

NORTHERN TRUST

Securities Lending Introduction

Scottish Borders Council Pension Fund

21 August 2019



NORTHERN TRUST

EXECUTIVE SUMMARY

Our Securities Lending service is designed to enhance the return of your overall investment programme. We will work with you to understand your objectives and design a customised programme, with collateral options and trading strategies tailored to your risk level and set limits to ensure a focus on intrinsic value.

We strive to extract the highest amount of intrinsic value from each loan, while mitigating risk for the benefit of our clients.

Participating in securities lending will not interfere with your investment strategy. Your investment managers can continue trading as usual.

Following an evaluation of your portfolios in August 2019, we project gross revenue of £40,000 per annum (2.1 basis points on lendable assets), from securities lending.

Who We Are

A core business within Northern Trust and an industry leader in terms of size, scale and innovation

- 451 clients from 31 countries*
- £990 billion of lendable securities
- £125 billion of loans outstanding
- 73 approved borrowers at parent level

Who We Serve

- Public and private pension funds
- Asset managers
- Central Banks, Government Agencies and Sovereign Wealth Funds
- Endowments and foundations
- Insurance

What We Do

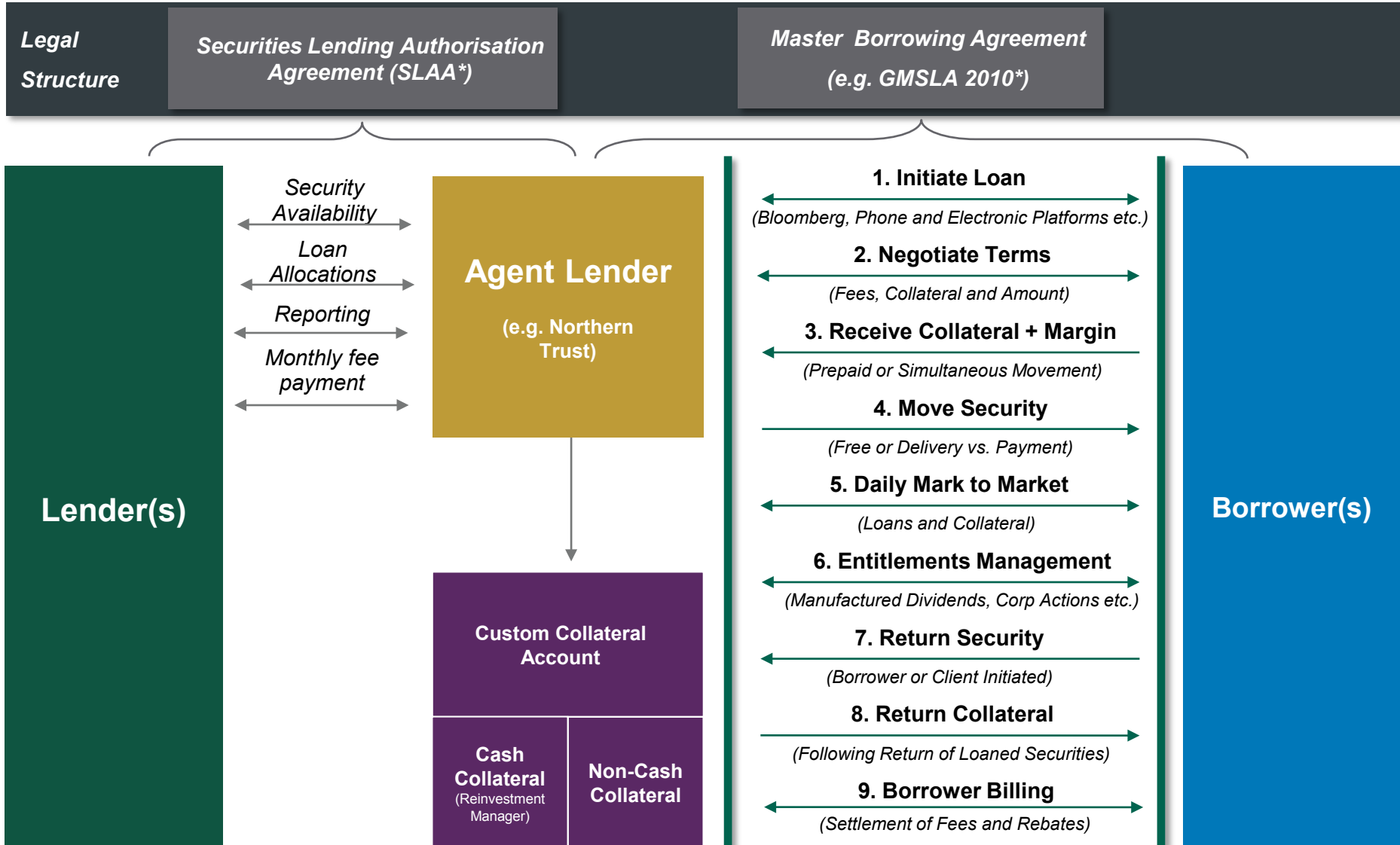
- Customised programme parameters, including collateral, approved accounts, approved borrowers
- Borrower default indemnification backed by Northern Trust's strong balance sheet
- Lend in 54 worldwide Equity & Fixed Income markets from 35 countries
- 24-hour trading
 - Supported by our single, multi-currency proprietary platform
 - Locations in Sydney, Hong Kong, London, Toronto and Chicago



* All figures as of June 2019

Lending Programme Overview

THE LIFE CYCLE OF A LOAN



*Sample agreements available upon request

ROBUST RISK MANAGEMENT

Risk management is the cornerstone of our securities lending programme

Cash & Non Cash Collateral

Borrower

Borrower default combined with insufficient collateral to buy-in replacement securities & compensate for accrued entitlements

Trade settlement

Client sells loaned security and borrower fails to return in time to settle the trade

Cash Only Collateral

Cash reinvestment

Cash collateral investment becomes impaired or decreases in value

Interest rate

Loan rebate rate exceeds earnings on cash collateral investments

Mitigating factors

- Rigorous credit committee review for approval
- Daily marking of loans/collateral
- Risk analysis tools (MSCI Barra) to measure and calibrate exposure
- Borrower default and close-out simulation exercise carried out at least once every 2 years
- In house transition manager

Mitigating factors

- Robust automated reallocations
- Trade settlement protection/ Contractual Settlement
- Buffer management process

Mitigating factors

- Multiple risk committee reviews and robust oversight of cash pools and investments
- Dedicated team of Fixed Income Research analysts reviewing securities
- Daily automated monitoring of portfolio guidelines and compliance

Mitigating factors

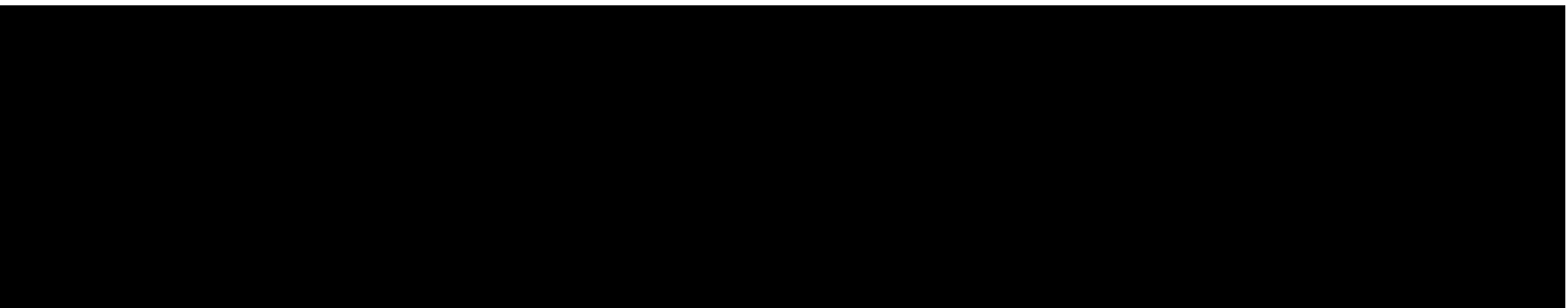
- Close daily communication between lending and cash management teams
- Shared risk between Northern Trust and client
- Weekly “gap analysis” and periodic stress testing of portfolio

SUPPORTING YOUR PERFORMANCE

GBP	Non-cash Collateral*
Gross Revenue	40,000
Net Revenue to SBCPF @ 50/50 fee split	20,000
Total Portfolio Value	742,000,000
Lendable Assets	185,000,000
Portfolio Utilisation (%)	11.2%
Gross Basis Point Return (bps)	2.1

Date of Projected Asset Lists: 6 August 2019

Date of Evaluations: 13 August 2019



**Please see the Appendix for the key assumptions of these estimates*

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