Fixed Income, Currencies and Commodities (FICC)
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Group Head

Macquarie Group Limited
Operational Briefing
5 February 2013 – Presentation to Investors and Analysts
Overview

- FICC is a diverse portfolio of businesses which has evolved via a strategy of building adjacencies from core businesses
- The platform is weighted more heavily towards commodities compared to peers
- Consistently good returns, even in down markets
- The ability to adapt, a diverse portfolio and stable leadership underpin FICC’s consistent performance
- The platform has evolved to a stage where positional advantages across the portfolio will continue to generate attractive returns (e.g. scale, client relationships, physical capabilities)
- Adapting to meet structural changes (mainly regulatory) occurring across the industry
- A number of new initiatives will drive growth: Commodity Investor Products, offering some of our trading capabilities to third party investors, Asia, platform efficiencies/cost reductions

FICC’s proven ability to execute, stable management, and ability to evolve suggest that it will continue to generate attractive and consistent returns for Macquarie
FICC is a portfolio of businesses across commodity and financial markets.

**COMMODITY MARKETS**

**PHYSICAL & FINANCIAL**
- Ag
- Metals
- Energy

- Metals & Agriculture Sales and Trading
- Energy Markets
- Metals & Energy Capital

**FINANCIAL MARKETS**

**PRIMARY & SECONDARY**
- FX
- Rates
- Credit

- Fixed Income & Currencies
- Credit Trading

**Futures**

- Mainly producer and consumer customers
- Both producer/consumer and insto/investor customers
- Mainly insto/investor customers
FICC’s business is diverse – the platform spans 25+ markets globally.

### Capability
- Sales and trading of physical and financial products across a broad range of commodities
- Lending and equity investment

### Market segments (>25)
- Natural Gas
- Crude Oil
- Coal
- Electricity
- Refined Products
- Petro-chemicals
- Precious Metals
- Base Metals
- Grains & Oilseeds
- Softs
- Livestock
- Forest
- Freight
- Pulp & Paper
- G10 Spot
- G10 Swaps & Options
- Interest Rates Swaps
- Bonds
- Leveraged Loans
- Securitised Assets
- Private Loans
- Market access
- Membership of all major global exchanges
- Cross border structured transactions
- Energy and agricultural finance
- Environmental derivatives

### Key operating regions
- US, UK, Canada, Australia, Asia
- UK, Australia, Canada
- US, South America, UK
- Australia, Asia, US
- US, Australia, UK
- Australia, US, UK
- Asia, US, UK, Australia

<table>
<thead>
<tr>
<th>COMMODITIES</th>
<th>FINANCIAL</th>
<th>CROSS DIVISIONAL</th>
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<tbody>
<tr>
<td>Energy</td>
<td>FX &amp; Rates</td>
<td>Futures</td>
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<tr>
<td>Metals</td>
<td>Credit</td>
<td>Central</td>
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<tr>
<td>Agriculture</td>
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<table>
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<tr>
<th># Products (&gt;140)</th>
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<td>46+</td>
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<tr>
<td>22</td>
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<tr>
<td>5+</td>
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<td>US, UK, Canada, Australia, Asia</td>
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<tr>
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<tr>
<td>Asia, US, UK, Australia</td>
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FICC provides around-the-clock coverage of its markets
~950 staff in 14 countries

**LONDON** hub
Full complement commodities offering, including Middle East presence
Building up coverage of financials

**NEW YORK** hub
**HOUSTON** energy hub
*plus Canada and Brazil*
Full complement of services across commodities and financials

**AMERICAS**
~440 staff 47%

**EMEA**
~160 staff 17%

**ASIA**
~140 staff 14%

**ANZ**
~210 staff 22%

**SINGAPORE** hub
Building up coverage of financials and commodities

As at 31 Dec 12.
FICC’s strategy has involved predominantly building adjacencies from core businesses.

- Started commodities platform
- Futures execution and clearing
- Foreign exchange
- Metals and Energy Capital
  - Debt capital markets and interest rates
  - Ag Structured Finance – finance into small and medium sized producers
  - Metals and Energy Capital (Houston)
  - Acquired Australian assets of Bankers Trust (Australia, US, Brazil)
  - Ag derivatives
  - Brazil office
- Energy Markets and derivatives business
- Cook Inlet acquisition (natural gas)
- Environmental product trading
  - Structured Commodity Finance
  - Ethanol trading JV
  - Established Macquarie Futures USA
- Credit Trading
  - Physical coal trading
  - Expansion of US futures clearing platform (Shatkin Arbor)
- Corona acquisition
- Physical power business (Houston)
- Environmental product trading
- Credit solutions
- Purchased Integrys wholesale electronic marketing and trading portfolio
- Physical base metals
  - Physical oil
  - Asian markets
  - Commercial mortgage finance & CMBS
- Latin American physical oil markets
- Canadian crude oil markets
- Commodity Investor Products
  - Pulp & paper
  - Iron ore
  - LNG
Growth initiatives across both mature and niche businesses

<table>
<thead>
<tr>
<th>Division</th>
<th>Stage of evolution</th>
<th>Growth initiatives</th>
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</thead>
<tbody>
<tr>
<td>Metals &amp; Energy Capital</td>
<td>Established</td>
<td>Grow lending</td>
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<tr>
<td>Energy Markets</td>
<td>Established</td>
<td>Consolidate investments Grow European power</td>
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<tr>
<td>Metals &amp; Agriculture Sales and Trading</td>
<td>Established</td>
<td>Build Commodity Investor Products business</td>
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<tr>
<td>Fixed Income &amp; Currencies</td>
<td>Established (Strength in Aust.)</td>
<td>Build Asian product specialisation</td>
</tr>
<tr>
<td>Credit Trading</td>
<td>Building</td>
<td>Offering some of our trading capabilities to third party investors Develop credit solutions</td>
</tr>
<tr>
<td>Futures</td>
<td>Established (Strength in Aust.)</td>
<td>Build technology platform</td>
</tr>
<tr>
<td>Central</td>
<td>Building</td>
<td>Build Structured Commodity Fin. EMEA offering Build cross border activity Build private and structured finance (Asia &amp; Aust.)</td>
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The average tenure of FICC senior leaders provides platform stability and underpins execution.

Average tenure of senior leaders is 9 years, 25% of FICC staff

As at Dec 12. Tenure includes years served prior to Macquarie acquisition.
Growing customer base and strong customer retention

Energy Markets customer progression (number of counterparties)

~75% increase in number of active counterparties from January 2010 to December 2012

Snapshot of counterparties (December 2012)

~60% of counterparties that traded with Macquarie in December have traded a minimum 16 of the previous 36 months

62% High frequency
27% Medium frequency
11% Low frequency

Note: Macquarie counterparty transactions excluded from analysis. Frequency expressed as number of months in which the counterparty has traded over the time period: 1x – 3x (Low), 4x – 15x (Medium), 16x or greater (High).
Our commodities platform ranks amongst the top IBs globally

Expertise and scale

30+ years in **metals** markets
20+ years in **agricultural** markets
10+ years in **energy** markets

Consistently ranked #4 physical gas marketer in North America¹

Top 3 carbon emissions trader globally by volume and value

$US1b+ working capital financing for commodity companies

#1 rated global commodities research team²

**Winner:** Excellence in Agriculture & Soft Commodities³

24-hour global commodities trading coverage

Growing presence in **physical commodities** – natural gas, LNG, NGLs, power, oil, coal, base metals, iron ore, sugar, freight⁴

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Source: JP Morgan Cazenove, Global Investment Banks Report, 13 Mar 12. Note: all non-USD results have been converted to USD using 31 Dec 11 exchange rates. VaR results quoted at different confidence intervals have been scaled to 95% equivalents using standard statistical scaling techniques. VaR is the potential loss in value of inventory positions due to adverse market movements over a defined time horizon with a specified confidence level. All figures quoted reflect a 95% confidence level over a one-day holding period. Peers include: Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley.
Investments in physical capabilities provide strategic advantages

**ENERGY (PHYSICAL)**

Active across all physical energy products:

<table>
<thead>
<tr>
<th>Natural Gas</th>
<th>Power</th>
<th>LNG</th>
</tr>
</thead>
<tbody>
<tr>
<td>US, Canada, UK</td>
<td>US, UK, Aust.</td>
<td>Global</td>
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- 9.8 Bcf of physical gas traded daily\(^1\)
- 115,000 bpd crude oil supply agreement with refined product offtake\(^2\)
- 13 Bcf of natural gas storage capacity for US and Canada\(^2\)
- 0.9 Bcf of natural gas transportation capacity\(^2\)

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**AGRICULTURE (PHYSICAL)**

- **2007**: Lansing Trade Group
  - **Focus**: grains, feed ingredients, agricultural assets, energy products

- **2010**: MBL and Lansing Trade Group significant shareholders
  - **Focus**: grains, oilseeds, vegetable oils, freight

- **2012**: 42.5% equity interest in Czarnikow
  - **Focus**: sugar, biofuels

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1. Platts Q3 2012. 2. As at 31 Dec 12.
Growth initiatives: Commodity Investor Products

- CIP rounds out FICC’s global commodities platform
- Commodity-based index products
- Institutional investors globally
  - Total Beta and Alpha commodity index funds: $US297b\(^1\)
- Natural adjacency to existing commodity platform strengths
  - Sales and trading
  - Physical capabilities
  - Commodities research

**Target clients**
- Pension funds, asset managers, sovereign wealth funds, hedge funds

**Products**
- Beta, Enhanced Beta, Alpha

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1. Source: CFTC Index Investment Data, as of 31 Dec 12.
Growth initiatives: Asia

GAINING MOMENTUM AS A REGIONAL PLAYER

- FICC Asian regional hub established in Singapore
- 140+ people in 7 countries
- Key new products established: credit, rates, FX
- Transferred Asian FX capabilities into Fixed Income & Currencies to gain scale and create a truly global FX trading and flow business
- Organisational realignment to focus on global capabilities within the region
  - Cross border activity
  - Local market structuring
  - Trade solutions
  - Private & structured finance

CURRENT FOCUS

Commodity markets

- Extend established Energy Markets and MAST franchise into Asia
- Expand physical commodities offering

Financial markets

- Build Asian FX products specialisation
- Expand Asian cross border product globally
- Develop structured solutions offering regionally, and connect the supply chain globally
- Build Asian private and structured finance business
Growing presence in Asia

Asia operating income

Asia operating income (% of FICC total operating income)

- FY09: 1.3%
- FY10: 1.7%
- FY11: 6.2%
- FY12: 7.7%
Current market conditions are mixed

**COMMODITY MARKETS**
- Weak investor sentiment and depressed resource equity markets resulting in impairments on some equity holdings and impacting timing of asset realisations
- Continued strong customer flow and trading opportunities across the global energy platform – particularly in oil and US gas and power
- Lack of volatility in metals and agricultural commodities suppressing client volumes

**FINANCIAL MARKETS**
- FX volatility continues to decline but improved rates volatility on the back of interest rate cuts in Australia
- RMBS and ABS markets continue to rally in Australia & Europe resulting in improved new issuance pipeline
- Increase in credit market client activity, particularly in high yield and leveraged loans
- Robust CLO primary market
- Market new issuance volumes in high yield bonds almost three times greater than 3Q12 and slightly higher than 2Q13\(^1\)
- Improved client activity in Asia across structured notes, expanding cross-border activity in credit and rates and improving pipeline in private finance
- Steady futures client activity and volumes

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1. Thomson Reuters.
## Structural changes occurring across the industry

<table>
<thead>
<tr>
<th>Regulation/challenge</th>
<th>Key points</th>
<th>Potential implications</th>
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| **DODD-FRANK**       | Centralised clearing of OTC derivatives  
Migrate standardised OTC derivatives onto exchanges or Swap Execution Facility (SEF)  
Improved post trade transparency (record keeping and reporting) for OTC derivatives trades | Increased transparency and narrowing of spreads as derivative products are traded on electronic exchanges  
Higher operating costs from increased funding due to margining and compliance burden |
| **BASEL III**        | Increased capital requirements for securitisation exposures  
Equity investments above limit deductions becoming 1250% RW  
Investments in deconsolidated subsidiaries become full deduction | Higher capital charges impact returns on equity investments  
Trading in securitised products becomes unattractive (i.e. capital treatment is punitive) |
| **VOLCKER RULE**    | Prohibits banking institutions (with access to Federal Reserve funds) from engaging in proprietary trading activities; limits investments in hedge/PE funds | Participants in shadow banking system capture value pools |
FICC’s consistency of earnings drives long-term success and stability

- Consistency of earnings is a key differentiator for FICC
- Longevity is predicated on strong and stable results

FICC Net Profit Contributions\(^1\) – FY07-FY12 ($A)

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit Contribution ($A)</th>
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<tbody>
<tr>
<td>FY07</td>
<td>$635m</td>
</tr>
<tr>
<td>FY08</td>
<td>$602m</td>
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<tr>
<td>FY09</td>
<td>$509m</td>
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<tr>
<td>FY10</td>
<td>$827m</td>
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<tr>
<td>FY11</td>
<td>$575m</td>
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<tr>
<td>FY12</td>
<td>$539m</td>
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FY07-FY12 average: $A615m

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1. Net Profit Contribution is operating income less operating expenses and is reported before profit share and income tax.
Summary

FICC’s track record suggests that it will continue to generate attractive and consistent returns for Macquarie

**Historic returns**
- Consistently good returns, even in down markets

**Innovation**
- The management team’s continual focus on innovation, evolution and capturing new opportunities has seen it grow the platform and change the revenue mix

**Stable management**
- The ability to successfully execute is underpinned by the stability of FICC’s leadership team – average tenure of 9 years

**Strengths**
- Commodities platform provides scale
- Financials platform has niche strengths