

Deutsche Bank Third Party Securities Lending Program

John B. Kemp
Managing Director
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Securities Lending Background

- Securities Lending is the market practice where securities are temporarily borrowed, for a fee, and are secured by collateral delivered to the lender.
- PSERS has participated in Treasury's Securities Lending Program through The Bank of New York Mellon since 1998.

Securities Lending Background

- July 31, 2014 Snapshot
 - Outstanding loans valued at \$3.081 billion
 - Collateral held valued at \$3.319 billion
- 2013 Earnings:
 - Net Revenues: \$8,321,647
 - Return on Assets Available: 5.38 bps
 - Return on Assets Lent: 34.32 bps
- 2014 YTD Earnings:
 - Net Revenues: \$5,661,073
 - Return on Assets Available: 6.02 bps
 - Return on Assets Lent: 42.00 bps

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Overview of Deutsche Bank AG

- Corporate
 - Headquarters in Frankfurt Germany
 - Long-term credit rating:
 - Moody's: A2
 - S&P: A+
 - Fitch: A+
- Agency Securities Lending
 - Offices located in New York (headquarters), London, Frankfurt, Singapore
 - 47 employees dedicated to trading and cash management
 - 33 employees dedicated to operations
 - Program implemented 1997
 - 60 SL clients
 - 45 Borrowers
 - \$391 billion lendable base

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Key Considerations

- Intrinsic Value Lending
 - Focus on securities most in demand
 - Capitalizes on rebate dispersion
 - Highest bidders
- Risk Management
 - Risk Budgeting
 - Benchmarking
 - Real-time reporting
- “Dual Indemnification”
 - Indemnification against counterparty insolvency risk with respect to loans of securities and investments of cash collateral in repurchase agreements (“indemnified repo”)
 - ✓ Provides for the replacement of identical securities
 - ✓ Provides for the replacement cash invested with a repo counterparty

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History with PSERS

- This will be PSERS' first relationship with Deutsche Bank as a lending agent.
- PSERS has an ISDA and futures agreements with Deutsche Bank today.

Other

- Relationship with HEK: None
- Placement Agents: None
- Political Contributions in PA: None
- Introduction Source: Request for Information

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Recommendation

Staff, together with Hewitt EnnisKnupp, recommends the Board retain Deutsche Bank AG as securities lending agent subject to the Investment Policy Statement, Objectives and Guidelines, as amended from time to time.

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