

Clearstream Vestima – Asset Safety

Service information

A reliable infrastructure to protect your assets

In brief

A solid infrastructure

- AA rating
- Securities Settlement System regulatory framework

Asset segregation

- Highest safety standards for customer assets

Legal opinion on domiciles

- Insights into jurisdictions in which Clearstream holds customers assets

Contracts with fund agents

- Direct contractual relationship with Clearstream

Delivery versus payment (DVP)

- Removes settlement risk from the fund transaction
- Provides clear overview of cash movements in compliance with AIFMD/UCITS V

Registrar Monitoring Report (RMR)

- Supports depository banks in monitoring transfer agents and registrars
- Provides information on Clearstream customer holdings with the respective agent

As market infrastructure, Clearstream ensures the highest standards of safety for customer assets, including asset segregation and DVP settlement. Clearstream's interaction with fund agents is contractually regulated and depository banks benefit from reporting on registrars. Legal opinions on the domiciles of fund registers assure customers that their beneficial ownership is recognized in the markets where their assets are held.



Solid infrastructure

Clearstream Banking S.A. holds strong, long-term AA ratings from major international rating agencies, which reflect Clearstream's focus on risk management and operational efficiency as well as the strict regulatory framework within which it operates as an International Central Securities Depository (ICSD) and a Securities Settlement System (SSS).

Clearstream's processes are subject to the rules of the supervisory authority of the country in which it operates.

As an SSS, Clearstream has to publicly disclose risk management principles in its Pillar III report. Regulators conduct a direct review of all Clearstream services, connections and network links.

Clearstream's fund services are embedded in the legal, settlement and custody framework of the ICSD. This enables customers to benefit from Vestima fund services while their holdings in investment fund shares are fully integrated with those in other asset classes.

Asset segregation



Clearstream operates according to the highest standards of safety for customer assets.

Fungibility

Investment funds deposited with Clearstream are recorded in accounts opened at the register in the name of Clearstream Banking S.A. As the registered share or unit account holder, Clearstream is the legal owner of these funds on behalf of customers.

For fungible funds, Clearstream maintains an omnibus account at the register. This is to ensure maximum processing efficiency and liquidity of the asset for the benefit of customers.

For non-fungible funds, Clearstream opens and maintains segregated accounts at the register, which reflect the same segregation established by customers on the Clearstream books. For example, this is the case for most alternative funds with performance fee equalisation mechanisms.

Beneficial ownership

According to the Grand Ducal Regulation of 13 July 2007, client assets must be held separately from those of the bank/company to ring-fence them from the bank's/company's estate subject to liquidation in case of insolvency. This gives Clearstream's customers the assurance that they will recover their assets in the unlikely event of an insolvency of Clearstream.

Clearstream clearly communicates to the register holder that the funds held in that account are the assets of Clearstream's customers. This is not only the case for segregated accounts for each client, but also for omnibus accounts.

In addition to this information exchange when the accounts are opened, Clearstream has contracts in place with most of the registrars or transfer agents to document that these Clearstream accounts contain assets of customers as beneficial owners. Moreover, as part of its services to the funds' issuers, Clearstream earmarks every transaction forwarded to the transfer agent with a jointly agreed identifier that enables the transfer agent to link those transactions to a given Clearstream customer.

Finally, in addition to this transaction earmarking, Clearstream also provides the transfer agents with a daily report on the Clearstream positions held in an omnibus account, broken down into the detailed positions of each underlying Clearstream customer. There is therefore no doubt for any fund or their transfer agent that the Clearstream account contains customer assets and not proprietary assets of Clearstream.

Reconciliation

The accounts opened by Clearstream in the fund register are carefully reconciled at each fund valuation point (mostly daily), applying the highest operational and risk standards.

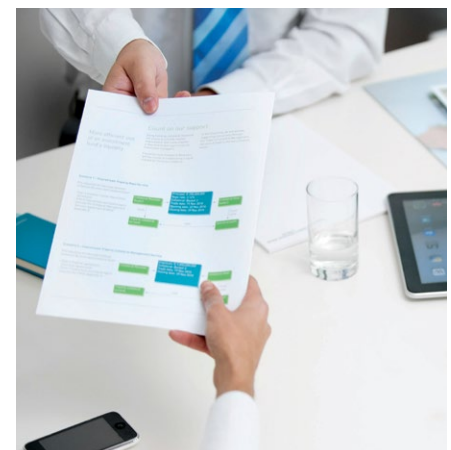
Compliance with legal and regulatory standards

The beforementioned account segregation principles are compliant with legal and regulatory standards, specifically with the following:

Being incorporated in Luxembourg, Clearstream is subject to the Luxembourgish law of 2001 on the circulation of securities and other financial instruments which require that assets sub-deposited with Clearstream (in Luxembourg or abroad) must be held separately from Clearstream's own assets. Clearstream fully complies with this requirement.

Where Clearstream is servicing clients who are acting as depositary banks for funds under AIFMD or UCITS V, those clients can open segregated accounts on Clearstream's books for the respective legal regime of the funds (in addition to accounts for their other client types or for their proprietary assets). The segregation of assets that Clearstream holds on the market with registrars and transfer agents is fully compliant with the rules imposed by both AIFMD and UCITS V.

For customers subject to the UK CASS rules, Clearstream's setup not only complies with section 6.3 of these rules, but Clearstream also qualifies as a "commercial settlement system" and benefits from exemptions under 6.1.12 of the UK CASS rules.



Legal opinion on the domicile of the register

It is Clearstream's policy to obtain legal opinions on markets and jurisdictions in which it holds assets on behalf of customers. These legal opinions provide Clearstream with the assurance that the local legal framework recognises the nominee

concept as well as Clearstream's status while protecting the rights of customers as beneficial owners. They also confirm legal protection against main risks related to the transfer agent itself.



Contracts with fund agents

For the vast majority of funds offered on Vestima, Clearstream interacts with the transfer agents via an issuance model referred to as CFF (Central Facility for Funds).

Under this model, the transfer agent enters into a direct contractual relationship with Clearstream and undergoes a full AML/KYC process.

In addition, under this unique issuance model, the transfer agents are subject to operational processes that conform to the highest standards of straight-through processing connections, reporting and, most importantly, reconciliations at each fund valuation point.

Fund eligibility checks

Clearstream has deployed an extensive risk-based programme to support the way in which we determine the eligibility of securities of all types, including investment funds, to its settlement system.



Delivery versus payment

Clearstream's processing infrastructure enables the settlement of subscriptions and redemptions on a delivery versus payment (DVP) basis. Cash is swapped against securities between the account of the Clearstream participant representing the investor side of the transaction and the account of the Clearstream participant representing the fund side of the transaction (also referred to as Fund Issuance Account).

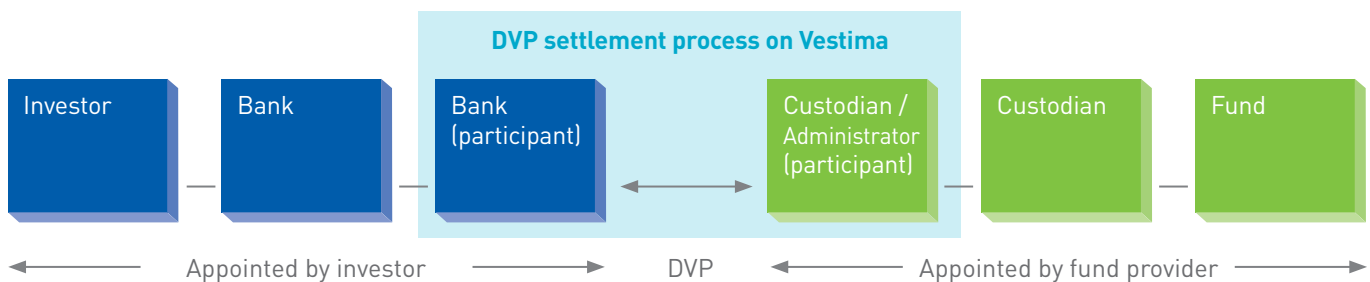
Clearstream's settlement platform connects the cash/securities processing chain appointed by the investor to the cash/securities processing chain appointed by the fund, as illustrated below:

This settlement process offers perfect investor protection as it will not transfer cash out of their account – directly or through the custody chain they have appointed – until Clearstream credits them with the fund shares. Delivery of shares against payment is only carried out if both the shares and the cash are provisioned correctly by the respective parties and matching settlement instructions are in place on contractual settlement date.

This DVP model removes any settlement risk from the fund transaction and is therefore attractive for Clearstream customers, especially those with a depositary or trustee responsibility

towards their own clients in the framework of the AIFMD or UCITS V directives (i.e. for fund of funds).

This settlement process also gives the target fund's depositary a clear overview of the cash movements in and out of the fund in compliance with the above-mentioned directives. By opening the Fund Issuance Account in its own name and on its own books, the depositary can even directly automate the settlement of transactions to the individual target fund accounts. This avoids the difficulties associated with collection accounts concerning settlement of transactions managed directly by the transfer agents.



The Registrar Monitoring Report

AIFMD and UCITS V impose liability on depositary banks for the immediate restitution of lost financial assets. Depositary banks need to carry out due diligence and monitor transfer agents and registrars who hold client assets on their behalf to assess the likelihood of events that might cause financial losses.

Clearstream provides depositary banks with a fully transparent overview of client assets and supports the banks in monitoring transfer agents and registrars via the Registrar Monitoring Report (RMR).

This service enables depositary banks to assess the quality of transfer agents, registrars or processing agents registering ownership, based on a profiling report. This report contains

key information on the holdings of Clearstream customers with the respective agent and provides ratings as well as weighted scores based on extensive due diligence questionnaires.

The RMR provides depositary banks with a reliable and efficient tool for meeting their risk management obligations under AIFMD and UCITS V in relation to fund assets.

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