



Conrad Kozak

Conrad Kozak is head of the Securities Company.

# Addressing Today's Complex Challenges: Keeping Close to Clients And Continuing to drive innovation

**Conrad Kozak raises and addresses some of the following questions regarding the increased complexity within the industry. Through these questions he highlights the subsequent challenges and opportunities that this industry evolution brings.**

**What are the driving forces behind the rapid change, globalization and innovation in the industry?**

The marketplace is evolving rapidly, and our industry continues to become much more complex. And most notably, our clients have become more sophisticated. Now, more than ever, they want strategic partners who will work with them to be focused, quick to anticipate and results-driven. This exciting new landscape is being advanced by the following drivers:

- ▶ Increased regulatory impact
- ▶ The drive for operational efficiencies
- ▶ The quest for increased returns (the pursuit of alpha)

**What does this industry complexity really mean for clients?**

Given the pace of change within the investment management arena, the distinctions are being blurred and the traditional silos for thinking about the industry overall are being knocked down. No longer do our clients just buy and hold equities and bonds. Asset managers are now making increased use of alternative investments, including derivatives, hedge funds, real estate and private equity funds. In addition to using new instruments, they are employing different strategies — often across dynamically traded portfolios — and coupled with multijurisdictional investment structures. All of these shifts create new challenges for asset servicing providers.

## True or False?

In 2007, approximately 25% of institutional allocations have been going to “alternative” investments, up from 12% in 2005.

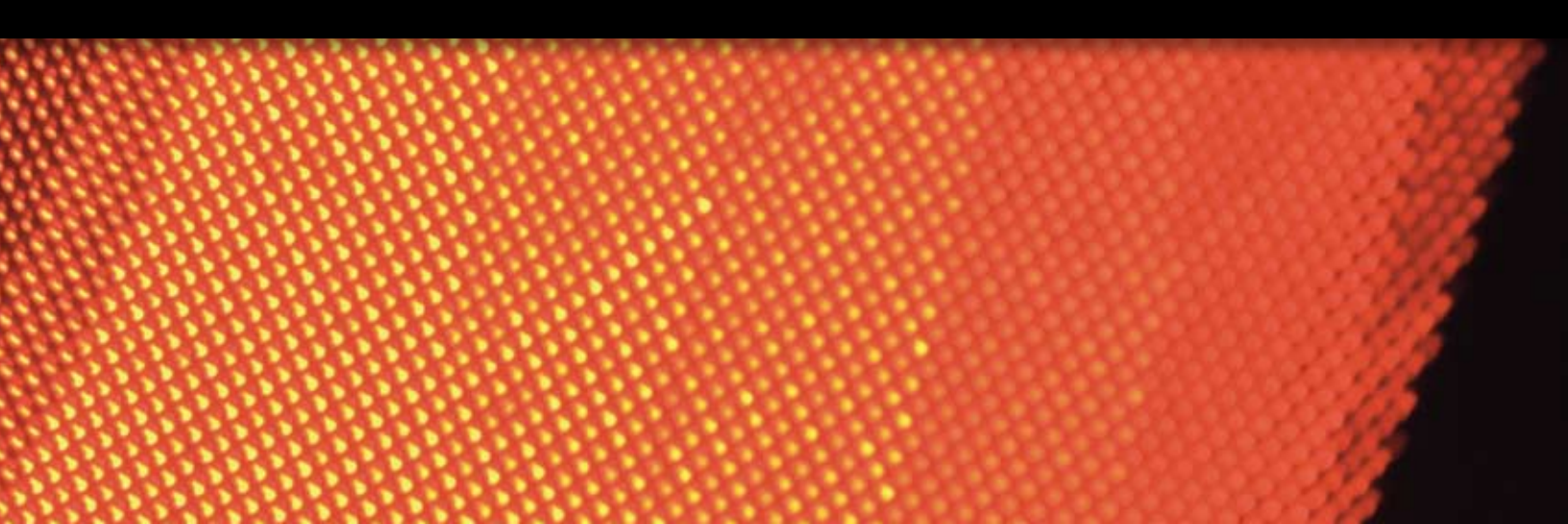
True

**How is JPMorgan, as a leading service provider, keeping pace with these levels of change and fostering a culture of innovation to address these opportunities?**

Client dialogue is the key for us. We listen closely to our clients and hone our analytical skills so we can continue to serve their evolving requirements. We also meet regularly with leading-edge asset managers, who help us understand and anticipate where the market is going and where we need to invest our new product development dollars. Collaboration with our most progressive clients helps us to shape the feature functionality of our products and to galvanize our overall strategy.

**While clients are evolving their investment strategies, are they also looking at new products and structures, such as ETFs?**

We support those innovative firms that are creating the investment products of the future. For example, JPMorgan's U.S. Fund Services unit provides fund accounting, fund administration and custody services for Rydex Investments, which recently launched the first yen-based ETF trading on the New York Stock Exchange, and ProShare Advisors, whose



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52 ETFs offer magnified exposure to well-known indices. We continue to seek new opportunities to expand our range of products and services to support this important space.

In terms of globalization driving other product innovation, let's look at depositary receipts. JPMorgan established the first depositary receipt program in 1927, and has also introduced the first DR programs from all major regions of the world. Today, we sponsor more than 200 DR programs from companies in Europe, Latin America and Asia. As the growth in the strength and depth of non-U.S. financial markets continues, the growth in GDR listings will also continue to increase.

The mechanisms, valuations and exponential growth in the use of derivatives provide an example of increased complexity. How are service providers addressing complexity while remaining focused on increased operational efficiencies?

We have many clients who are now requesting full-service derivatives management solutions. This involves more than just determining a value — it includes managing the cash flows and reconciliation process, offering a comprehensive package of support services to clients.

With the rapid growth of alternative investments, the industry is still wrestling with the issue of derivative valuations. It's a particular concern across Europe, where the various jurisdictions handle valuations in different ways. While there is a need for increased regulatory harmony in the derivative space, a great deal of progress has been made toward building a commonly accepted approach and process.

What other moves can be made to accelerate change and efficiencies to handle the increased demands of innovation and to drive securities processing reengineering?

Securities providers need to view the changes across a wide horizon. Not with a narrow, siloed view, but with a global perspective. Earlier this summer, we brought the operations for JPMorgan Worldwide Securities Services and the Investment Bank under the management of a shared team of leaders.

- This new focus provides opportunities to take a broad and coordinated approach to managing securities processing and derivatives processing.
- It also combines the best of our operational expertise, resources and shared platforms and processes, and provides us the benefits of scale, the capacity for growth and the ability to leverage a first-class model to better serve the needs of our clients.

#### Did You Know?

ETFs are growing rapidly — from \$604 billion in assets in 2006 to \$2 trillion by 2011.

Are institutional investors today looking for broader solutions?

Definitely. We find that clients don't care about a provider's internal boundaries — they are looking for convenient, comprehensive solutions. For instance, many institutions and their fund managers are looking for solutions that allow them to move cash around the world as well as securities. Other clients seek a mix of advisory, securities trading and securities processing from a broad-based universal bank like JPMorgan. ○ ○ ○