

# Commission Recapture

Citi's Commission Recapture service, powered by Russell Investments, enables the owners of capital to earn back a percentage of their commission fees paid by instructing their underlying fund managers to strike a certain percentage of trades through an external network of brokers.<sup>1</sup>

Citi, through its primary commission recapture partner, Russell Investments, offers a simple and cost-effective way for asset owners to claim back a portion of the commission paid to brokers. Having a tool to effectively manage and reduce transaction costs can improve portfolio performance. Commission recapture is a continuing assignment whereby fund managers, on behalf of the asset owners, execute trades with Russell's external network of brokers. Russell then rebates a portion of the commission to the client in the form of cash or payment of bona fide fund expenses.

Most owners of capital can benefit from a commission recapture program. However, clients who typically see the most value are those asset owners who have active segregated equity portfolios managed by third-party fund managers. These types of outsourcing arrangements typically mean that the primary focus for the investment manager is on maintaining and enhancing portfolio performance. As part of this, the managers themselves avail of the research and other services offered by their brokers (such research and services are paid for by the investment manager using the client's commission). A commission recapture program allows the client to balance the use of their commissions by the investment manager to purchase such services (which indirectly benefit the client), with quantifiable, direct-benefit, hard-cash rebates for the fund.

## Example<sup>2</sup>

As an example, assume the fund sells 50 percent of its assets in one year and reinvests the cash from those sales. The average commission rate charged is 0.14 percent, and of the total trades 15 percent of the value is dealt through Russell's broker list. What is the impact?

The potential recaptured commission will equate to slightly more than 0.01 percent of the value of the portfolio, or for a fund valued at GBP1billion, a return of over GBP100,000 – all through a simple setup process.

## Global equity portfolio

**Market value** GBP1bn  
**Assumed turnover** 50%  
**Assumed trading activity** 100%  
**Assumed commission level** 0.14%  
**Total commission available** GBP1.4m

**Participation percentage** 15%  
**Gross commission** GBP210k  
**Net commission** (assuming 25% broker retention) GBP157.5k x net commission rebate 75%

**Total commission recaptured**  
GBP118,125

This increase in performance comes with no additional risk to the client. All that is required is for the fund manager to advise Russell of the trades placed against its broker list.

## Key features and benefits

- Improved fund performance due to return of a portion of commissions paid
- Allows funds to monetize the value of their trade flows
- Demonstrates fiduciary processes are in place to manage the commission and trade-flow assets of the fund
- Straightforward setup process

<sup>1</sup> Subject to best-execution obligations.

<sup>2</sup> Source: Russell Investments July 2008. This example is for illustration only and does not in any way constitute a guaranteed return. There are many factors that will impact the return received, including markets of investment, the brokers used and the assumptions made above.



## Commission Recapture process flow

Clients sign up to Citi's Commission Recapture service through Russell Investments. The client then instructs their fund managers to place a percentage of the total trading volume through Russell's network of brokers. The investment manager trades as normal and is subject to best-execution obligations. However, after execution, at the point of allocation, the trade is designated for recapture. Trade data from recaptured trades flows from the broker to Russell. The broker who executes the trades retains a component of the commission and sends the balance to Russell, who will then rebate payments to the client, based on the agreed split, in the form of cash or payment of fund expenses. Russell also obtains trade data from the fund managers whenever possible and reconciles that information to the trade data provided by the broker to ensure all eligible trades are included in the program. The higher the percentage of trades directed through

the program, the greater the rebate and potential improvement to return. Typically, the manager's assumed participation rate in the program will be between 15 and 25 percent.

Clients will receive from Russell Investments the same high standard of reporting that they currently receive from Citi today. Statements detailing Commission Recapture savings are accessed directly from Russell's online system, ClientLINK.

If clients wish, they can go to their existing customer contacts with any Commission Recapture query or, alternatively, they can contact the Russell client service team.

## About Russell Investments

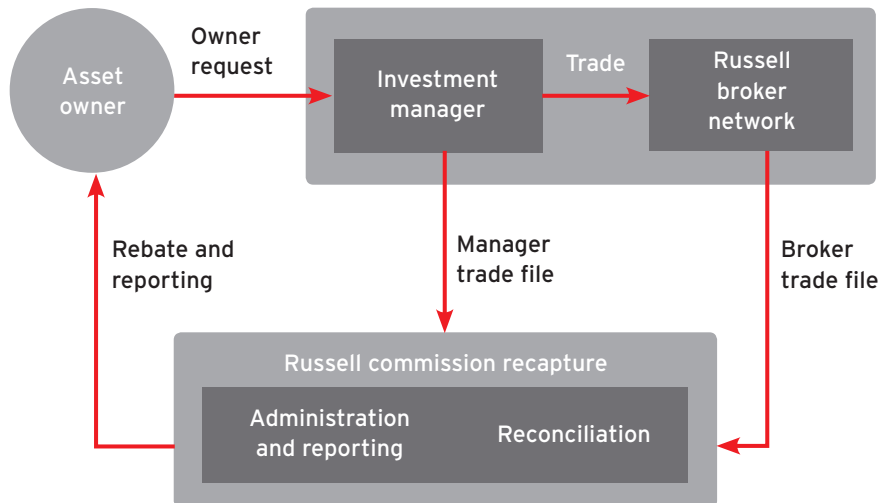
Russell Investments is one of the largest providers of commission recapture services in the market today. It has over 370 clients worldwide, represents over USD4.5 trillion in assets under management and has offices in North America,

Europe and Asia Pacific. With their extensive external network of brokers, Russell Investments is uniquely placed to help plan sponsors manage their commission expenses and lower their transaction costs.

## Custody Services

Citi's Commission Recapture program is a value-added service to its world-class global custody business. Citi is the trusted custodian with nearly USD13 trillion in client assets. Our industry-leading proprietary network gives us in-depth local market knowledge and expertise, while our regional service centers and advanced processing technologies allow us to deliver excellence in quality and execution, as well as tailored services, to our clients. This award-winning combination is why financial institutions and corporations around the world turn to Citi.

**For more information, please contact your Global Transaction Services relationship manager.**



Global Transaction Services  
[www.transactionsservices.citi.com](http://www.transactionsservices.citi.com)

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