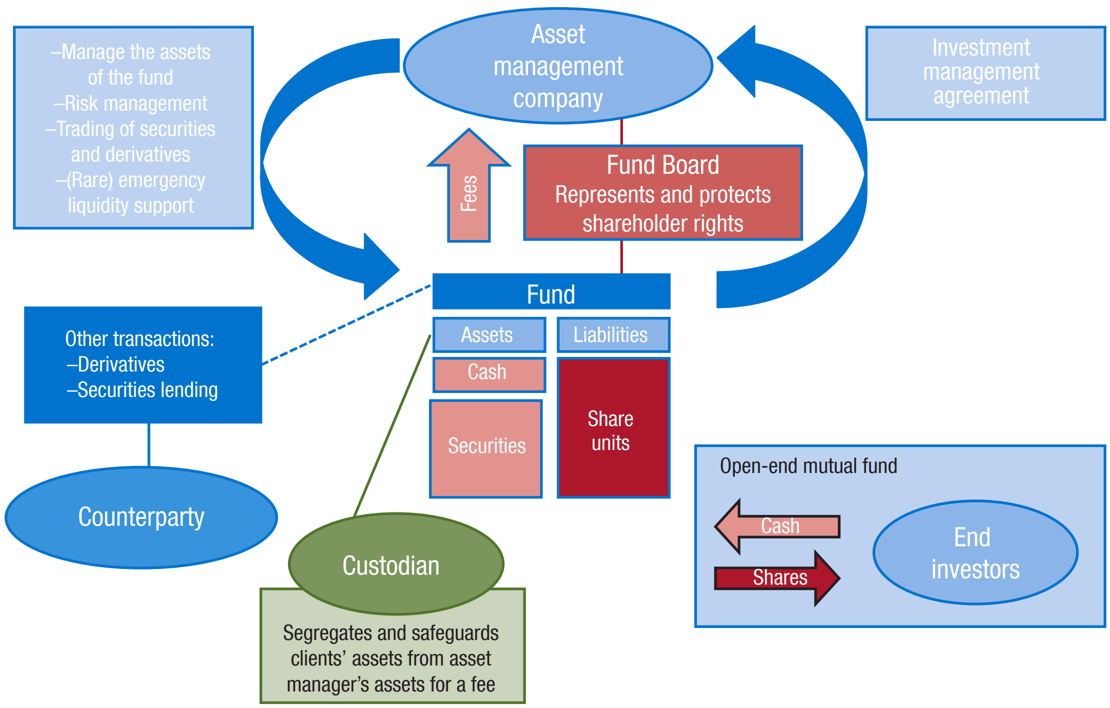
Annex Figure 3.1.2. Operation of a Fund

A fund signs an investment management agreement with an asset management company (AMC), which manages the fund's portfolio, risks, trading of securities, and securities financing transactions. End investors are equity shareholders of a fund and are the owners of the funds' assets in the sense that each share represents an investor's proportional ownership of the fund's asset holdings and the income those assets generate. However, end investors do not have full control over a fund. They typically cannot ascertain the exact makeup of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of these trades. Fund boards represent and protect shareholder rights vis-à-vis AMCs.



Source: IMF staff.
Note: Examples of asset management companies are BlackRock, Franklin Templeton, and PIMCO; examples of funds are BlackRock iShare Core S&P 500 ETF and PIMCO total return funds. Custodians are usually large banks such as Bank of New York Mellon, J.P. Morgan, and State Street. Funds often lend the securities they hold to various counterparties to earn fee income (securities lending). Securities borrowers usually provide cash collateral. Counterparties are usually investment banks, prime brokers, and other broker-dealers that are engaged in short-selling of the borrowed securities.