

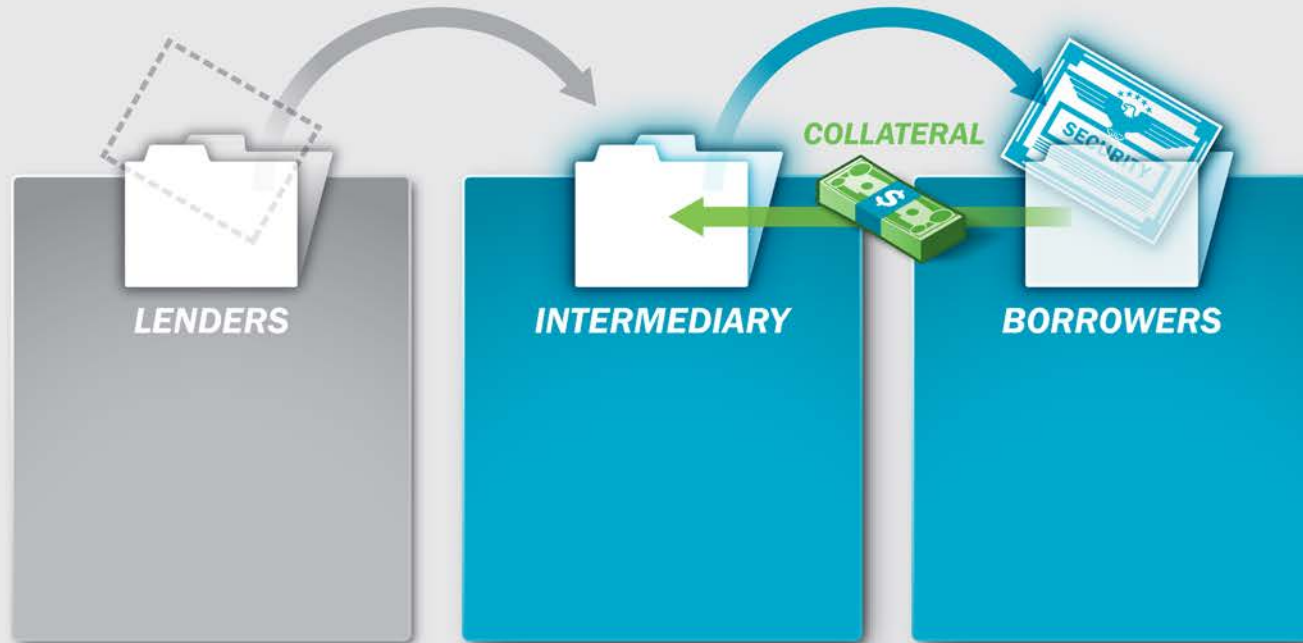
How the Securities Lending Program Works



STEP 1:

Custody client becomes a Lender by agreeing that Intermediary may lend securities from its custody accounts.

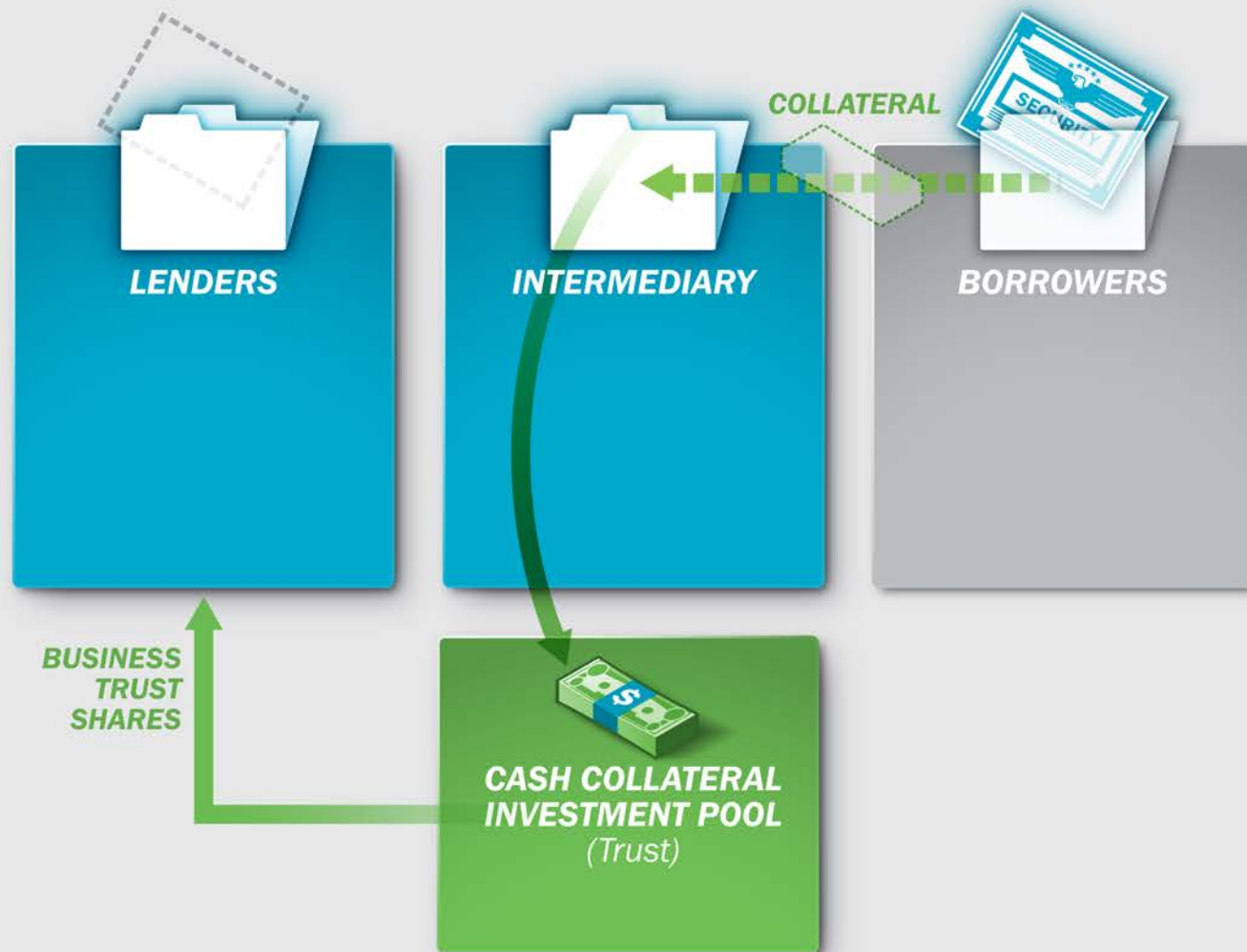
How the Securities Lending Program Works



STEP 2:

Borrower borrows a security and posts cash collateral in the amount of 102 percent.

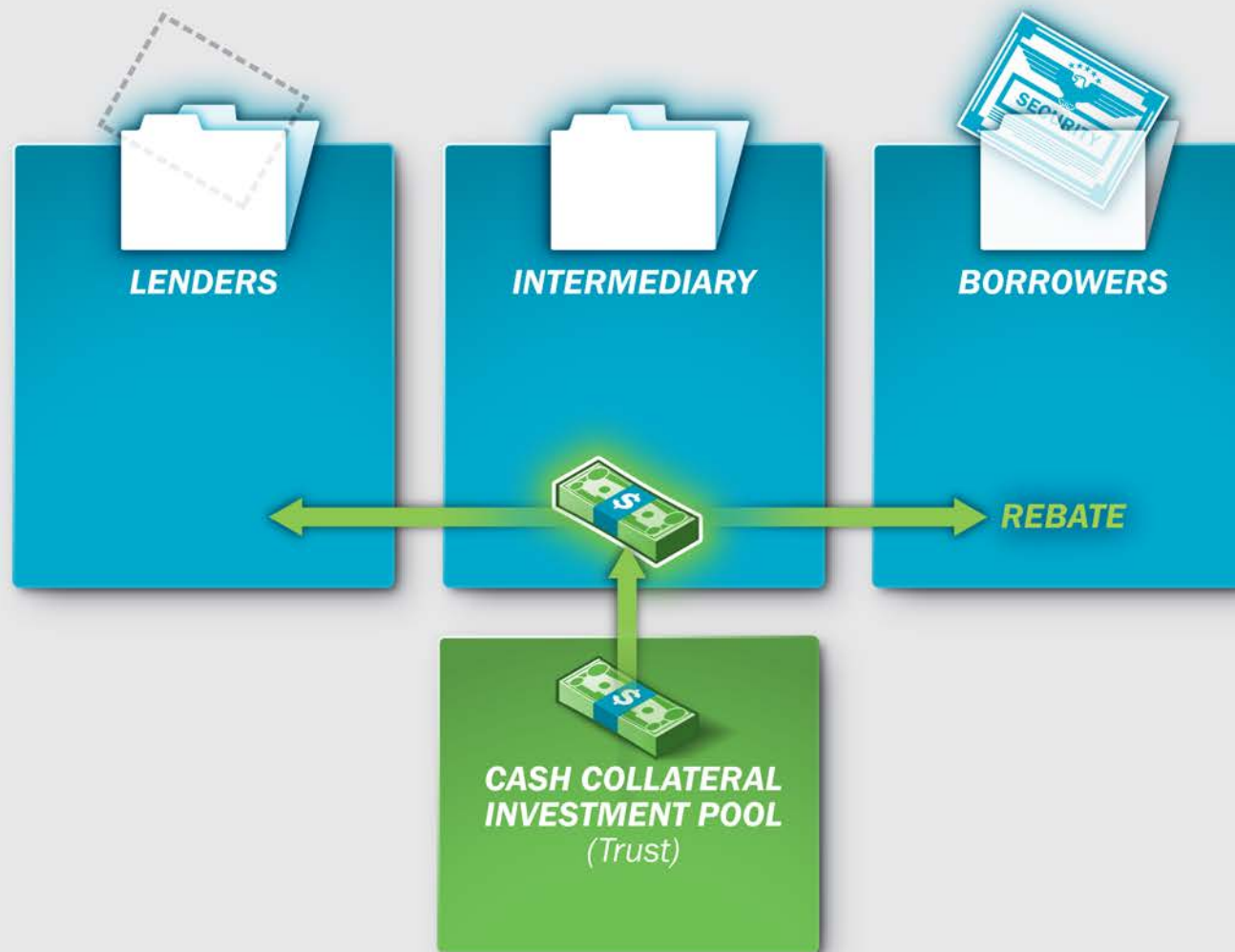
How the Securities Lending Program Works



STEP 3:

Intermediary invests the cash collateral according to investment guidelines for the cash collateral pool.

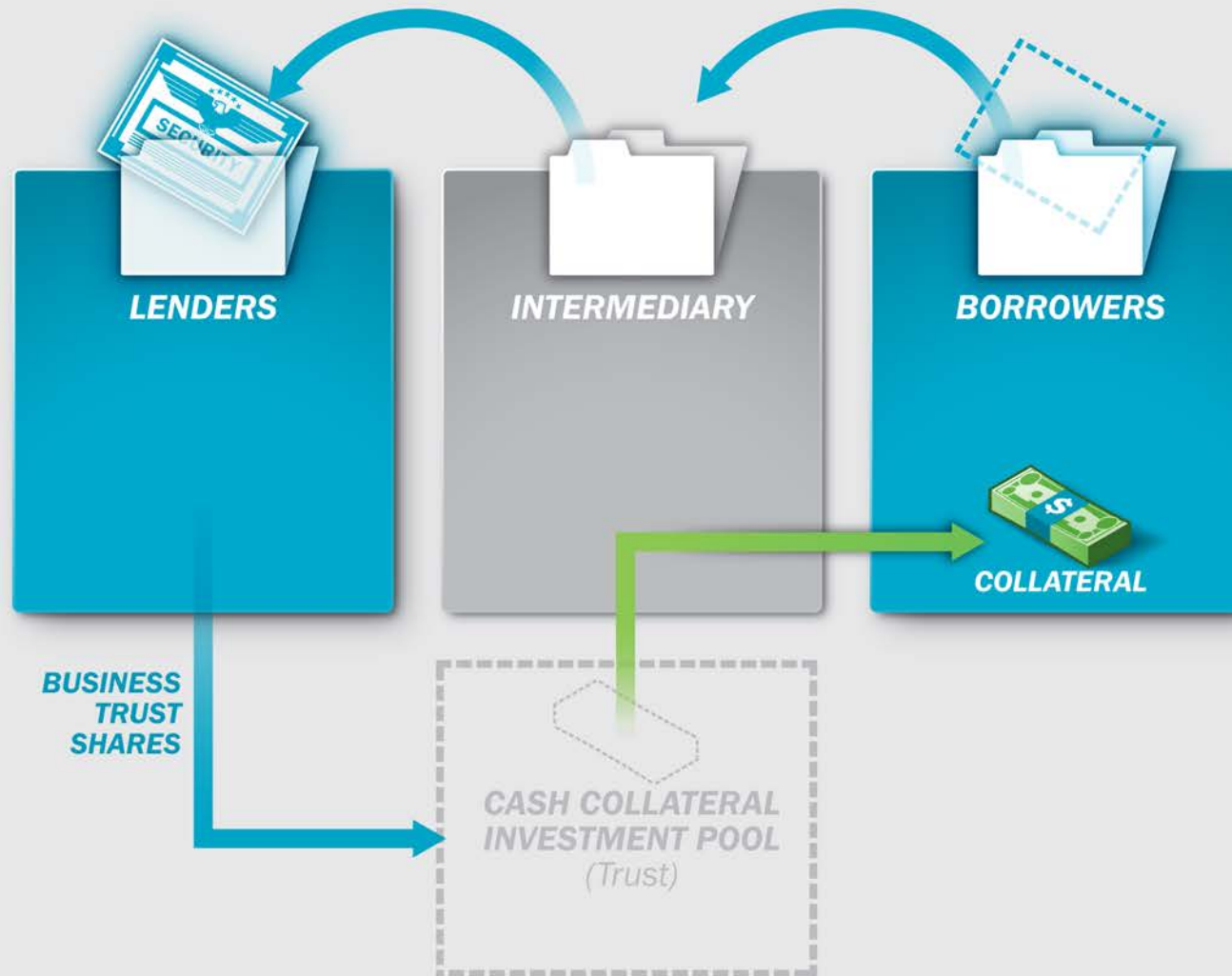
How the Securities Lending Program Works



STEP 4:

Income from the collateral investments is shared between Intermediary and the Lender after the rebate is paid to the Borrower.

How the Securities Lending Program Works



STEP 5:

When the loan is closed, the Borrower returns the security to the Lender and the Lender returns the cash collateral to the Borrower.

Benefits and Risks to the Lenders in a Securities Lending Transaction

BENEFITS:



***INCREMENTAL
RETURN ON
PORTFOLIO***



***REDUCED
EXPENSE BASE***

Benefits and Risks to the Lenders in a Securities Lending Transaction

BENEFITS:



**INCREMENTAL
RETURN ON
PORTFOLIO**



**REDUCED
EXPENSE BASE**

RISKS:



INVESTMENT RISK

— **CREDIT RISK** or
DEFAULT RISK

— **INTEREST RATE
RISK**

— **LIQUIDITY RISK**



**COUNTERPARTY
DEFAULT RISK**

Benefits and Risks to the Intermediaries in a Securities Lending Transaction

BENEFITS:



***CUSTOMER
RELATIONSHIPS***



***SHARE OF
REINVESTMENT
INCOME***

Benefits and Risks to the Intermediaries in a Securities Lending Transaction

BENEFITS:



**CUSTOMER
RELATIONSHIPS**



**SHARE OF
REINVESTMENT
INCOME**

RISKS:



**RELATIONSHIP
RISK**



**REPUTATION
RISK**



**OPERATIONS
RISK**

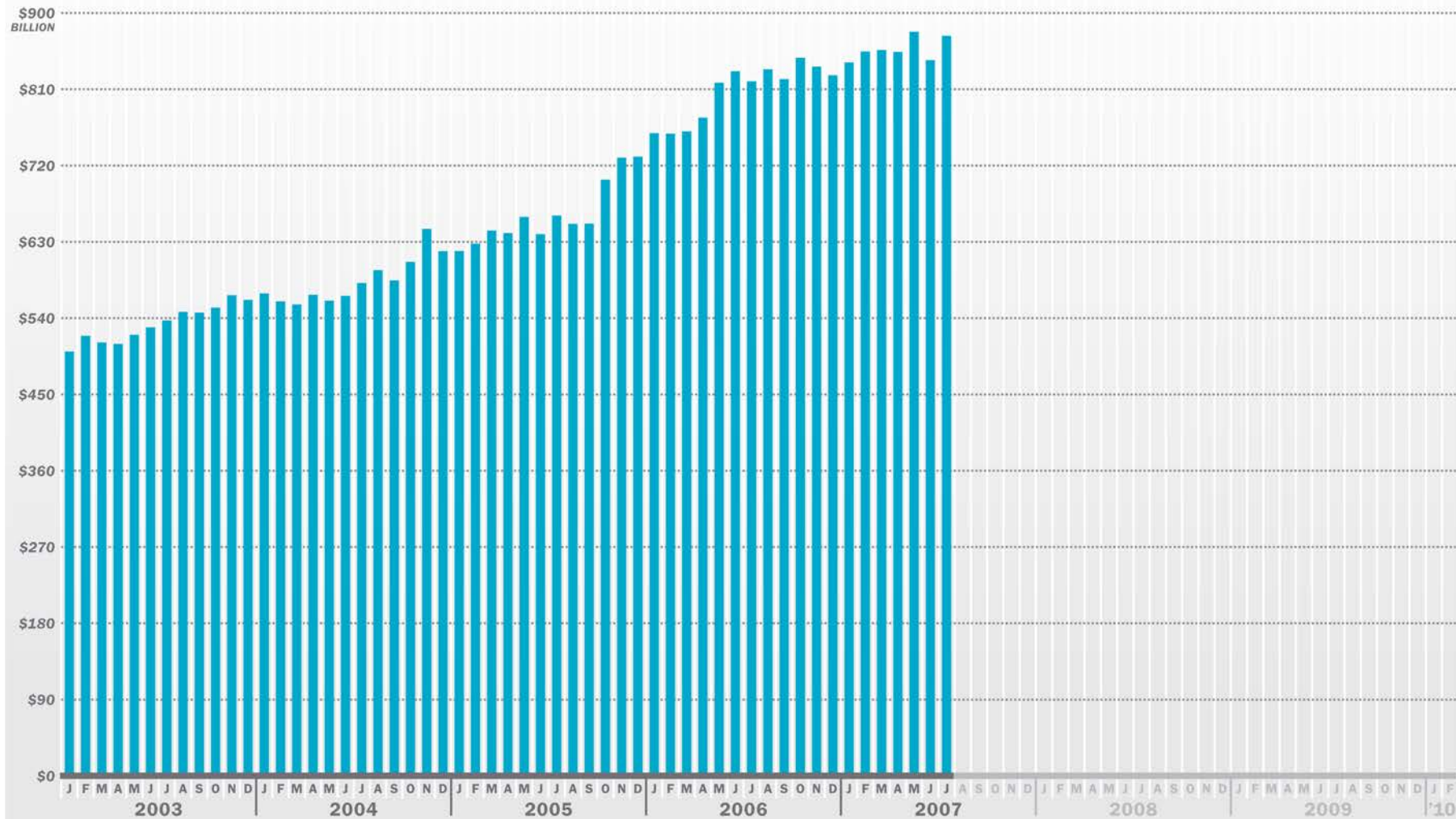
**Risks of Loss
Borne by the
Parties to the
Securities Lending
Transaction**

	← RISKS →		
	BORROWER DEFAULT RISK	COLLATERAL INVESTMENT LOSS RISK	COLLATERAL DEFICIENCIES
Pension Plan A	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Pension Plan B	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Pension Plan C	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Pension Plan D	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Intermediary	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Global Financial Crisis Was Unexpected

BLOOMBERG/BEAR STEARNS INDEX OF AAA ASSET-BACKED SECURITIES

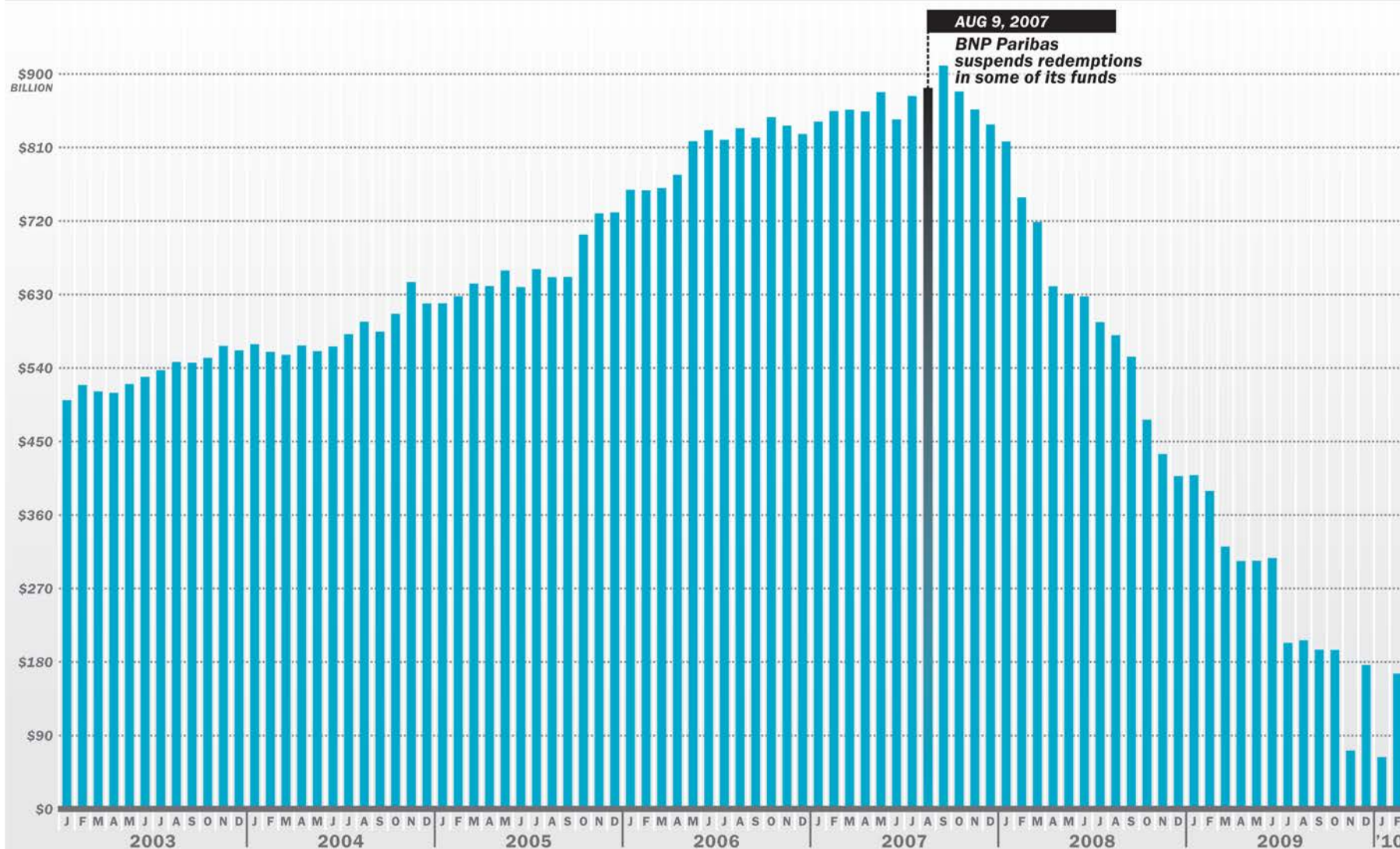
JAN 2003 – JUL 2007



The Global Financial Crisis Was Unexpected and Unprecedented

BLOOMBERG/BEAR STEARNS INDEX OF AAA ASSET-BACKED SECURITIES

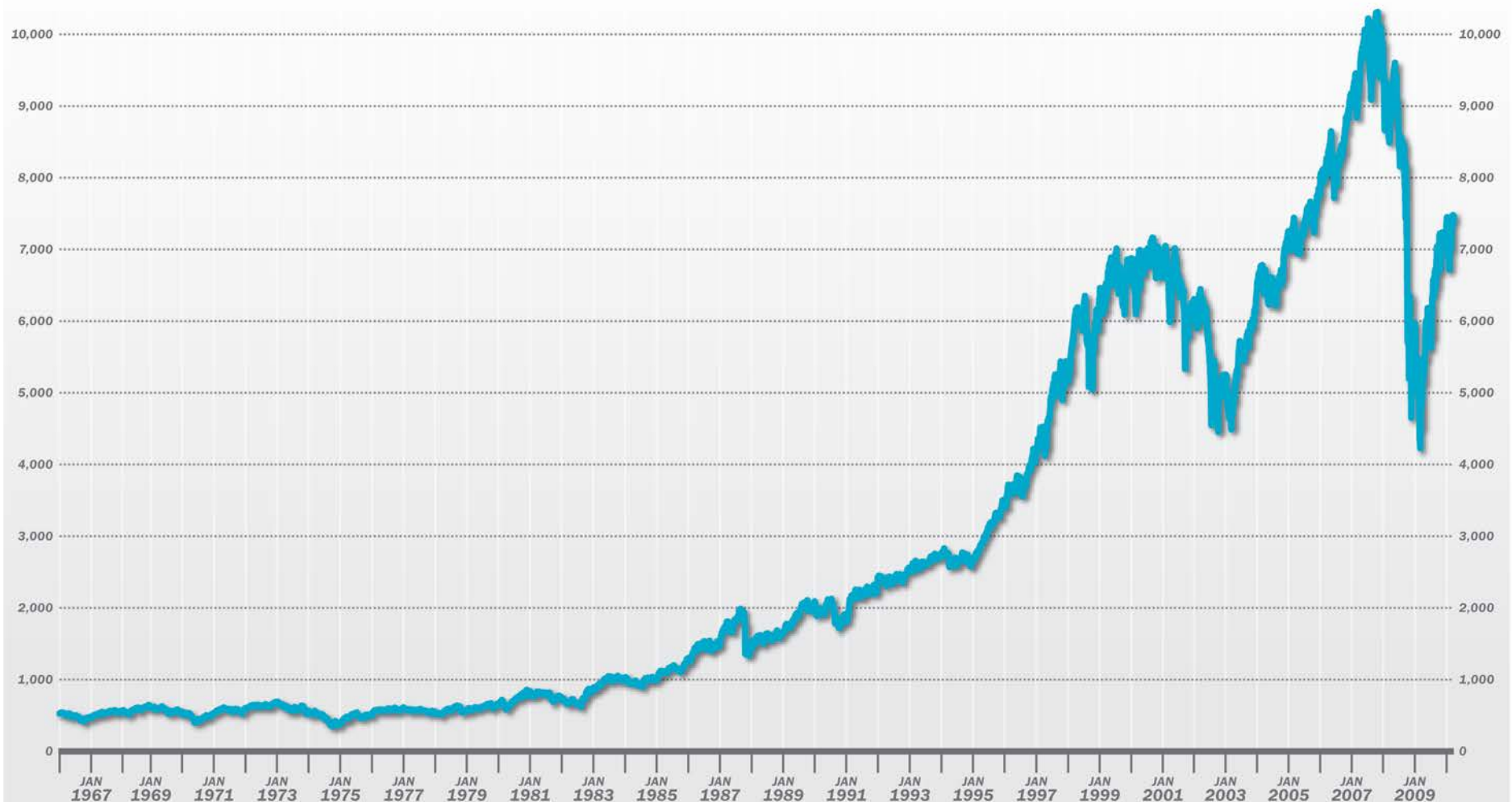
JAN 2003 – FEB 2010



The Decline in the NYSE Composite Index Demonstrates the Severity of the Global Financial Crisis

NYSE COMPOSITE INDEX

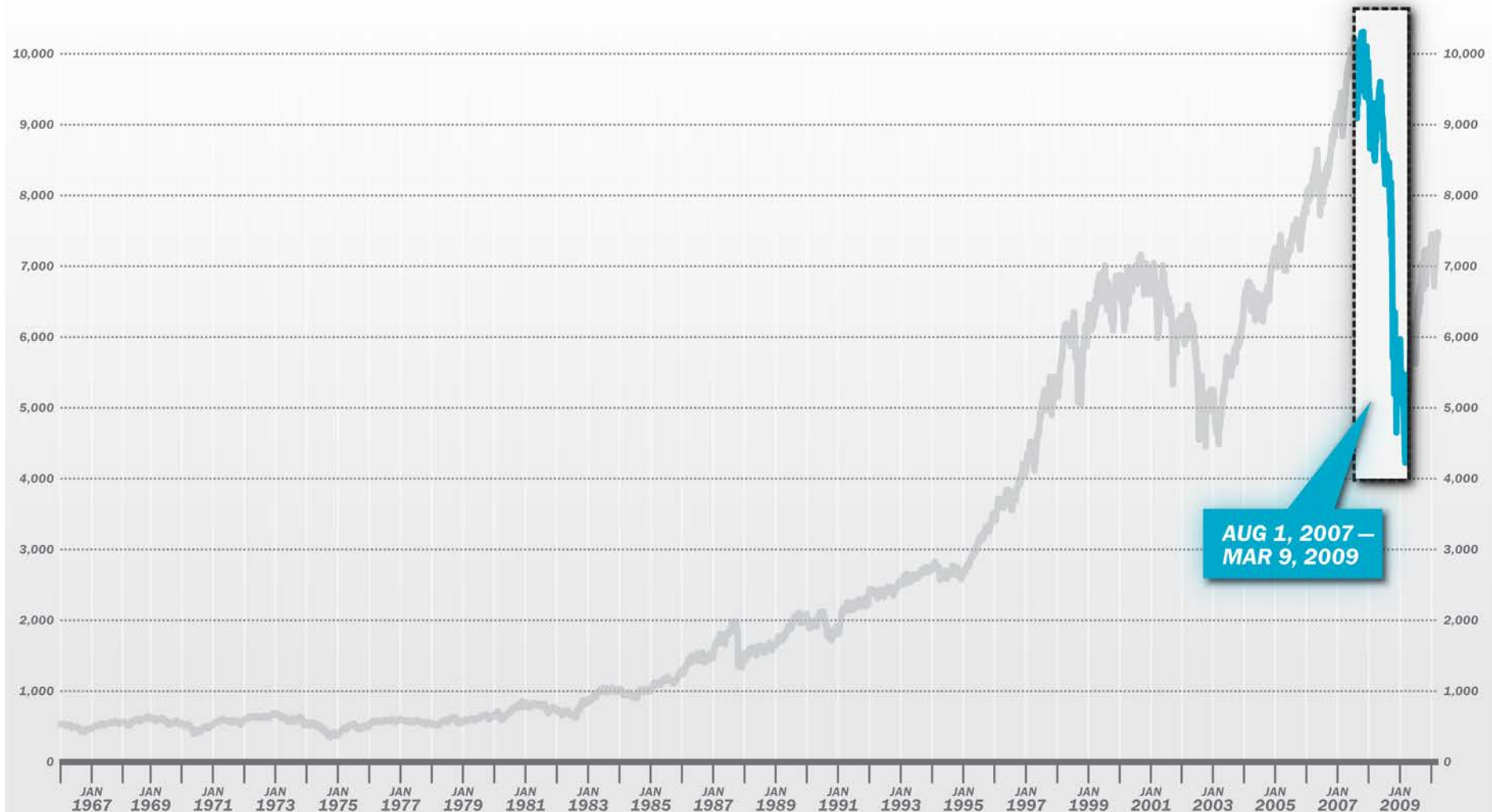
JAN 1966 – MAR 2010



The Decline in the NYSE Composite Index Demonstrates the Severity of the Global Financial Crisis

NYSE COMPOSITE INDEX

JAN 1966 – MAR 2010

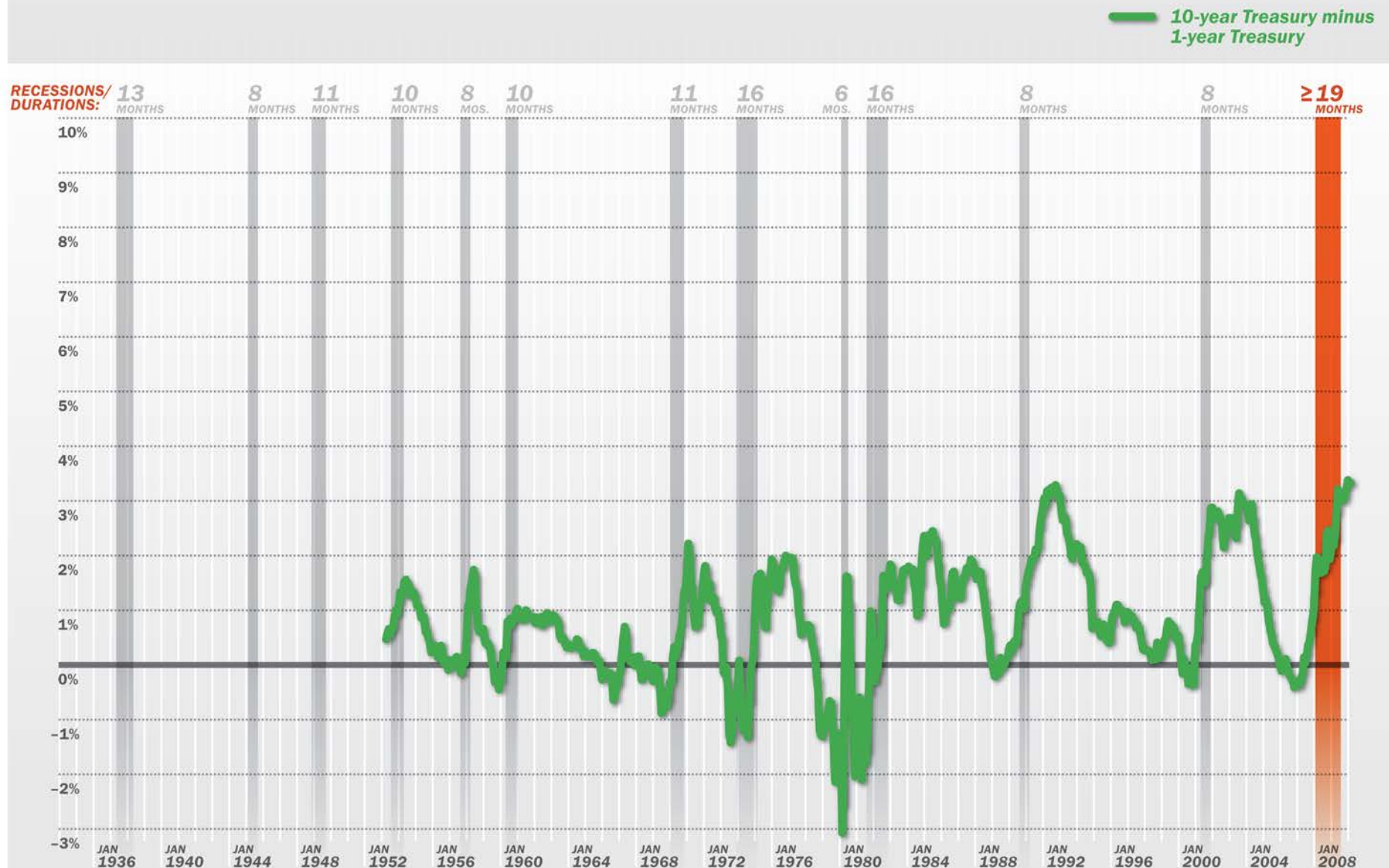


Recessions and Bond Yield Spreads



Source: TX10020, Recession dates available at <http://www.nber.org/cycles.html>, accessed on April 19, 2010; Treasury yields data: TX22442

The Current Recession Is the Longest Since 1934



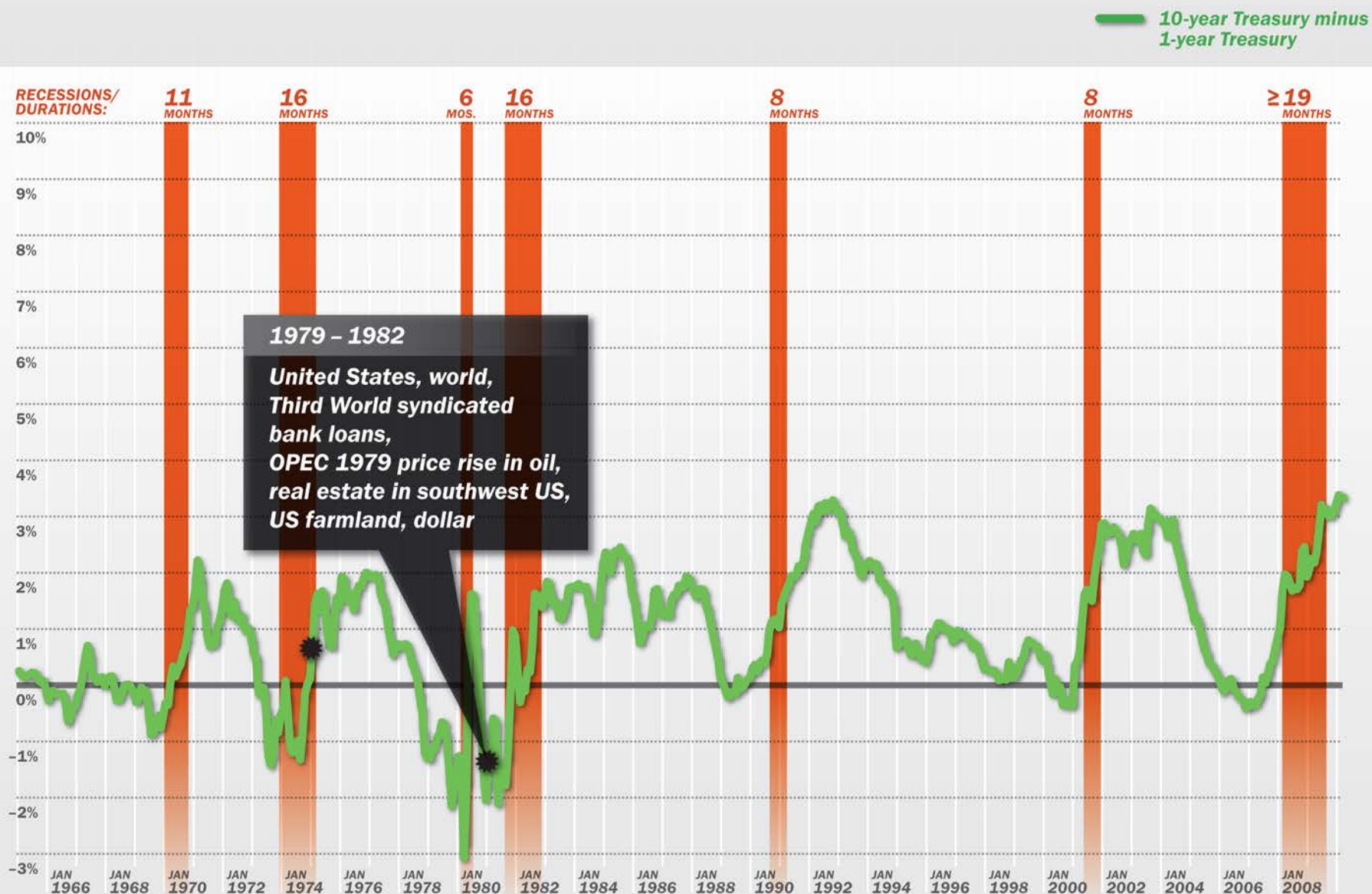
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Recessions and Bond Yield Spreads



Source: TX10020, Recession dates available at <http://www.nber.org/cycles.html>, accessed on April 19, 2010; Treasury yields data: TX22442; Financial crises: TX03320

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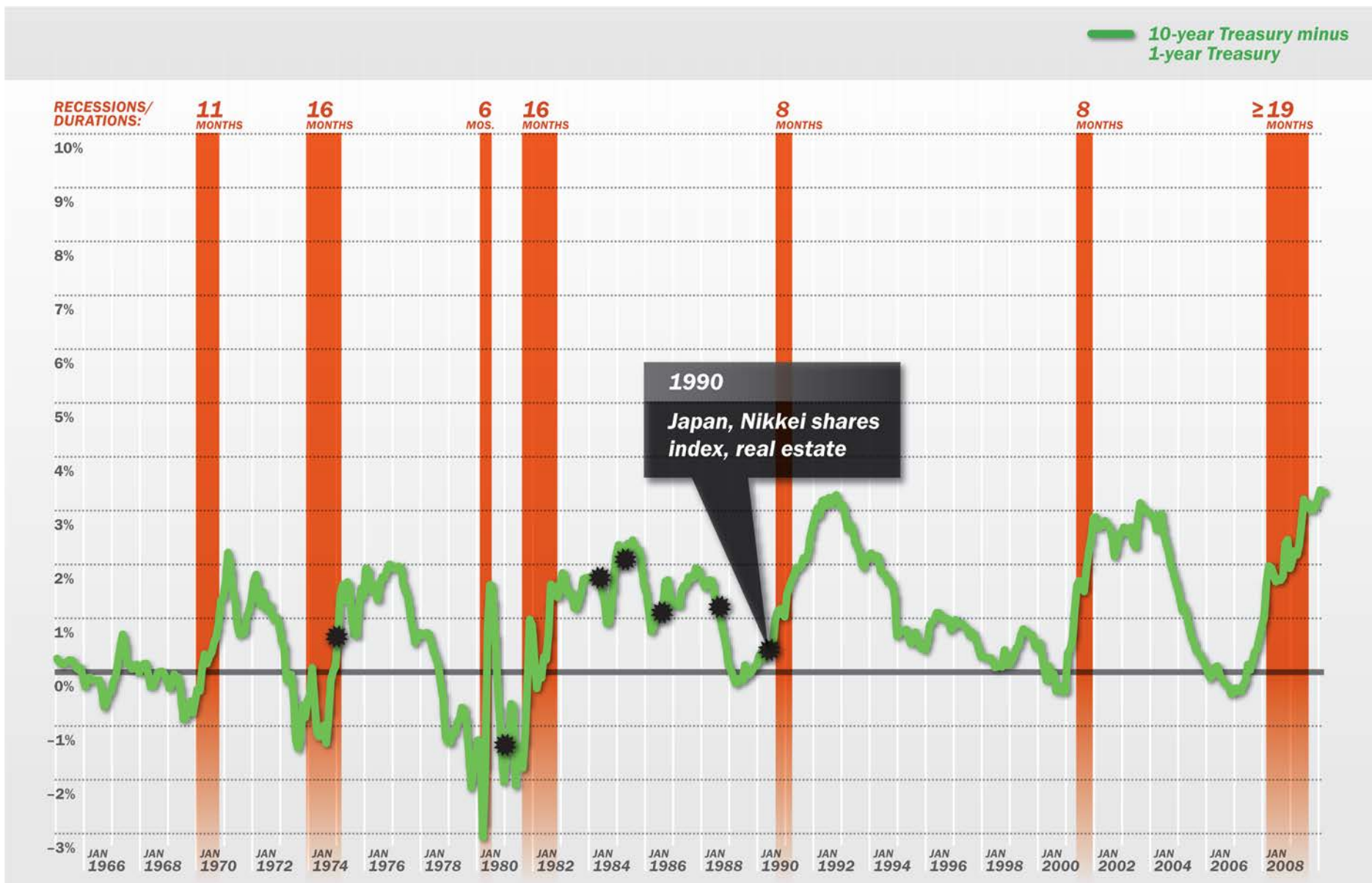
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Recessions and Bond Yield Spreads



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Investments in Highly-Rated Asset-Backed Securities (ABSs) Were Consistent with the Aim of “Preservation of Principal”

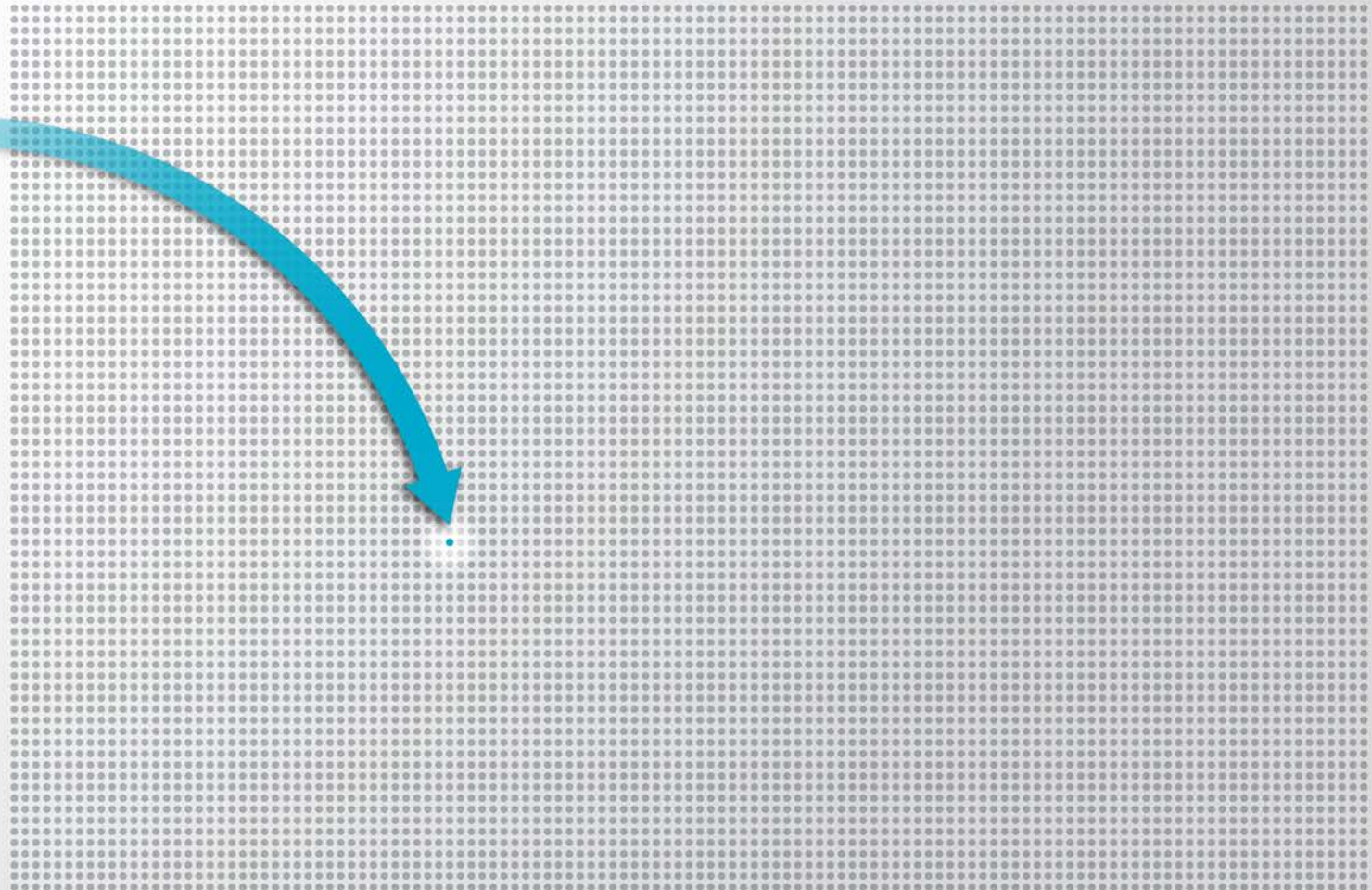
DEFAULTS OF AAA-RATED STRUCTURED FINANCE SECURITIES WITHIN ONE YEAR

FITCH RATINGS
1991–2007
DEFAULT STUDY:

ONLY **1** IN
10,000
AAA-rated
structured
finance securities
defaulted within
one year

KEY:

- EACH IMAGE REPRESENTS
1 SECURITY



Investments in P-1-Rated Commercial Paper Were Consistent with the Aim of “Preservation of Principal”

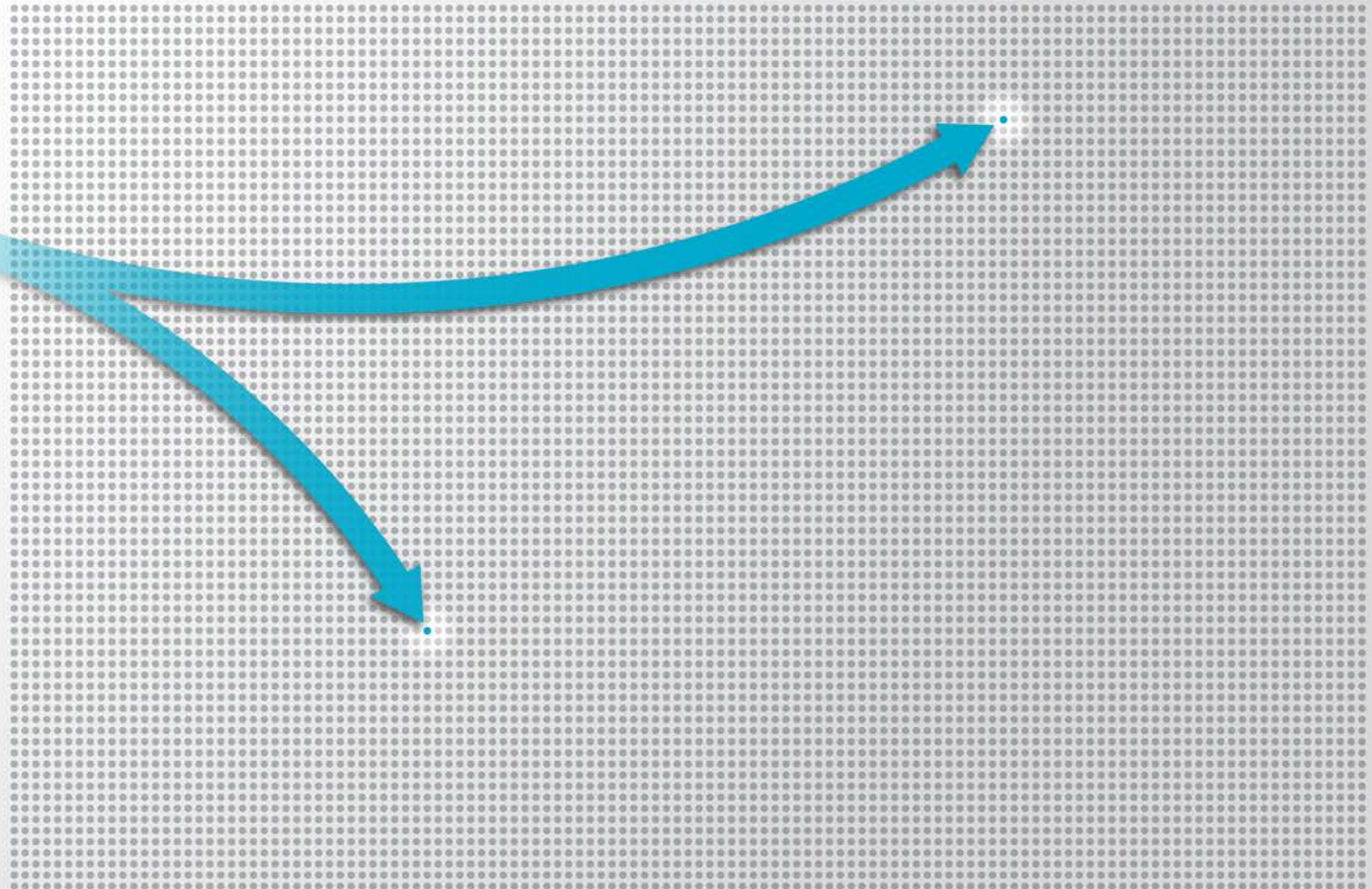
DEFAULTS OF P-1-RATED COMMERCIAL PAPER WITHIN ONE YEAR

MOODY'S
CORPORATE
COMMERCIAL PAPER
DEFAULT STUDY
1972–2004:

ONLY **2** IN
10,000
P-1-rated
commercial paper
defaulted within
one year

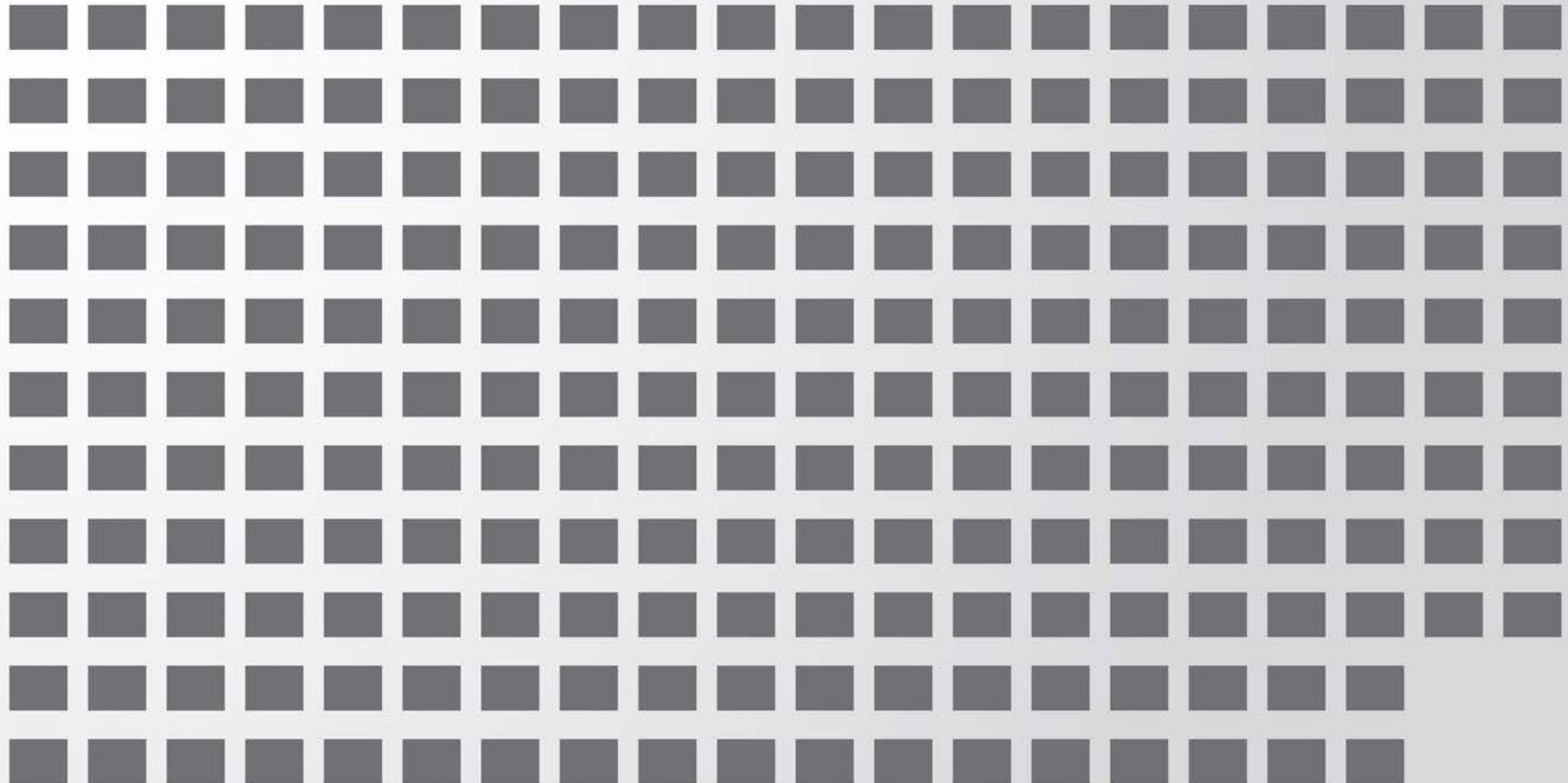
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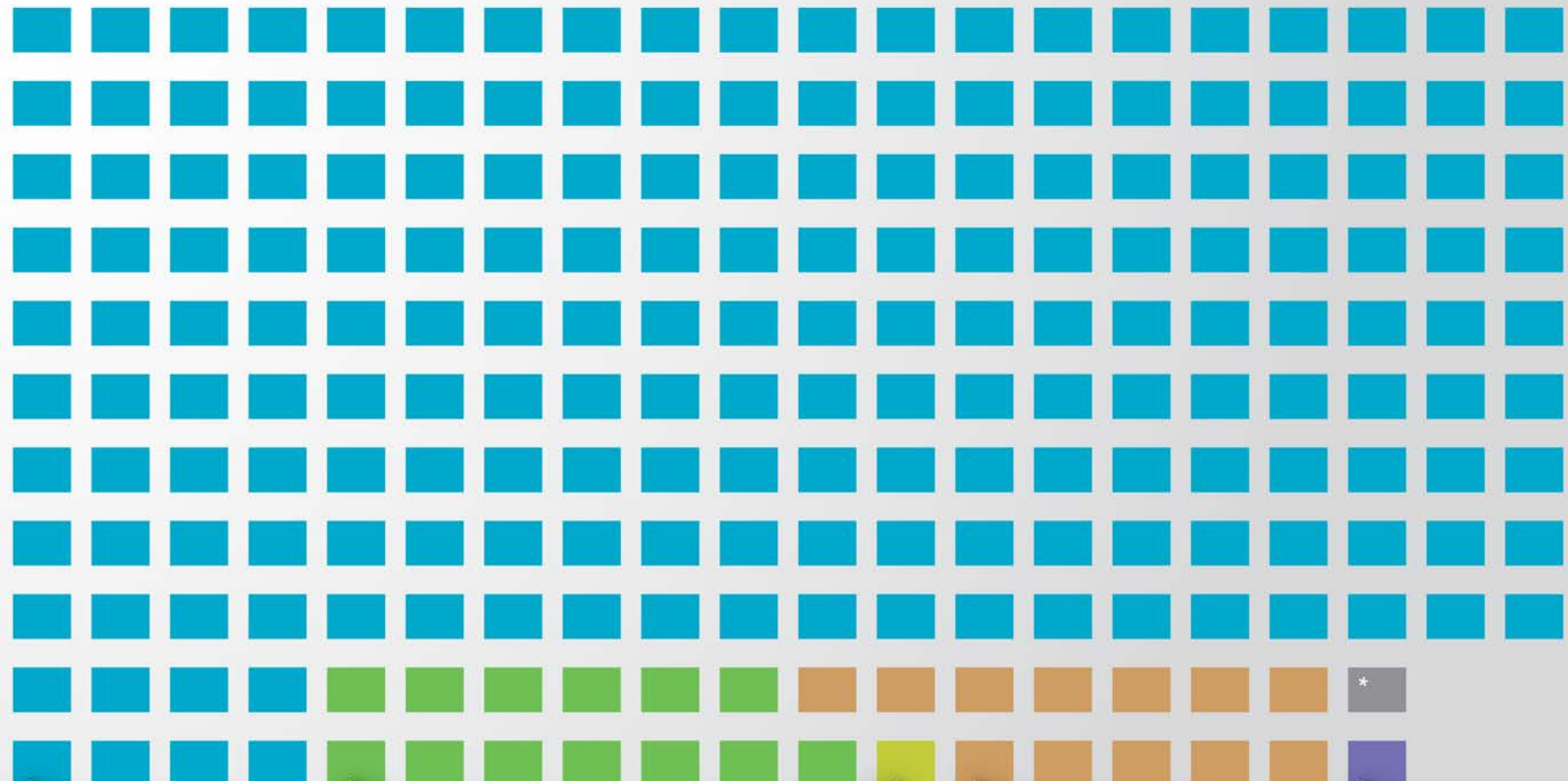
SLP's Strategy of "Holding to Maturity" Was the Best Course of Action to Protect Investors

INVESTMENT TRUST – 216 ALLEGEDLY "UNSUITABLE" SECURITIES



SLP's Strategy of "Holding to Maturity" Was the Best Course of Action to Protect Investors

INVESTMENT TRUST – 216 ALLEGEDLY "UNSUITABLE" SECURITIES



188 MATURED
AT PAR

13 WERE
SOLD

1 TRANSFERRED/
MATURED

12 EXTENDED

1 DEFAULTED
BUT PAYING

Exit from the Trust: Cash Redemption

TRUST

CASH



SHORT-TERM (90 DAYS OR LESS) FIXED RATE INVESTMENTS



VARIABLE RATE: LONGER-TERM ISSUES



INVESTOR
A



10%

INVESTOR
B



20%

INVESTOR
C



25%

INVESTOR
D



10%

INVESTOR
E



15%

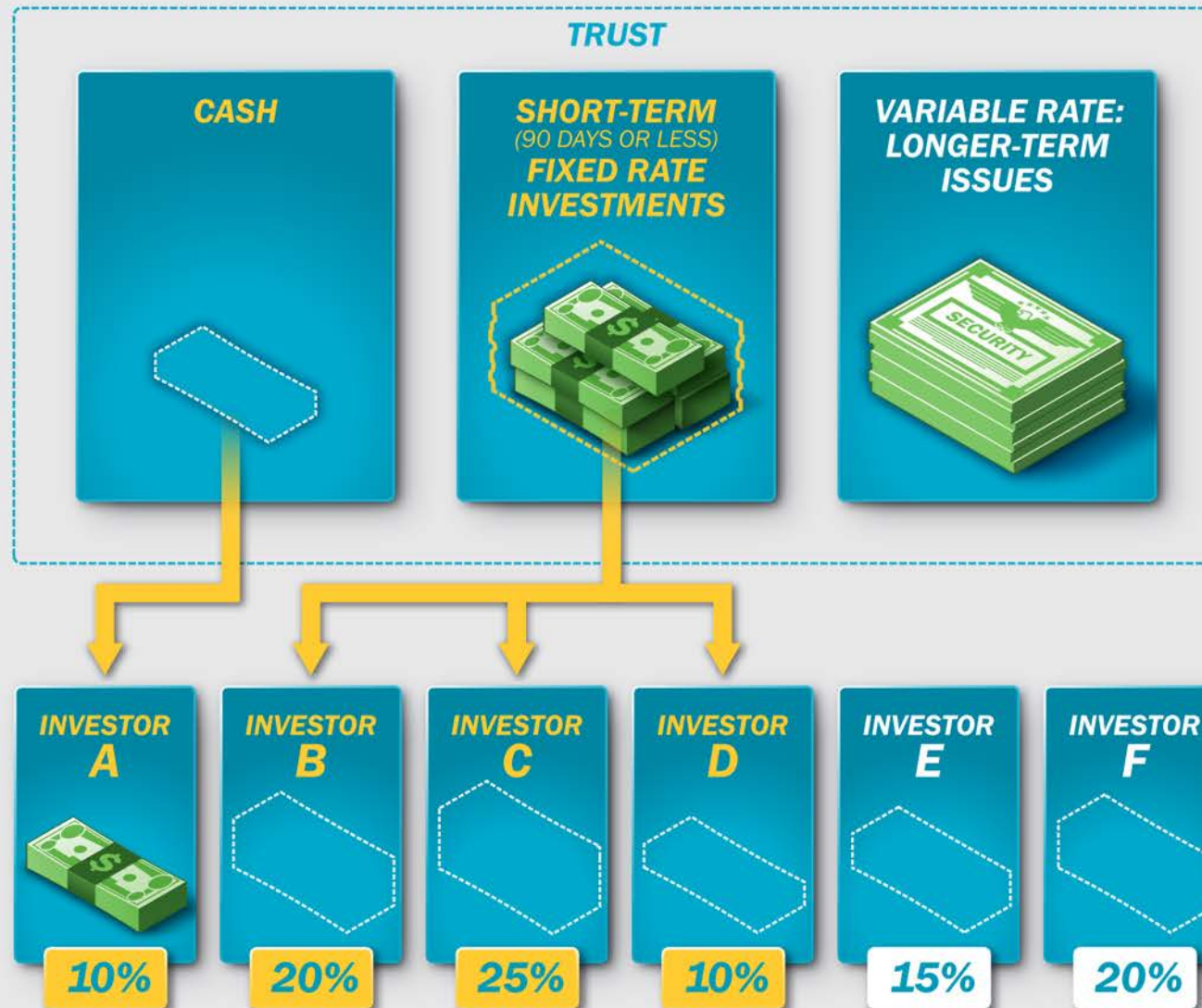
INVESTOR
F



20%

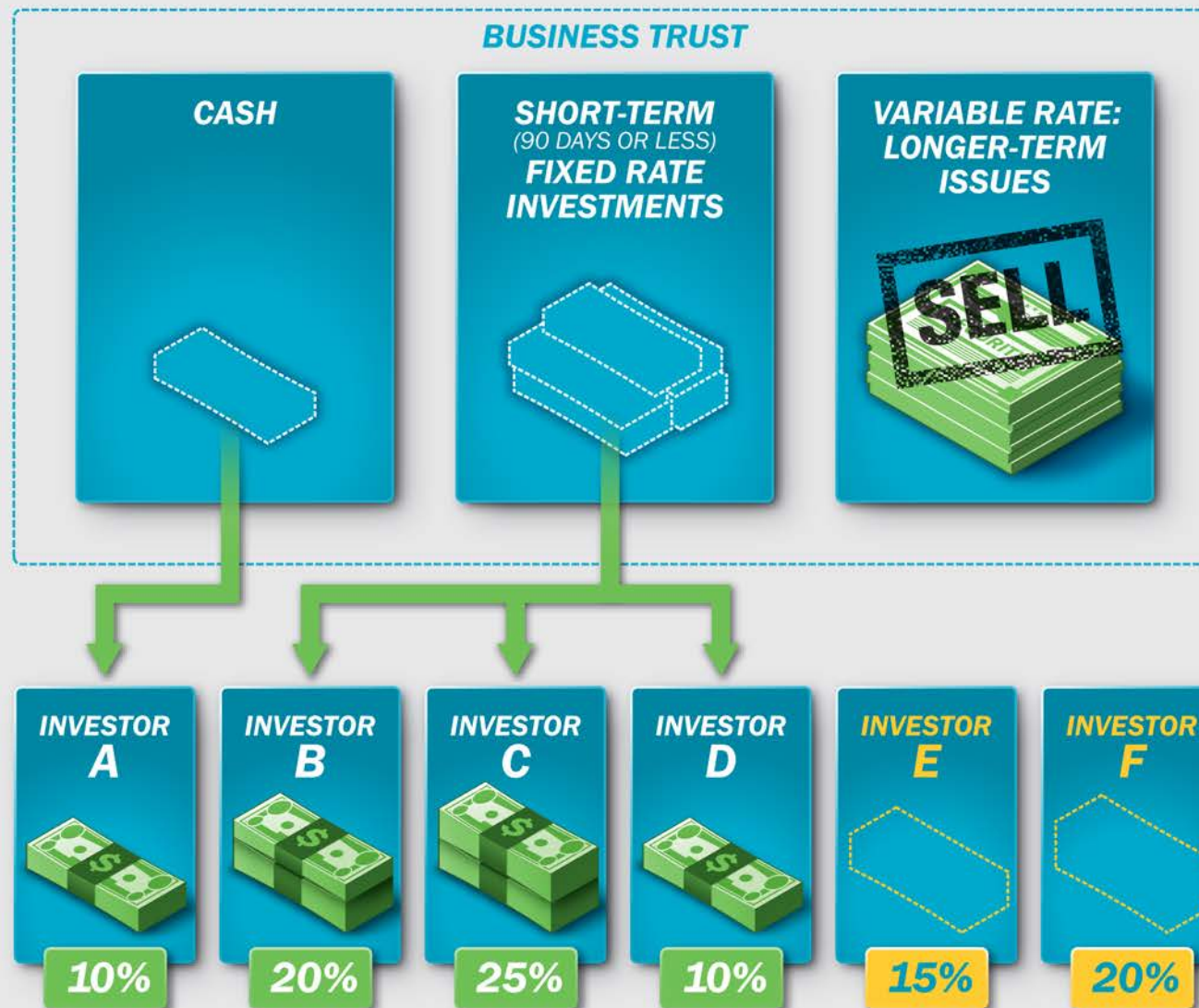
Since the objective of the Trust is to achieve a return **above the Federal Fund rate**, much of the portfolio is invested in fixed and variable securities, and **only a small portion is held in cash**.

Exit from the Trust: Cash Redemption



In order for a participant to exit the Trust through a cash redemption, the fund must **either wait for securities to mature**

Exit from the Trust: Cash Redemption

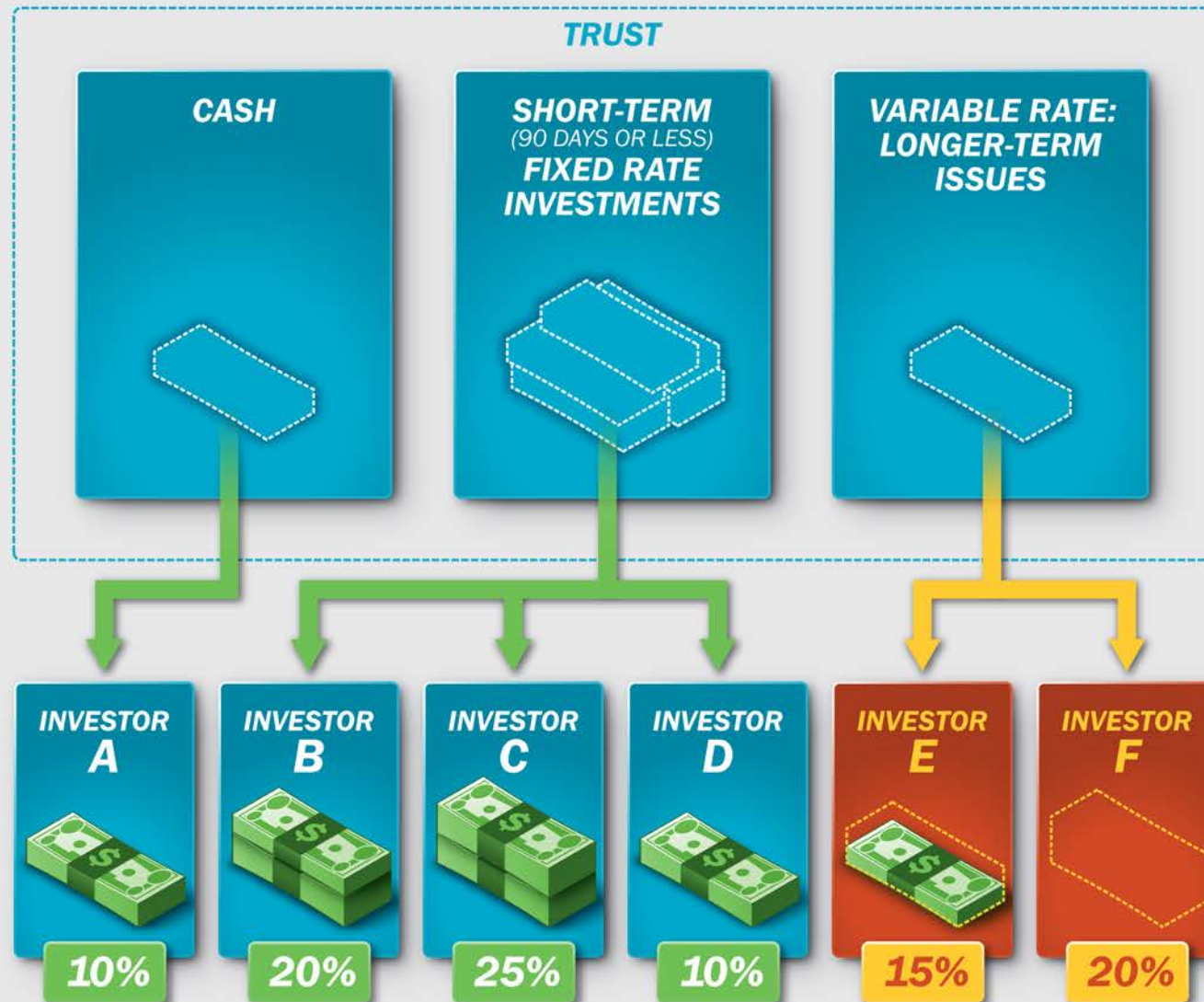


In order for a participant to exit the Trust through a cash redemption, the fund must **either wait for securities to mature**

— OR —

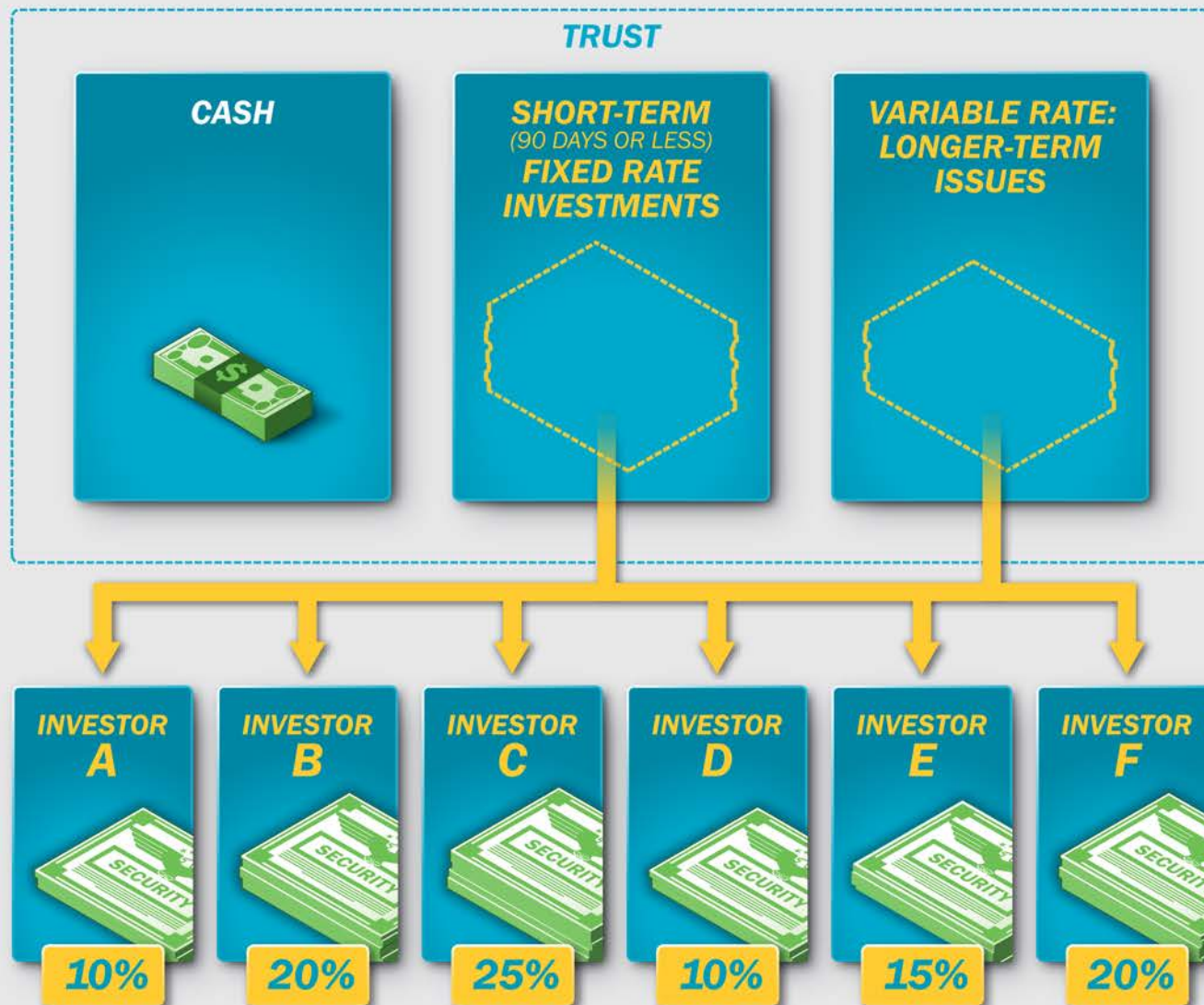
the fund must **sell securities to raise the necessary cash.**

Exit from the Trust: Cash Redemption



In times of market crisis, investors who redeem early could drain the available cash and short-term liquidity from a fund, leaving those late to redeem with longer-dated securities which may be **undervalued or unable to be sold** in a bad market.

Exit from the Trust: Pro-Rata Distributions In-Kind



Each participant receives a share in all securities in the Trust **equivalent to the participant's percentage ownership** of the Trust.