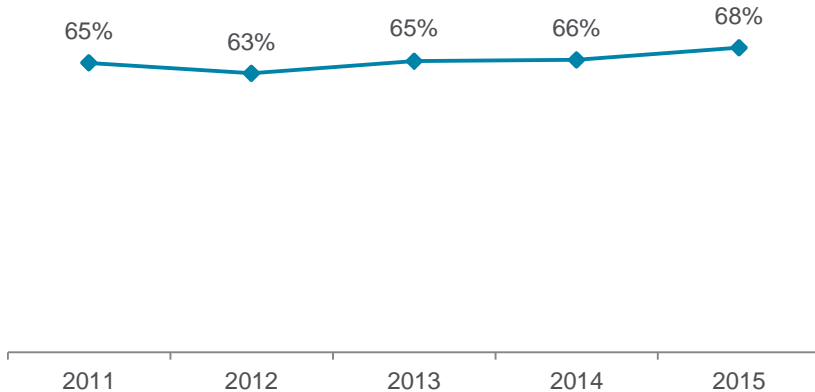


Source: Bloomberg

Profitability is Under Pressure and the Cost of Risk is Increasing



Margin

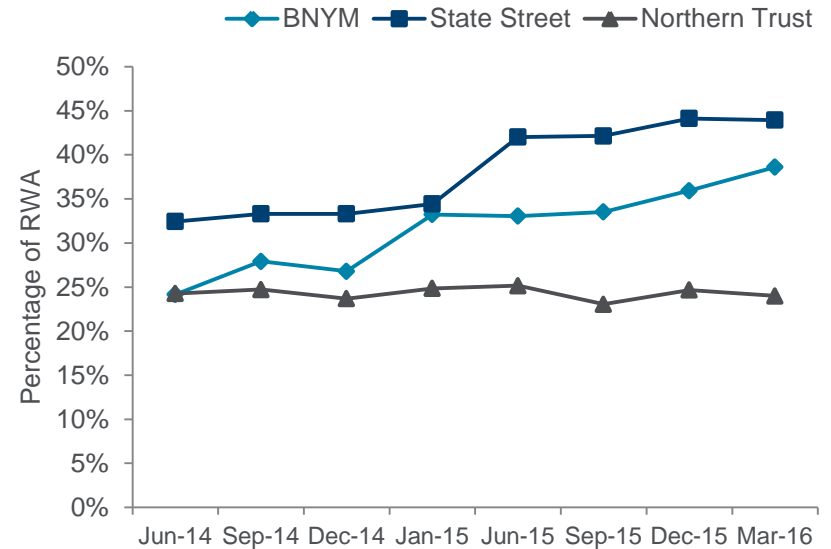


Source: McLagan

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Operating risk capital as a percentage of total risk weighted assets (RWA)



Source: Basel III disclosures

Regulation is Raising the Cost of Liquidity and Capital

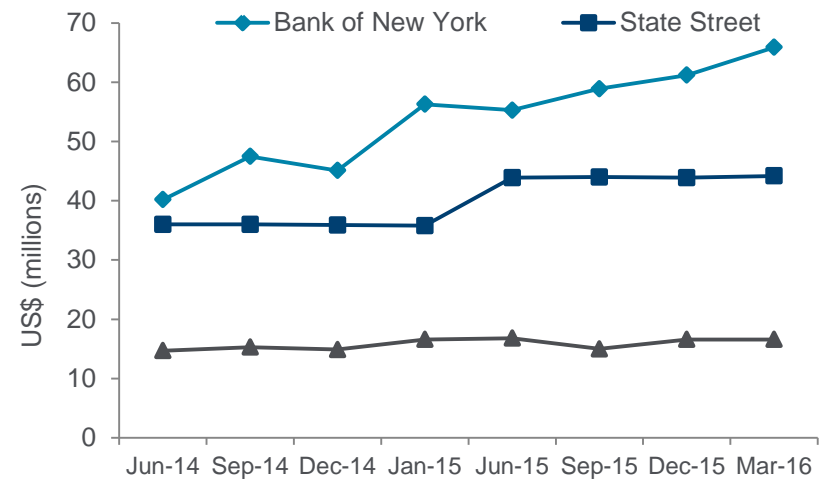
Liquidity is more expensive

The price of capital is rising

$\frac{\text{High Quality Liquid Assets}}{\text{Net Cash Flows}} > 100\%$

$\frac{\text{Available Stable Funding}}{\text{Required Stable Funding}} > 100\%$

Operating risk capital allocations



Source: Basel III disclosures

What CEOs Say Needs to be Done

Cut *costs*

“We are **sharply focused on managing expenses**”

Jay Hooley, Chairman and CEO, State Street

Grow *revenue* intelligently

“We are not focused on driving gross revenue **and expanding our market share** at any cost ... Strengthening service quality and client and **employee productivity**, while reducing risk and structural costs.”

Gerald L. Hassell, Chairman and CEO, BNY Mellon

Listen to clients

“Good businesses ... deeply **care about improving customer satisfaction**.”

Jamie Dimon, Chairman and CEO, J.P. Morgan Chase & Co.

Lift the *performance* of the business

“We created a specialized group to **manage on-boarding** and change for large complex client relationships and already have seen measurably **increased client satisfaction**.”

Frederick H. Waddell, Chairman and CEO, Northern Trust

Automate the *right roles*

“We **removed** ... nearly **3,000 roles by automating** and eliminating processes in 2015.”

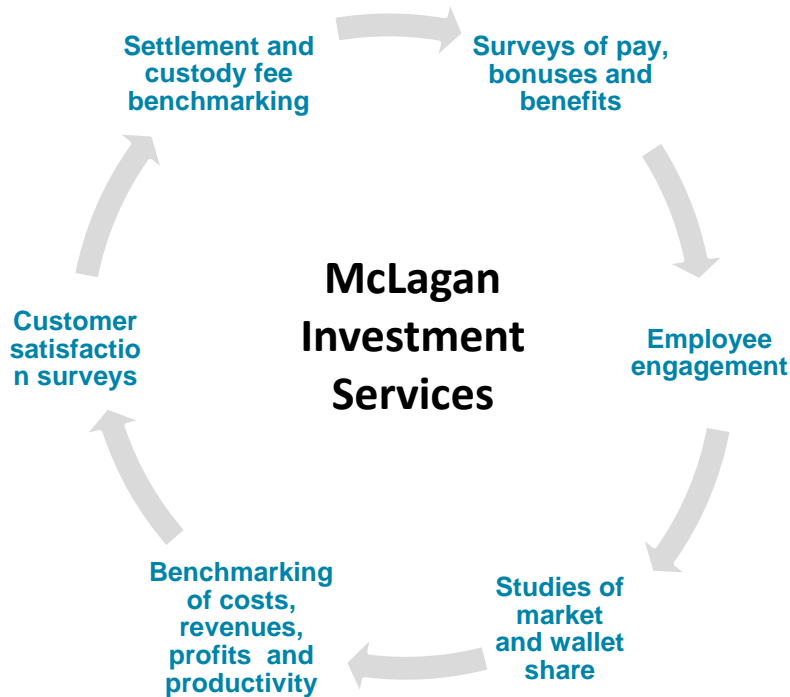
Stuart Gulliver, group CEO, HSBC

Attract and motivate *talent*

“Create **a company** and a culture that all of its **people ... are proud to go to work for** each day.”

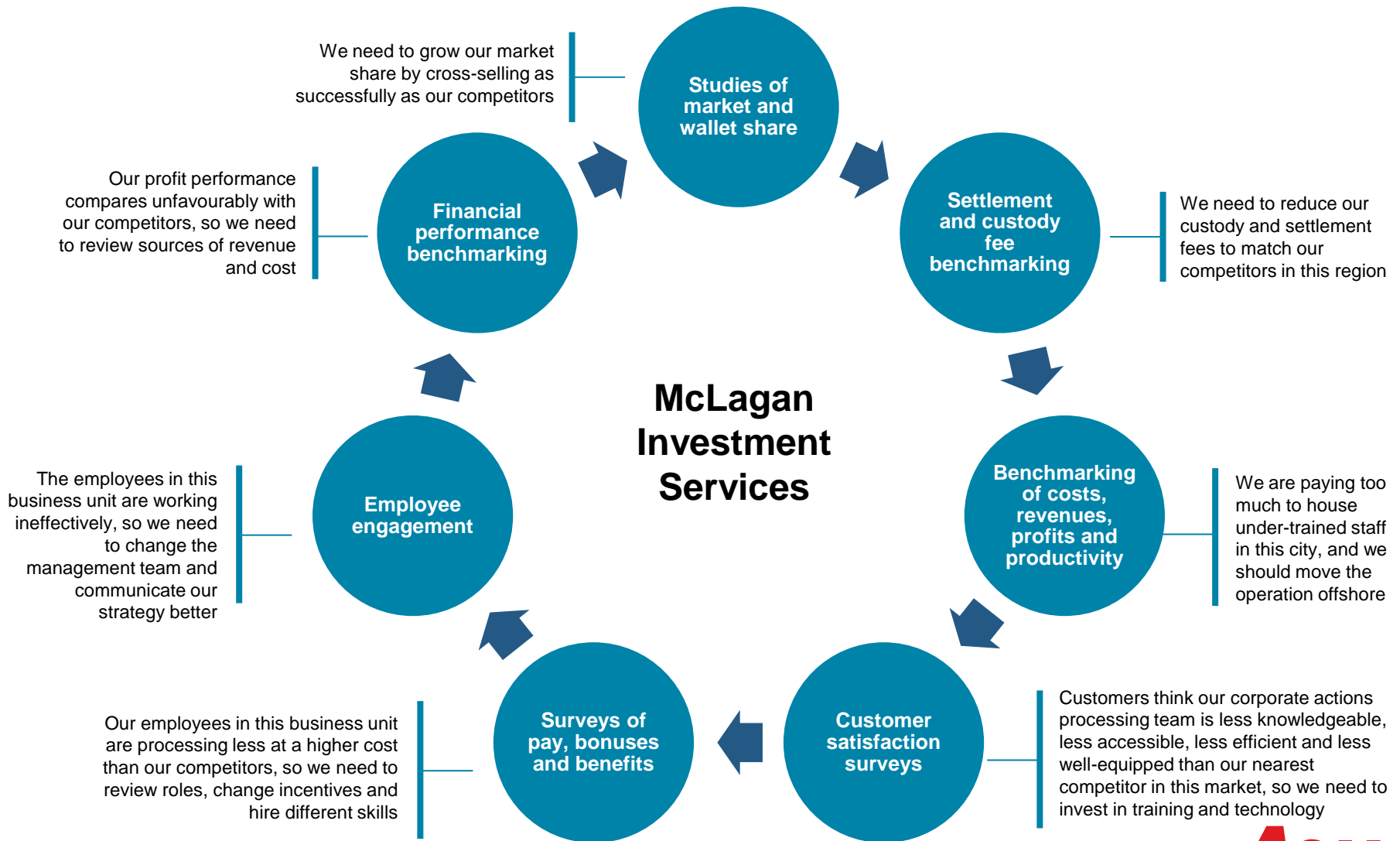
Michael L. Corbat, CEO, Citigroup

How We Can Help do What Needs to be Done



- **Cut costs** ... Compare your costs and revenues with your peers down to cost centre level,
- **Grow revenue** ... Check your prices and your share of the markets you serve and what your customers spend
- **Listen to clients** ... Find out how happy your customers are with the service you provide and detect issues and opportunities before they become problems
- **Lift performance** ... Benchmark your costs, revenue, profits and productivity against your peers
- **Automate the right roles** ... Check compensation and non-compensation costs against alternatives as well as your competitors
- **Attract and motivate talent** ... Assess whether your employees are over-paid and under-worked or under-paid and over-worked

How Our Data Helps to Address Strategic Challenges



Questions We Can Answer for Custodians

For network managers

- Are we paying too much?

 - How do our costs and charging structures compare (a) with our competitors; and (b) against best-in-class network managers?

 - Do we have excess liquidity tied up in this market?

 - How could we allocate less capital to these risks?

 - Are we getting as good a deal as our sub-custodians say we are?

 - Why is this service from this bank inferior to this service from that bank?

 - Are our network managers better paid or worse paid than their peers at other firms?

 - What do our peers think of the service provided by members of our network?
-

For sub-custodians

- Are we charging the right rate?

 - Are our costs and charging structures in line with (a) our competitors; and (b) best in class sub-custodians?

 - What are our competitive differentiators apart from price?

 - Could we cut costs but not quality in a lower cost location?

 - Are our staff better trained, happier and more productive?

 - Why is our operation in one country inferior to its peers in other countries?

 - Are our staff in this market paid more or less than their equivalents at other firms?

 - What do the clients of our competitors think of the services they receive?
-

Where Our Answers Come From

Customer satisfaction surveys: We ask network managers what they think of sub-custodians, sub-custodians what they think of themselves, fund managers what they think of their brokers, administrators, depositories, global custodians, securities lending agents and collateral managers, and banks, brokers and issuers what they think of the financial market infrastructures they use.

Surveys of pay, bonuses and benefits: We collect headcount and employee compensation by business division, location, rank and job title, directly from the HR databases of custodian banks.

Employee engagement: We survey employees of banks every year, and we use the data to propose actions and track correlations between actions and outcomes.

Settlement and custody fee benchmarking: We survey buy- and sell-side firms on the custody and settlement fees they pay to sub-custodian banks.

Studies of market and wallet share: We collect data from 90 brokers around the world on the volumes of business they are doing with buy-side firms, which enables us to measure market and revenue shares in multiple asset classes.

Benchmarking of costs, revenues, profits and productivity: We collect detailed cost (headcount, compensation, benefits, premises, professional fees, IT) and revenue (interest, non-interest, brokerage, service and transaction fees) information down to cost centre level within divisions and units from the general ledgers of custodian banks.

Financial performance benchmarking: We use the data collected from the general ledgers to benchmark the financial performance of peer groups.

Why Your Data is Safe With Us

Our clients trust us with highly confidential information because they know that we operate within the highest ethical and professional standards and adhere to a strict code of confidentiality.

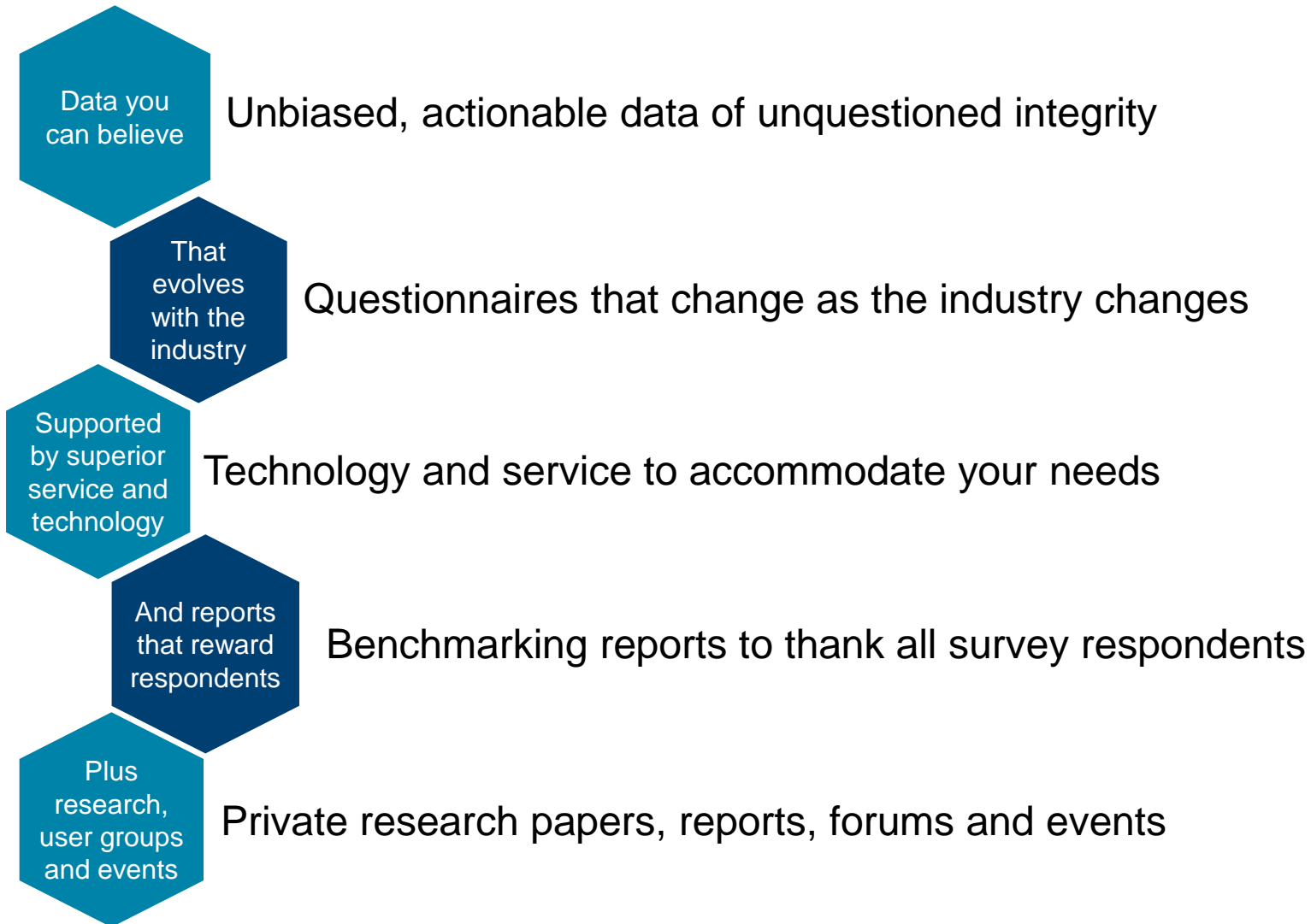


We maintain client confidentiality and do not discuss client engagements with other organizations.

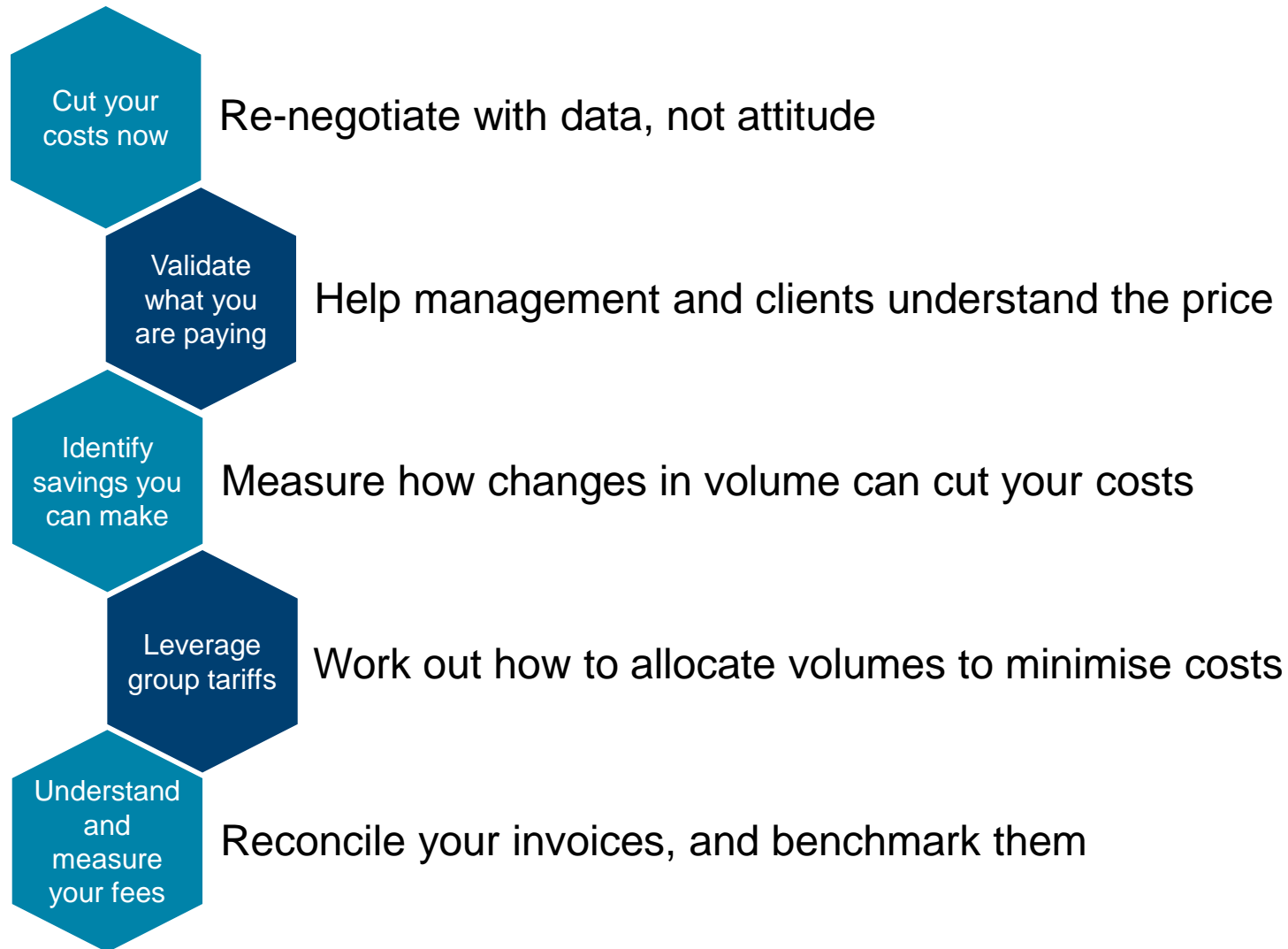
We do not misrepresent facts, or allow our independent judgment to be compromised. We will never adjust our findings in exchange for material or other rewards.

We compete fairly for business in the marketplace.

The Case for Participating in our Customer Satisfaction Surveys



The Case for Participating in our Settlement and Custody Fee Benchmarking



Why Work With Us?



**But these are opinions,
not facts.**

**McLagan Investment
Services** provides the
objective **facts** and
relative **measurements**
that give clear **insights**.

Our Team



Dominic Hobson is Co-Lead of Aon McLagan Investment Services. He was one of the founders of Asset International, a publishing and events business whose titles include *Global Custodian*, where he was for many years editor-in-chief. After Asset International was sold in 2009, Mr Hobson founded COO Connect, a peer group network for fund managers, now also sold. As an independent consultant, he has delivered a variety of projects on behalf of custodian banks and financial market infrastructures, and consulted to Instant Actions, a corporate actions verification service. Dominic has written for *Financial News*, contributed occasionally to the BBC on financial markets issues, and has three works of non-fiction to his name. He was amanuensis to Nigel Lawson, former Chancellor of the Exchequer, in the preparation of his memoirs. Mr Hobson was born in Southern Rhodesia in 1958, and educated there and at Magdalene College, Cambridge. He spent four years in investment banking before electing in 1988 to work for himself. Mr Hobson is also co-founder of the Future of Finance conference held at the Saïd Business School in Oxford, a member of the Innovate Finance Policy Advisory Board, and served on the Government Office of Science group of experts on distributed ledger technology.



Keith Amos is an Associate Partner in McLagan's London office and Co-Lead of McLagan Investment Services. Mr Amos has worked at McLagan since 2004 and heads up the financial benchmarking capabilities for Investment Services. In his time at McLagan he has worked within the Performance business (and part of TRP), having previously worked on the financial benchmarking product for Investment Banks covering the capital markets business. He relocated to New York where he spent four years in a number of different client-facing and relationship management roles. Prior to joining McLagan Mr Amos worked for a number of investment banks in mainly operational roles including time with Standard Chartered Bank, Deutsche Bank, Lehman Brothers and Salomon Brothers (at Lehman and Salomon he worked on the trading desk with a specific focus on Emerging Markets). After leaving Salomon in 1999 he joined MIB Partners, a financial benchmarking Start-Up which was subsequently purchased by McLagan Partners, an Aon Company, in 2004.



Allison Cayse is a Manager within Aon McLagan Investment Services, which she joined this year. Ms Cayse has more than 12 years' experience of the investment services industry, having joined *Global Custodian*, a trade magazine dedicated to the industry, as its surveys editor in 2004. In that role, she was responsible for the day-to-day management of more than a dozen surveys of various aspects of the investment services industry, including global custody, direct custody and clearing in major and emerging markets, central securities depositories (CSDs), hedge, mutual and private equity fund administration, securities lending and financing, and prime brokerage. In addition, Ms Cayse headed up relationship management and client services for the surveys group, and managed the technical team which scripted surveys, analysed the results and prepared research reports for clients. Ms Cayse also contributed regularly to the editorial content of the magazine, and helped to conceive, develop and manage its annual survey awards events in Hong Kong, London and New York. She is a graduate of the Scripps School of Journalism at Ohio University, where she majored in journalism, and minored in Economics and German. She also earned a master's degree in European Cultures at Birkbeck College, University of London.



Sophie Chapman Daws is a Manager in McLagan's London office and works with Mr Amos as part of the Performance business and the McLagan Investment Services team. In her role within the McLagan Investment Services Ms Chapman-Daws supports all our benchmarking efforts and capabilities from an execution perspective with additional responsibility for managing and developing the reporting and analyses we deliver to our clients. Additionally she is currently working with our partners within the Compensation team on a new initiative to develop an analyses that is able to join together the financial performance benchmarks with the detailed pay data to create a performance and reward solution to our clients. She joined McLagan in December 2013 having previously worked for Benchmarkers where she was responsible for the running of the Insurance benchmarks. Sophie graduated from LSE with a background in Mathematics and Economics.

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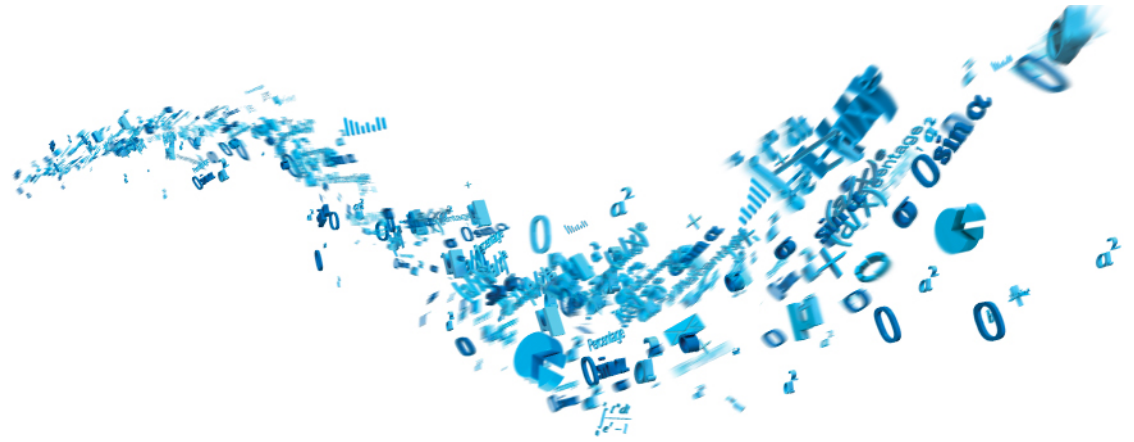
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We're here to empower results

About McLagan

McLagan provides tailored talent, rewards, and performance expertise to financial services firms across the globe. Since 1966, we have partnered with the largest and smallest financial services firms to help them make data-driven decisions to hire, retain, and engage the top talent for keeping the global economy running. Our compensation surveys are the most comprehensive, in-depth source of rewards data covering over 150 countries from more than 2,500 clients. Our consultants work with hundreds of firms annually to design total rewards programs and benchmark financial performance for boards of directors, executives, employees, and sales professionals.

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