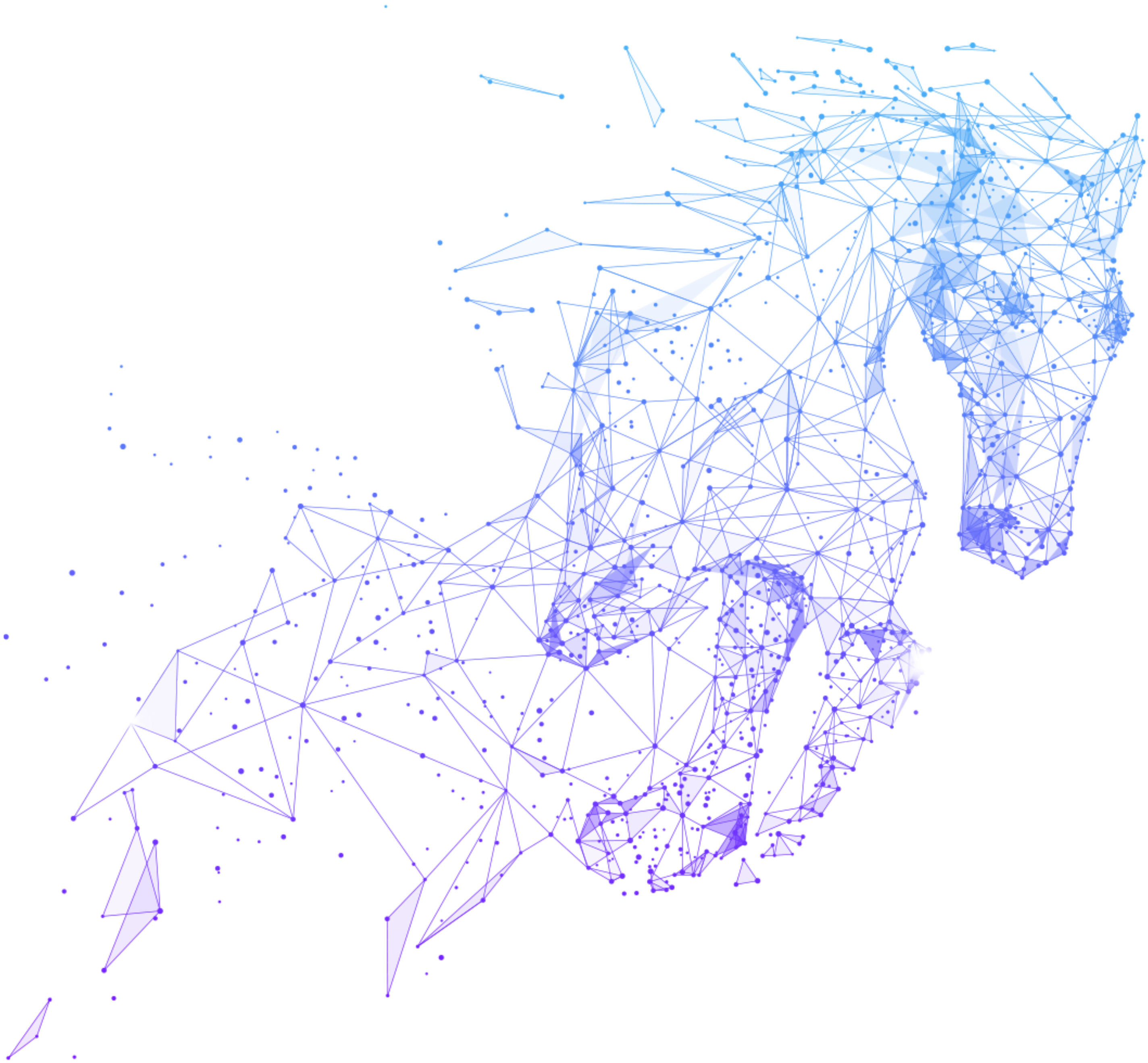


CUSTODIAN MANAGEMENT

AURA SOLUTION COMPANY LIMITED

INTRODUCTION

In an ever-changing world where the complexities of wealth are continuously expanding on a global scale, the needs of affluent individuals, families, and family offices are evolving at a rapid pace.

Today, more than ever before, these worldly and wealthy entities are actively seeking investment opportunities, establishing businesses, and acquiring real estate assets across multiple regions worldwide. With a desire to diversify their portfolios and access a broader range of assets and currencies, they require tailored solutions to navigate the intricate landscape of tax, regulatory, and legal requirements. In response, the role of custodians is undergoing a significant transformation, centralizing access to crucial information to assist clients in both growing and protecting their wealth.

A custodian, typically a bank or brokerage firm, serves as the custodian of its clients' assets, safeguarding and servicing them while also facilitating trades and transactions. In 2018, the world's four largest custody banks managed more than US$114 trillion in assets under custody and administration, reflecting a substantial increase from previous years. However, amidst this vast landscape, numerous custodians exist worldwide, each offering distinct models, propositions, and fee structures.

Choosing the right custodian amidst this array of options can be a daunting task. A suitable custodian provides invaluable benefits, including asset safety, streamlined access to wealth information, and comprehensive service and oversight capabilities, allowing clients to focus on other pressing matters. Conversely, selecting an unsuitable custodian or maintaining excessive custodial relationships can pose risks to asset safety, incur higher costs, lead to data inaccuracies, and consume valuable time with administrative tasks.

Regardless of their specific objectives and requirements, individuals, families, and family offices must carefully evaluate four key factors when assessing custodians. In our forthcoming paper, we delve into these critical considerations to empower you to make informed decisions tailored to your unique circumstances.

At Aura Solution Company Limited, we are committed to providing comprehensive solutions and expert guidance to help you navigate the complexities of wealth management effectively. Stay tuned for our insightful exploration of custodial considerations, designed to equip you with the knowledge and insights needed to make sound financial decisions in today's dynamic landscape.

Contact us today to discover how Aura Solution Company Limited can support your wealth management goals and help you achieve long-term financial success.

What's in a name?

Custody services are often referred to by several names:

Master custody: Most often used by US domiciled individuals and family offices

Global custody: Most often used by non-US domiciled individuals and family offices, particularly those located in Latin America and Europe

These names are interchangeable, and for the purpose of this paper, we will refer to the service as global custody.

The role of a global custodian

•Safekeeping of client securities

•Securities processing and trade settlement, regardless of executing broker

•Asset servicing - corporate actions, tenders, rights offerings, splits etc.

•Income collection and remittance

•Global solutions and foreign currency exchange

•Asset pricing and portfolio valuation

•Reporting, online access to information, and electronic data feeds

•Short-term cash management
i.e. nightly automated cash sweeps

C ONSIDER A TION # 1:

Should I centralize my assets with a single custodian?

In the pursuit of building and managing wealth, many individuals, families, and family offices often engage with multiple banks and brokers. This strategy emerges from the dynamic evolution of their needs as wealth diversifies across various asset classes, geographic regions, and currencies.

Consider this scenario: an individual opts to initiate a new investment portfolio with a specific provider or for a particular strategy. Instead of consolidating all assets with one provider, it may seem more convenient to incorporate additional providers into the mix. While this approach offers several benefits, it also presents challenges when seeking a comprehensive overview of one's financial landscape across all portfolios.

For instance, a family office aiming to assess its exposure to a particular company, such as shares of Apple, or a specific investment strategy like municipal bonds, faces the arduous task of piecing together information from disparate accounts and sources.

Creating a consolidated, real-time overview of all assets becomes a formidable undertaking due to variations in reporting processes, cycles, and data sources among custodians. Meaningful comparisons are hindered, making it difficult to analyze overall positions effectively. Those with multiple custodians often resort to manual consolidation of reports, a time-consuming process prone to human error.

Recognizing these challenges, many individuals and families opt to delegate this critical responsibility to third-party asset aggregators. While some may be familiar with third-party asset aggregation services, a significant portion may not fully understand the potential benefits and efficiencies these services can offer.

At Aura Solution Company Limited, we understand the complexities inherent in managing wealth across multiple providers. Our mission is to streamline this process, providing tailored solutions that empower our clients to achieve their financial goals with confidence and clarity.

Contact us today to learn more about how Aura Solution Company Limited can support your wealth management objectives and help you navigate the complexities of managing multiple portfolios effectively. With our expertise and personalized approach, we are committed to delivering comprehensive solutions that simplify your financial journey and enhance your peace of mind.

Amidst the myriad options available for consolidating assets, one often overlooked solution is global custody. Many individuals remain unaware of this alternative, which offers unparalleled benefits in streamlining and centralizing their wealth management endeavors.

A global custodian serves as a trusted guardian of clients' assets, providing a secure and centralized repository for all holdings. While opting for global custody involves transferring assets from existing accounts to the chosen custodian, clients retain the flexibility to continue engaging with external portfolio managers and brokers for trade execution and advisory services.

This consolidation of assets under the purview of a global custodian plays a pivotal role in effectively nurturing and safeguarding wealth. By ensuring access to comprehensive and up-to-date information, individuals and families can seize opportunities and mitigate risks with confidence and agility.

Determining whether to embrace global custody or maintain multiple custodial relationships alongside an asset aggregator hinges on the unique requirements and wealth objectives of each individual or family. While both approaches offer similar outcomes, such as access to consolidated financial data and robust reporting capabilities, they entail distinct advantages and disadvantages that necessitate careful evaluation.

When considering global custody, several factors warrant consideration:

- **Books and Records of All Investments**: A global custodian assumes responsibility for maintaining accurate records of all investments. This includes managing income collection, tender offers, proxies, and rights offerings, serving as the official books and records for all assets held. This streamlined approach eliminates the need to reconcile data from multiple sources, simplifying comparisons and reporting.
- **Asset Safety**: As a custodian, a bank offering global custody services is obligated to segregate client assets from its own investments. This ensures that client securities remain protected, shielded from creditors in the event of bank failure.

At Aura Solution Company Limited, we recognize the transformative potential of global custody in optimizing asset consolidation and enhancing wealth management strategies. Our team is dedicated to providing tailored solutions that align with the unique needs and objectives of our clients, empowering them to navigate the complexities of wealth management with confidence and ease.

Contact us today to discover how Aura Solution Company Limited can leverage global custody to streamline your wealth management journey and safeguard your financial future. With our expertise and unwavering commitment to client success, we stand ready to be your trusted partner in achieving your financial aspirations.

Reporting

Since all activity is settled by the global custodian, intra-day information can be included in reports and portals.

Dedicated client service

A global custodian can provide a dedicated service team for administrative matters, acting as an extension of the client's staff and supporting day-to-day requirements.

Lower operational cost and risk

A global custodian typically offers lower costs as there is usually no on-boarding or annual fee, and usually a smaller annualized basis point fee. There is also less operational risk as assets are not spread across multiple parties. Custodians who leverage a proprietary network may also have a leaner operational model, which reduces overall risk.

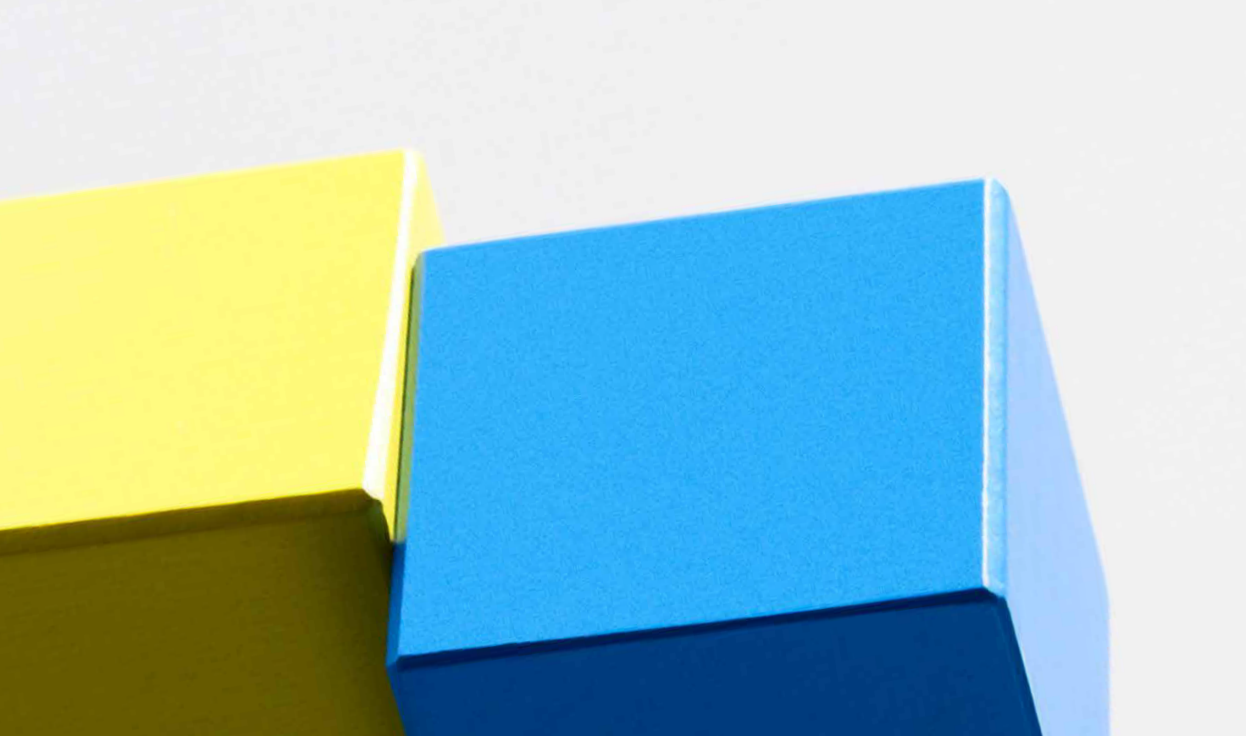
Better pricing

A large global custodian may be able to use its institutional book of business to negotiate institutional pricing for its clients, which may be cheaper than the retail pricing other providers may offer.

If a client chooses to use other services offered by the custodian, they may be also able to negotiate reduced pricing on their custody fees.

Lending opportunities

Individuals with a global custodian may find it easier to get a larger lending amount than those with multiple custodians. The larger and more diversified the asset pool, the more banks are willing to use the underlying assets as collateral. This way, individuals and families can optimize their lending needs and use economies of scale to finance their business, or even their home or yacht.



Fund manager reluctance

Some investment advisors – typically those on an open architecture investment platform – may push back when instructed to work with
a global custodian since they may already have a preferable custody process in place.

New accounts

Additional paperwork will be necessary when establishing a relationship with a global custodian, which may take considerable time and effort.

Individuals or families who do not want to consolidate their assets through a global custodian may opt to use a third party asset aggregator; however this service is often costly and can present many challenges, including data quality and integrity, no asset safety benefits, and no dedicated client service.

C ONSIDER A TION #2:

What are the key differences between a bank and broker firm providing cust

Since the financial crisis, many clients have prioritized knowing where their assets are held and understanding how this decision impacts their asset safety. While safeguarding assets is said to be a custodian's most critical function, the difference in how various custodians hold and use assets held in custody is often misunderstood. It is critical individuals, families, and family offices understand these differences in the case of a serious risk event outside their control.

A brokerage firm pools its clients' assets together. This means that client assets may not be fully segregated from the securities of other clients or the brokerage firm itself. Therefore, the brokerage firm may use client assets for its day-to-day activities, or even for other clients' needs e.g. to cover a short position. This could result in creditors seizing the assets if the firm were to become insolvent. Consequently, clients may unintentionally be exposed to safety risks when holding assets in custody with a broker dealer.

Bank custodians, on the other hand, fully segregate client assets from the bank's own assets. As a result, clients always remain beneficial owners of their assets, which cannot be lent out (hypothecated) by the bank. In the event of a bank's insolvency, custody assets are returned to clients with minimal disruption.

There are other differences between bank and brokerage custody services that may affect how individuals and families grow and protect their wealth, for example: trade execution, borrowing, and costs.

The below table highlights some of the differences between the two solutions:

	Brokerage firm custodian	Bank custodian
Trade execution	Clients are typically required to trade through their captive broker-dealer desk	Clients have the flexibility to trade with any third-party execution desk and have trades delivered vs payment to their bank custodian
Costs	Typically no separate custody fee, as revenue is earned on trade commissions and mark ups charged on trades done through the trading desk	Transparent custody fee for safekeeping client assets; client negotiates trade commissions and mark ups charged on trading through the respective trading desks they use
Borrowing	Margin lending (Reg. T)*	Reg. U* collateralized lending i.e. purpose vs non-purpose
Service	Financial advisor and sales assistant support client needs	Dedicated team of service specialists can work directly with clients or their intermediaries
Regulators and insurance (In the US)	SEC and FINRA; SIPC for investments and cash	FED and OCC; FDIC for on balance sheet deposit cash

The financial crisis demonstrated the real risk of not segregating client assets. The collapse of certain financial services companies and the ongoing challenges its investors still face in retrieving their assets, has taught many to focus on this key issue when considering custodians.

*See definition of terms

C ONSIDER A TION #3:

What technology and reporting solutions should I look for?

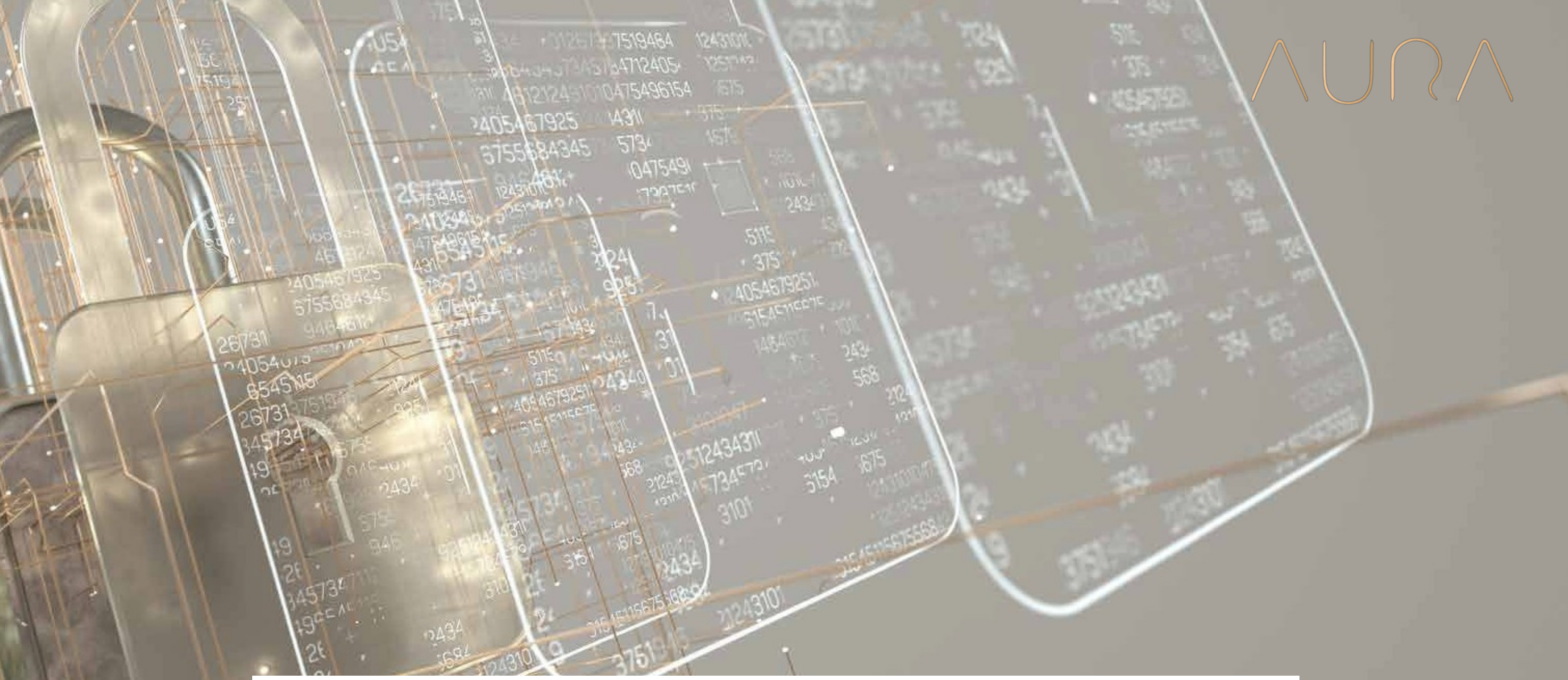
Assessing a custodian's technology and reporting capabilities is crucial to understanding whether it can deliver its functionalities. A custodian's ability to successfully provide access to information on a client's assets in real-time and deliver customized reporting is entirely dependent on the efficiency of its technology and reporting solutions.

Individuals and families should assess their reporting requirements before evaluating what a custodian can offer. For example, while some may be content with accessing basic reports at the end of reporting periods through a simple portal, those with complex portfolios spanning multiple providers, regions and currencies may require access to live information and tailored reporting capabilities. As a result, the following factors need to be considered:

Real-time reporting

Custodians with real-time reporting allow their clients to view and access detailed information on their wealth in one place wherever and whenever they need it.

This provides an overview of all holdings, recent transactions, and functionality to group accounts by currency, region, and asset class, as well as assess weightings, which enables clearer and better decisions.



Customization

Some custodians offer the flexibility to tailor their basic reports to clients' specific needs. This can help clients analyze performance with customizable data by account, asset class, holding, currency, or other customizable benchmarks.

Automated data feeds

Custodians who provide automated ways to send and receive trade data and portfolio holding information can help reduce the risk of manual intervention and help convert and process trades electronically.

Having the connectivity to portfolio management systems and data aggregators, and a flexible data structure to work with new vendors, are also key capabilities to look out for if individuals and families have more complex needs.

C ONSIDER A TION #4 :

How important is a custodian's global reach?

For individuals and families whose wealth is becoming increasingly global, it's being seen as more crucial to work with a custodian who can offer the right resources, expertise, and coverage to help with any multi-jurisdictional investments.

Another benefit of a global custodian is that it has a global presence and provides access to a large number of countries around the world by using either their proprietary network or third party local custodians, allowing clients to consolidate assets globally. A custodian's global reach – or ability to hold assets around the world – should be a significant factor when finding the right custodian to work with.

Global custodians should have the breadth of capabilities to support those clients with international asset needs, as well as those with predominantly domestic requirements. However, it is critical that a global custodian has a well-placed, best in class sub-custodian network to support clients' local market needs around the world.

However, even if a custodian has the right access and coverage for an individual or family's needs – it is important that it can aggregate this information effectively so that potential cross-border or multi-regional challenges or opportunities may be identified.

CONCLUSION

In an era where the complexity and global reach of individual and familial wealth continue to expand, the role of custodians becomes increasingly vital. These individuals and families require custodians capable of delivering real-time information, facilitating informed decision-making, and alleviating the administrative burdens associated with managing their assets.

Recognizing this evolving landscape, it is imperative for individuals and families to carefully consider a spectrum of factors when selecting a custodian:

Asset Consolidation: Streamlining multiple accounts and assets into a cohesive portfolio enhances efficiency and clarity in wealth management.

Safety of Assets: Ensuring the secure and protected custody of assets is paramount to safeguarding wealth for future generations.

Reporting Capabilities: Access to comprehensive and accurate reporting facilitates transparency and informed decision-making.

Globality: As wealth becomes increasingly globalized, custodians with a broad international footprint can provide essential support and access to diverse markets.

By assessing these areas, individuals and families can pinpoint their priorities and determine the type of custodian best suited to meet their specific needs and objectives.

At Aura Solution Company Limited, our Custody team stands ready to provide professional portfolio administration services to clients seeking to consolidate accounts and simplify securities recordkeeping. With an impressive $22.8 trillion in assets under custody/administration, Aura ranks among the largest institutional custodians globally.

Our approach to asset safeguarding leverages a robust global custody network spanning over 100 foreign markets, including 63 Aura branches or affiliates. Clients can rest assured that their assets are held off the balance sheet and fully segregated from Aura's general assets, ensuring the highest level of security and protection.

What sets Aura apart is our unwavering commitment to personalized service and institutional-level expertise. Our dedicated private banking team and custody specialists are equipped to provide tailored solutions and guidance to meet the unique needs of each client.

To learn more about how Aura Solution Company Limited can support your wealth management objectives through our Custody services, we invite you to contact your Private Banker today. They will be delighted to arrange a meeting with one of our experienced Custody Specialists who can provide further insights and assistance tailored to your specific requirements.

ABOUT THE AUTHOR

Amy Brown is a seasoned professional in the financial industry, currently serving as the Head of the Americas Custody business at Aura Solution Company Limited. With a wealth of experience and expertise, Amy oversees a dedicated team of custody specialists who provide unparalleled support to private banking clients across North America and Latin America.

In her role, Amy is responsible for managing and guiding her team to deliver exceptional service to a diverse range of clients, including ultra-high net worth individuals and families, multi-family offices, registered investment advisors (RIAs), and institutional clients such as hedge funds and private equity firms. Her leadership ensures that each client receives personalized solutions tailored to their unique needs and objectives.

Prior to her current posting in London, Amy held various positions within the financial sector, gaining valuable insights and honing her skills along the way. Her journey in the industry has equipped her with a deep understanding of the complexities of wealth management and a keen ability to navigate the ever-evolving landscape of global markets.

Amy's educational background includes a Bachelor of Science degree in Communications Media Management from The State University of New York, where she also pursued a minor in Business Administration. Additionally, she furthered her knowledge and expertise by attending New York University's School of Professional Studies, where she earned a Certificate in Financial Planning.

Amy's dedication to continuous learning and professional development underscores her commitment to providing the highest standard of service to her clients. Her combination of academic qualifications, hands-on experience, and leadership skills makes her a valuable asset to Aura Solution Company Limited and a trusted advisor to her clients.

Outside of her professional pursuits, Amy enjoys staying active in her community and engaging in philanthropic endeavors. Her passion for making a positive impact extends beyond the realm of finance, reflecting her values of integrity, compassion, and excellence in all aspects of life.

Definition of Terms

Regulation T was established by the Board of Governors of the Federal Reserve System and is a collection of provisions that govern investors' cash accounts and the amount of credit that brokerage firms and dealers may extend to customers for the purchase of securities.

Regulation U is a Federal Reserve Board regulation that governs loans by entities involving securities as collateral and the purchase of securities on margin. Regulation U limits the amount of leverage that can be extended for loans secured by securities for the purpose of buying more securities.

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