

ACCORDING TO SUNGARD THE SUN IS STILL SHINING ON SECURITIES LENDING

INTERVIEW WITH AARON GERDEMAN, PRODUCT MANAGER, SUNGARD ASTEC ANALYTICS.

Securities lending activity has been expanding for years. Has the recent credit crunch stalled that growth or accelerated it?

Aaron Gerdeman: The securities lending industry was humming along in early 2007, reporting record volume and revenue. Then came August. After the credit markets began to seize up last summer, securities lenders have certainly had their share of headaches to deal with. But there have also been good opportunities for profits.

The insatiable demand for U.S. Treasuries has been a boon to owners willing to lend them, with rebates 100 to 200 basis points below fed funds. Add to those spreads a rather healthy return on reinvested cash collateral, and Treasury lenders have done very well in this market. However, even though spreads have widened for Treasury loans, the supply to lend is finite and so we don't see loan volume expanding much.

More broadly, there was moderate growth in the second half of 2007 across all asset classes, but the first quarter this year was essentially flat. So we'll be watching the usually strong second quarter with interest.

Macroeconomists will study the effects of actions by central banks during this credit crisis for years to come. What effects have you seen to date in the securities lending market?

AG: We've just seen the Fed's term securities lending facility restore some normalcy to the repo market for Treasuries. That has caused rebate rates to rise back to G.C. levels in the securities lending market as well. But of all the policy decisions made by central banks recently, the measure that is most likely to have a broad impact on the securities lending industry is the steep rate cuts by the Federal Reserve. That's because, in general, lower interest rates tend to compress spreads in securities lending. Now that interest rates in the U.S. are less than half of what they were before the credit crisis, we would expect spreads to narrow – but only after prices in the short-term credit market stabilize.

Has the sudden collapse of Bear Stearns made you rethink the way you evaluate risks in securities lending?

AG: We've always included measurements of counterparty exposure in our risk reports for securities lenders, just as the entire industry pays close attention to it. For example, there is from 102% collateralization, daily marks-to-

market, and indemnification against borrower default. So this concern is nothing new to the market, but of course the collapse of a highly-rated broker-dealer certainly gives one pause.

In our benchmark reports, we are emphasizing the liquidity risks associated with securities lending, as well as the importance of strong relationships with one's borrowers.

Diversification of loans among counterparties is key. But so is the ability to quickly shift loans from a borrower that unwinds its positions for any reason, to other firms that are willing to take on enough loans to allow the lender to avoid taking losses in its cash reinvestment account.

How has the relative illiquidity in short-term credit markets affected securities lenders who take cash collateral?

AG: Turmoil in these markets can cause a lot of headaches for cash-based securities lenders. Today's credit crisis is causing uncertainty about the value of the instruments in these markets, so there has been a discount priced into some of them. For holders of those instruments, including some securities lenders, that has meant booking paper losses for a short period while waiting and hoping for the asset to mature and be paid in full.

But of course these higher risk premiums can also mean higher returns on reinvested cash collateral. This is why many lenders are enjoying higher spreads on their loans during this credit crunch. Of course, risk premiums are there for a reason, so cash managers still need to be prudent in their investments as always.

The practice of short selling has been brought into the spotlight recently, being featured on the front pages of leading newspapers around the world. How is this attention affecting the securities lending industry?

AG: Stock market corrections are inevitably accompanied by outcries against short selling. This bear market is no exception.

But what are these headlines really about? Typically someone is accused of illegally manipulating stock prices, such as by spreading misinformation or entering into fraudulent transactions. Instead of running a bucket shop or a

Ponzi scheme, these stories allege that the fraud is occurring within the short sales market. Unfortunately, instead of focusing on how to stamp out fraudulent activity in the market, most press coverage maligns the entire short selling apparatus, including the securities lending market.

Can this have a serious effect on securities lending? I doubt it because this is a debate as old as stock markets themselves. Most institutions that have already started or are looking into lending their securities will do their homework first and find that for every sensational newspaper story that conflates short selling with price manipulation there is an empirical study that shows how short selling is important for the proper functioning of capital markets. ●

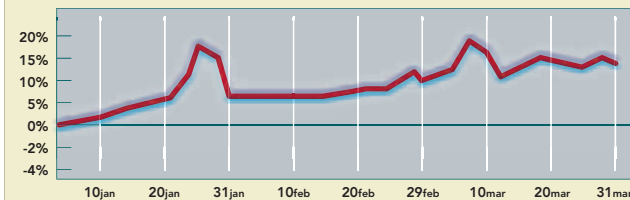


THERE WAS MODERATE GROWTH IN THE SECOND HALF OF 2007 ACROSS ALL ASSET CLASSES, BUT THE FIRST QUARTER THIS YEAR WAS ESSENTIALLY FLAT.

SECURITIES LENDING INDICATORS

EQUITIES

Total Shares on Loan
% change from 90 days prior

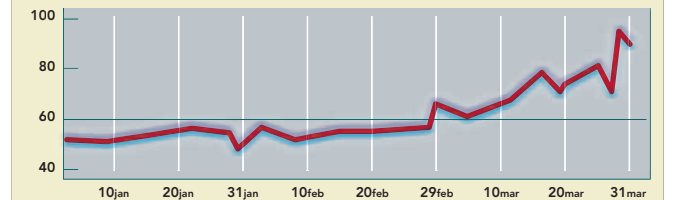


Shares on Loan:
Changes over 90 days: **13.8%**
Changes from month prior: **2%**

This month's most borrowed issues

SPDR Trust, Series 1	SPY
Wachovia Corp	WB
Wells Fargo & Co	WFC
Nestle SA	NESN
PowerShares QQQ Trust, Series 1	QQQQ
Rio Tinto plc	RIO
Volkswagen AG	VOW
Bank of America Corp	BAC
Total SA	TOT
Roche Holding Ltd	ROG

Value-weighted average spread for outstanding loans
90 days prior, in basis points



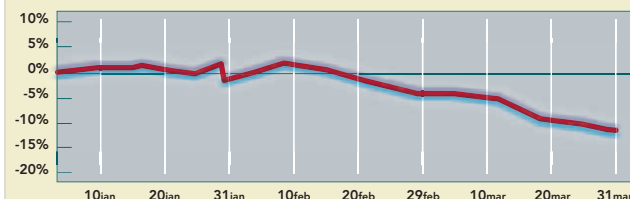
Cost-to-borrow:
Changes over 90 days: **37.5bp**
Changes from month prior: **4.6bp**

Issues with the highest loan fees or intrinsic spreads this month

NovaStar Financial Inc	NFI
Neurochem Inc	NRMX
Parmalat Finanziaria SpA	PRF
Tousa Inc	TOA
ACA Capital Holdings Inc	ACA
Movie Gallery Inc	MOVIQ
Syntax-Brilliant Corp	BRLC
Cleveland BioLabs Inc	CBLI
BIDZ.com Inc	BIDZ
WCI Communities Inc	WCI

FIXED INCOME

Par Value on Loan
% change from 90 days prior

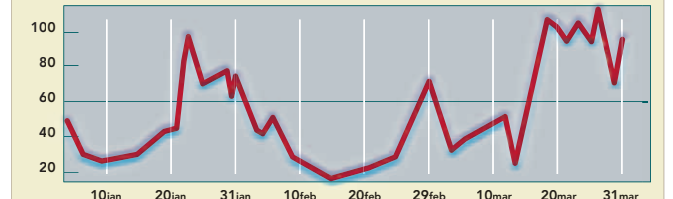


Par value on loan:
Changes over 90 days: **-16.2%**
Changes from month prior: **-2.9%**

This month's most borrowed issues

United States Treas Nts	7.375%	12/31/2007
United States Treas Bds Tips		4/15/2029
United Kingdom Treasury Stock	4%	3/7/2009
United States Treas Nts,	5%	8/15/2011
United States Treas Nts,	4%	2/15/2015
United States Treas Bds Tips		1/15/2025
United Kingdom Treasury Stock	8%	6/7/2021
United States Treas Nts	4.25%	8/15/2013
United States Treas Nts	2.625%	5/15/2008
United States Treas Nts	4%	2/15/2014

Value-weighted average cost-to-borrow
90 days prior, in basis points



Cost-to-borrow:
Changes over 90 days: **47.8bp**
Changes from month prior: **10.6bp**

Issues with the highest loan fees or intrinsic spreads this month

Rotech Healthcare Inc	9.5%	4/1/2012
Tembec Industries Inc	8.5%	2/1/2011
Dollar General Corp	10.625%	7/15/2015
MagnaChip Semiconductor SA	8%	12/15/2014
Beazer Homes USA Inc	8.125%	6/15/2016
Hovnanian K Enterprises Inc	8.875%	4/1/2012
Delphi Corp	6.55%	6/15/2006
AMR Corp	9%	8/1/2012
Burlington Coat Factory	11.125%	4/15/2014
Sally Holdings LLC	10.5%	11/15/2016