

Capital Markets Institutions

In the primary capital markets, institutions involved enable the issuance of securities, such as shares and bonds to raise medium- to long-term financing. Those involved in the secondary capital markets enable the trading of these securities.

In primary markets, issuers usually use investment banks (sell-side banks) to advise and support them in structuring IPOs or debt issuances. Investment banks act as intermediaries by connecting an issuer with potential investors (matching) or by acquiring an entire issuance and re-selling it (underwriting). Whereby the largest portion of issuance volumes in the primary markets gets acquired by institutional investors (e.g. asset managers, hedge funds, pension funds, insurance companies), with retail investors only playing a minor role.

Subsequently, securities are traded in secondary markets, where additional investors – not least retail investors – join in. With a larger group of market participants as well as an ever-increasing number and complexity of products (e.g. derivatives), legal and regulatory requirements for intermediaries are more stringent. Transactions on the secondary markets tend to be quick, a trend steadily supported by innovation and technology (e.g. high-frequency trading). With transaction speed facilitating liquidity, this makes it easier for issuers to raise finance in the primary markets, as investors know that - if they wanted to - they can liquidate their positions quickly.

Measured by size, institutional assets drive market participation, whereby a wide range of different financial objectives are pursued:

- Investment companies' task is to manage funds. These investment vehicles pool diversified portfolios and professionally manage them according to limits and restrictions set by investment mandates.
- Banks holding more deposits than having loans extended will invest excess funds conservatively in liquid assets (e.g. fixed-income).
- Insurance companies need to reinvest premiums received to ensure sufficient funds are available to cover claims when these arise.
- Hedge funds encompass a broad range of risk tolerance and investment philosophies. A

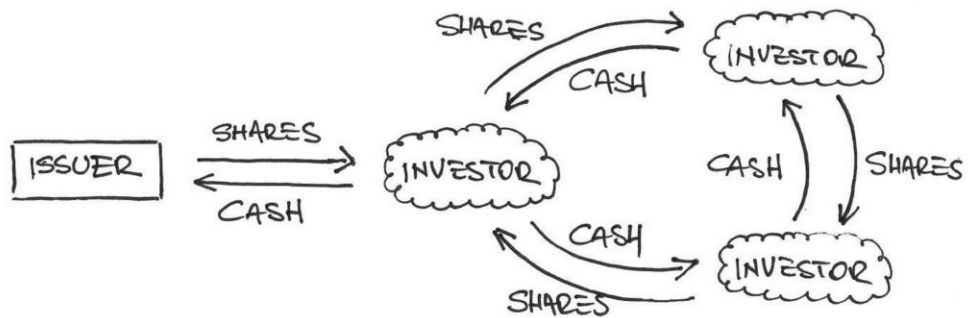
commonly used strategy is long/short equity, involving long and short positions in equity and derivative structures, employing a wide range of usually long-term fundamental and quantitative techniques.

- Sovereign wealth funds are government-owned, often investing revenues from natural resources (e.g. oil, gas) long-term for the benefit of future generations.
- Endowment or foundations typically aim to maintain the real (inflation-adjusted) capital value of a fund in perpetuity as well as generate income to provide financial support for their beneficiaries.

Stock exchanges are regulated physical or electronic spaces where securities are traded. They provide liquidity so that trades can be processed efficiently without delays. They also ensure that trading occurs in an orderly manner so that important financial information can be transmitted swiftly to investors and financial professionals. Auction-based exchanges (e.g. NYSE) allow traders (acting on their own interest) and brokers (just executing client orders) to physically and verbally communicate buy and sell orders. There, competitive bids and offers are put in simultaneously, with trades then matched and - when paired together - the order being executed.

Central counterparties (CCPs), central securities depositories (CSDs) and payment systems clear and settle securities transactions. A CCP acts as an intermediary, assuming the function of a performance guarantor: To ensure proper settlement of transactions for the buyer and seller in case one of them fails, the CCP demands collateral in the form of cash and securities. Subsequently, securities are either deposited physically or registered as book-entry securities with an authorised CSD. Moreover, a CSD ensures that interest, dividend payments, or capital increases can be performed centrally for the securities deposited with it.

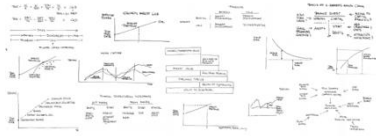
Various additional functions and services are essential for a smoothly functioning capital market, such as: Legal and auditing services, or banks' equity research coverage on stocks' upside potential, downside risk, and rationale to help buyers and sellers making judgments.



	<u>PRIMARY MARKET</u>	<u>SECONDARY MARKET</u>
SECURITIES TRADED	PRIMARY/SECONDARY SHARES SOLD BY ISSUER	SECONDARY SHARES
BUYING/SELLING	ONLY BUYING OF SECURITIES	BOTH, BUYING AND SELLING OF SECURITIES
PURPOSE	ISSUING OF SHARES	OWNERSHIP CHANGE BETWEEN INVESTORS
PRICE	SET BY ISSUER	SET BY MARKET
LOCATION	ANYWHERE	EXCHANGE / OTC

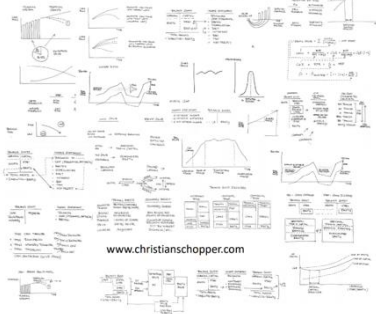
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