

THE RISE OF CANADA

SCOTIABANK REFLECTS ON THE REASONS FOR THE WIDENING RECOGNITION OF CANADA'S BANKING SECTOR



Scotiabank's Prime

Services group offers a broad range of products including cash and synthetic prime brokerage, securities lending, capital introduction (from Toronto) and derivatives solutions. Our team spans across Europe, North America and Asia, providing hedge funds and alternative asset managers with comprehensive transaction experience and local market expertise. Scotiabank is Canada's international bank and a leading financial services provider in North America, Latin America, the Caribbean and Central America, and Asia-Pacific. For more information visit www.scotiaprimeservices.com

Quietly, steadily and with growing impact, Canadian financial institutions have been building connections with the global hedge fund industry for three decades. Now, as the Canadian banking sector gains wider recognition for its strength and stability, the country's leading banks are building on that longstanding relationship, using their international capabilities to expand prime brokerage and related services.

Against that background, it is no accident that the Scotiabank™ Prime Services group has evolved into a significant global business servicing hedge funds and alternative asset managers.

Canada has been at the forefront of the alternative investment space since the early 1990s, when large pension funds pioneered the investment approach that many other allocators have since replicated. As the Canadian pension funds diversified their investment strategies to include alternative asset classes, long-term partnerships developed between the large Canadian allocators and hedge fund managers outside of Canada.

Today, the sophistication of these allocators continues to evolve, and the partnerships are growing at pace. The cost for allocators to invest in hedge funds is considerable, estimated at approximately \$200,000. Furthermore, implementation can take between three and six months. Given the significant investment of both time and money, Canadian institutional investors developed a thorough due diligence process, and while it may initially have seemed unnecessarily cumbersome, it has helped to cement long-term relationships with hedge funds.

Canadian allocators developed a reputation over the years for their sophisticated approach to the sector, and the consultative nature of their relationships with hedge funds. Where relationships develop based on trust and a free exchange of information, the symbiotic partnership that builds over time can become a powerful force.

WAKING UP TO CANADA

If the Canadian investor base has long had an appetite for the alternative space, that interest is being reciprocated now, as the global hedge fund industry pays more attention than ever to accessing Canadian investors. This heightened interest has been driven in part by headwinds facing the hedge fund industry and in part by the success with which Canadian banks

weathered the financial crisis.

Last year was challenging for many hedge funds, with muted returns relative to historic averages. This resulted in investor unrest and an increasing demand that fees should be appropriate to returns and investment strategy. The investor redemptions and rotation that ensued led many managers who were formerly closed to new investment to become more open to accessing investor demand in less saturated geographical pockets. As a result, Scotiabank Prime Services aided numerous international clients by facilitating introductions to the Canadian alternative investment community through its capital introduction team.

The Canadian banks generally continue to hold credit ratings that are, on average, above those of their peers in Europe and the US. As economic and political uncertainties resonate in Europe and the US, Canada increasingly stands out as a safe haven, while enjoying an economic outlook currently on track to outpace the US and much of Europe¹.

Scotiabank considers itself to be Canada's international bank; it has a presence in major markets around the world. Most obvious is its North American footprint, yet Scotiabank's network also spans Latin America, the Asia-Pacific region and Europe – where the London office is fast approaching its 100th birthday.

FOLLOWING SCOTIABANK'S LEAD

With a market capitalisation in excess of C\$94bn (\$73.7bn), and 88,000 employees, the Bank of Nova Scotia is currently rated A+ by S&P* and is dedicated to serving 23 million customers through a range of products and services, spanning from retail and commercial banking through to wealth management, corporate and investment banking, and capital markets. As you would expect for a Canadian bank, Scotiabank has particular sectorial strengths in natural resources, which are often of interest to its international clients. But it also possesses geographic reach: one key to the bank's growth strategy is an extensive network of local banks and broker-dealers across Latin America, particularly in the four Pacific Alliance nations (Mexico, Peru, Chile and Colombia).

Scotiabank's targeted global strategy also includes steadily expanding prime brokerage and related services in London, New York, Singapore and Toronto. Scotiabank has long been involved in traditional lending businesses, but in an age of increasing focus on returns, prime brokerage has offered Scotiabank



the opportunity to embrace lending while benefitting from the efficiencies of the prime brokerage model. Collateral and haircuts taken by prime brokers make the business highly efficient in its consumption of financial resources and efficient use of risk-weighted assets, compared with more traditional loans. The advantages of collateral, re-hypothecation efficiencies and the ability to service the same client base through a variety of other global markets products can make for compelling returns metrics.

Of Scotiabank's strategy in recent years, John Stracquadiano, head of Prime Services notes: "Having been in international build-out mode for several years, we are excited about the scale we have achieved, which has allowed for the improved return metrics now being delivered. First and foremost, though, Scotiabank puts the customer first, and it is that singular focus that's allowed us to accomplish all that we have so far." Scotiabank Prime Services has built a sizeable synthetic prime brokerage business, which allows it to work with clients and portfolios which maximise efficiencies from a balance sheet perspective, and create improved returns through scale. The improved metrics also benefit clients as the pricing reflects the efficient use of financial resources.

Scotiabank's Prime Services business has been positioned to capitalise on the relative outperformance of Canada, successfully serving its increasingly non-domestic client base and acting as their gateway to Canada. The group enables Canadian and North American clients to access European and Asian markets synthetically or via cash prime brokerage, each under a single legal agreement, through a global platform and client service team². In addition, it has offered Canadian institutional investors who have an appetite for alternative investments the ability to access opportunities through

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its capital introduction group based in Toronto.

Scotiabank continues to invest in its Prime Services group, listening to its clients' requirements in order to meet their global needs. While much of the build out is now complete, many opportunities for growth remain. In the next few months, equity execution services will be going live with direct electronic access in Europe to complement the existing North American product offering. Investment has been made in settlement and operations infrastructure, allowing for scale and reducing volume sensitivity outside of North American markets, where service volume was not an issue. Prime Services has largely deployed a strategy of partnering with the best of breed Fintech solutions, in order to ensure the business continues to keep pace with the fast-changing requirements of the industry.

"It's all about finding the relevance to our clients...finding the catalyst to get started," says Mike Brian, head of Prime Services Europe. "It might be Canadian equities for a global multi-strat, or access to Latin American markets such as Mexico for a fast-growing start-up. Once we find it, our competence in global banking & markets typically sees us expand into other regions, and clients are always complimentary of our global competence." ■

*S&P Long Term Debt/ Deposits Credit rating; As at July 2017

¹ Scotiabank Global Economics Forecast www.gbm.scotiabank.com/scpt/gbm/scotiaeconomics63/forecast.pdf

² Subject to applicable law/regulation

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