

Central Securities Depositories Regulation (CSDR)

What is the CSDR?

The CSDR is a European Union regulation which governs how Central Securities Depository (CSD) and its participants operate. A Central Securities Depository is responsible for custody, control and legal ownership of securities. CGWM is a participant of Clearstream Banking Luxembourg ('Clearstream') and CREST, which are EU and UK based CSDs respectively.

In our own books and records, we record each client's individual entitlement to securities that we hold for that client in a client account which holds the securities of a number of clients on a collective basis but which does not hold any of CGWM's proprietary assets. This is called an Omnibus Client Segregated Account which is our current default arrangement.

We are required to comply with CSDR for assets which are held through Clearstream and CREST. This includes offering customers the option to hold their investments in an Individual Client Segregated Account at Clearstream and CREST.

What does this mean for you?

You can now request to hold eligible assets which are currently held in either Clearstream or CREST in an Individual Client Segregated Account with the CSD in question. Please be aware that where you elect to hold assets in an Individual Client Segregated Account, this may result in execution delays because of the administration involved in the set-up process. You can elect to return to pooled custody at any time. The assets which are

currently eligible to hold in an Individual Client Segregated Account are Collective Investments (Funds) and UK equities. All other asset types you hold would remain in an Omnibus Client Segregated Account.

What are the costs?

If you opt to hold your eligible assets in an Individual Client Segregated Account there will be an additional quarterly fee of £2000 for Clearstream and £500 for CREST to reflect to additional operational costs of an Individual Client Segregated Account. If you were to leave or join the service part way through a quarter, the fee would be charged on a monthly pro-rata basis.

What are the risks, levels of protection and legal implications of each custody account type?

Risk	UK	Crown Dependencies
Insolvency	<p>Were we to become insolvent, insolvency proceedings would take place in England under the laws of England and Wales.</p> <p>Clients' legal entitlement to securities that we hold directly with CSDs would not be affected by our insolvency whether an Individual Client Segregated Account or Omnibus Client Segregated Account is selected. Securities would be deliverable to clients in accordance with each client's proprietary interests in the securities.</p> <p>For Individual Client Segregated Accounts and Omnibus Client Segregated Accounts, we are subject to the FCA's Client Assets Sourcebook.</p>	<p>Were we to become insolvent, insolvency proceedings would take place in Guernsey under Guernsey law.</p> <p>Clients' legal entitlement to securities that we hold directly with CSDs would not be affected by our insolvency whether an Individual Client Segregated Account or Omnibus Client Segregated Account is selected.</p> <p>For Individual Client Segregated Accounts and Omnibus Client Segregated Accounts, we are subject to the Licensees (Conduct of Business) Rules 2016.</p> <p>For an Individual Client Segregated Account, the client is beneficially entitled to all assets in the Individual Client Segregated Account. For an Omnibus Client Segregated Account, each client is considered to have a beneficial interest in all the securities in the account proportionate to its holding of securities.</p>

Risk

Shortfalls

Shortfalls may arise from administrative errors, intraday movements or counterparty default. For Omnibus Client Segregated Accounts only, they may arise from securities of one client being used by another client to settle an intraday position.

The whole of a shortfall on an Individual Client Segregated Account is attributable to that client. For an Omnibus Client Segregated Account, the shortfall is shared among clients with an interest in the security.

Where the firm identifies a shortfall that arises from administrative errors, intraday movements or arising from securities of one client being used by another client to settle a position, the firm will cover the value of the shortfall (either in cash or securities) in such a way that the assets, or proceeds of their liquidation, will be available for the benefit of the client in the event of the firm's failure.

In the event of a default of a sub-custodian the firm will not be liable for any shortfalls where it has performed sufficient due diligence on the counterparty and the relationship is appropriately documented. However, the firm may choose to cover the shortfall from its own resources without an obligation to do so.

Note: Individual Client Segregated Accounts increase the risk of settlement failure which may in turn incur additional buy-in costs or penalties and/or delay settlement.

Security Interests

The situations in which a security interest may be granted are limited and must meet certain strict criteria. Securities held in an Individual Client Segregated Account or Omnibus Client Segregated Account could be used in the unlikely scenario that the CSD benefits from a security interest over securities held for a client potentially causing a delay in returning assets to a client or a shortfall.

This document is not intended to constitute legal or other advice and should not be relied upon as such. Clients should seek their own legal advice if they require any guidance on the matters discussed in this document.