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Transition Management Guide 2017

Global Investor/ISF Transition Management Guide 2017

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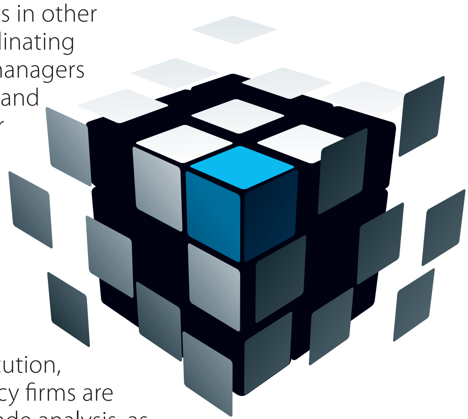
Contents

Introduction

Transition management has undergone a transformational change itself in recent years. From the industry's early beginnings as an execution-focused service, predominantly for equity-to-equity events, practitioners are now trusted with the most complex asset reallocation tasks and have a central role managing projects.

Transition managers are able to take on events involving an ever-wider range of asset classes, geographical markets and fund structures as well as using complex derivatives and ETFs to manage risk. Especially for these more complex events, transition managers have become partners to their institutional investor clients. From the earliest stage, they advise and consult before recommending tailored strategies to meet specific requirements.

While performance, in terms of execution, will always be an important component of the service, transition managers make critical contributions in other areas. They sit in the centre of a transition event, coordinating stakeholders from the incoming and outgoing asset managers to custodians and record keepers, as well as the client and their advisors. Indeed, the skills of the project manager can be a key differentiator between providers.



The industry has improved across the board since the T-Charter formally introduced industry standards. Transition managers now offer a huge degree of transparency into how the transition event occurs before, during and after it takes place. For transitions involving fixed income, an over-the-counter market, providing transparency into best execution, has come on leaps and bounds. Third-party consultancy firms are also increasingly involved in verifying pre- and post-trade analysis, as well as the resulting implementation shortfall.

The job of selecting a transition manager is itself an important decision *(see page 4)*. The various providers in the market have different skillsets and specialisms, and a rigorous due diligence process should be employed to make sure the selected provider matches the client's needs.

Transition managers are able to provide services on a completely bespoke or modular basis *(see page 17)* depending on the capabilities of the client, whether project management or execution, or even combining forces with other transition managers in a best-of-breed arrangement on the largest transitions.

It is a measure of how the standing of the business has grown that it is considered an essential component of the move to create eight collective investment vehicles for the 89 UK Local Government Pension Schemes *(see page 42)*.

Decision time

The process of appointing a transition manager demands a high degree of due diligence. *Paul Golden* looks at what this means in practice

Transition management events often involve huge amounts of assets and the service providers have very different capabilities – so it is of critical importance to choose the right partner to carry out each event. Due diligence typically starts with information gathering, which consists of a questionnaire covering aspects such as technology, trade modelling and equity execution. This is supplemented by on-site due diligence meetings, where the questionnaire responses can be verified and the systems and applications used by the transition manager assessed.

Justine Anderson, global co-head of transition management at BlackRock says that one should not assume that a transition manager has undergone a thorough due diligence process by others, even if it has previously handled multiple mandates. "We always recommend that clients undertake at least the same degree of due diligence as they would for an investment manager," she says.

The RFP process is the standard approach, where clients send out a detailed prerequisite set of questions to a number of vendors.

"This will cover issues such as the nature of the vendor's business model and process, the volumes they have managed and their performance versus execution benchmarks," says Craig Blackbourn, head of transition management for Emea at Northern Trust. "Clients will also want to find out more about the vendor's operational controls and risk and compliance processes."

Once this process has been completed the client will undertake a due diligence visit, which involves talking to the people who would be managing their event to check there is segregation of roles and responsibilities. Systems should also be tested – clients can ask the vendor to demonstrate how the product works and what tools are used for portfolio analytics. The next step may be a formal presentation, where the vendor is questioned by client.

Many of the larger institutions – sovereign wealth funds, fiduciary managers – do their due diligence on a three to five-year cycle with an annual updates including statistics for the previous 12 months, says Blackbourn. "In the current environment, given the decline in the pool of available providers over recent years, clients are tending towards selecting a panel of two or three. We have completed more RFPs this year already than in the whole of 2016."

The role of consultants

Smaller or less experienced clients will typically use the services of a consultant to help them with their selection. The larger consultants carry out their own research and have databases of events that have been completed.

Consultants offer various levels of service – in some cases they will guide the client through the process and then step away, whereas in others they will remain involved and will want to see daily project management updates, the pre-trade before going out to the market and the post-trade analysis. Consultants that offer additional post-event services will also scrutinise executions.

> "A competing quote may give a potential client some leverage with their existing provider to reduce their commission costs"
>
> *Craig Blackbourn, Northern Trust*

Macquarie Group division director David Goodman says consultants play an important role: "A small fund may want to do an extremely important transition – one that might represent a third of its assets – but may not have the time or manpower to be able to do an analysis of a provider or set of providers. In this content the consultant's input is vital."

Consultants that have been involved with many different types of transitions are particularly useful in determining which transition managers have the necessary skillset for a particular transition.

"As important as both of the due diligence steps [the questionnaire and visit] is feedback from our consultants – and our own observations on a transition manager's performance during live transitions," says Andrew Williams, principal at Mercer Sentinel Group.

"This is invaluable information that can help show whether what a transition manager says about their process on paper, or in a meeting, is actually put into practice in a live event. Feedback on actual transitions can also provide insights into the calibre of the team and their ability to deliver to clients' expectations."

Williams adds that it is particularly important to understand the transition manager's business model and fee structure. "You need to know how is it calculated and whether there are other opportunities for the wider organisation to earn revenue from the transition – this is particularly pertinent if the fee looks low," he says.

"You will also want to know how the transition manager will ensure it has the resources available for the project, as well as the experience of the team. Have they undertaken similar transitions before?"

Changing demands

Northern Trust's Blackbourn notes that, in the past, every time a client had an underperforming manager they would replace them – now they are more inclined to park those assets with an existing passive manager or tactically adjust back to their strategic benchmark using futures. As a result, large scale events are happening less frequently among smaller clients.

"When I am talking to a potential client I will always explain that even if they don't use my service, a competing quote may give them some leverage with their existing provider to reduce their commission costs," he adds. "No two transition events are the same, so we recommend clients have a panel of at least two providers since each provider will have different strengths in terms of access to liquidity, ability to cross and/or project management. The number of areas in which transition managers can add value has grown significantly as the industry has evolved."

> "We always recommend that clients undertake at least the same degree of due diligence as they would for an investment manager"
> *Justine Anderson, BlackRock*

According to Blackbourn, clients will usually ask if a manager is T-charter compliant in the RFP, although there has been relatively little activity in this area in the last few years.

"Regulators have acknowledged that the T-charter is a step in the right direction and if we look at what is coming down the line with Mifid II, there is more than enough in the legal framework we have with our clients to deliver the openness and transparency the T-charter was designed to achieve," he says.

Macquarie Group's David Goodman describes the T-charter as an important effort to adopt standards that all clients would expect. Relying on a transition manager's self-certification is no longer seen as best practice.

"A client will come to us as a transition manager and potentially leave assets with us for three to six months to manage for them, so they need to understand what is happening in our business – the process and operational processes that enable us to provide the service," he says.

Thorough investigation

Even after receiving the pre-trade analysis, cost assessments and even pricing the proposal of each transition manager might look very similar.

However, if the client goes through a process of assessing the entire organisation in the same way they would for a large investment manager mandate, they should gain a much higher degree of conviction in their choice. "Many clients say this process has opened their eyes and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left them impressed by the level of sophistication they found," according to BlackRock's Justine Anderson.

The desire for a fiduciary partner is strong among clients across all parts of the world. According to Anderson: "That is an area where clients see potentially significant differences between providers and how they contract."

Not every client uses a consultant to select their transition manager, but those who do can draw on extensive experience and an overview of the industry gleaned from frequent dialogue with the various providers. Many of these consultants review their transition manager short list on an annual basis.

"We recommend that clients work with consultants," says Anderson. "However, we also appreciate that some clients want to do the selection themselves and in those cases we recommend they take a similarly thorough approach. Proper due diligence must entail onsite visits to really see the offering in practice."

Goodman adds that larger funds that have their own operational due diligence and manager selection teams operate to the same level of professionalism as consultants and have the advantage of being able to customise their review process.

He suggests that changes in the provider landscape over recent years have been a catalyst for some clients to review their processes for appointing a transition manager and look at how their incumbent provider compares to others in the market. "We see a move from having a sole provider or two or three of similar profile to clients identifying the best provider for the specific event," he concludes.

Co-operation key to M&A TRANSITION

Close interaction with both client and consultant enabled Northern Trust to deliver a co-ordinated solution for merging multiple plans

A large utility company sought assistance in merging multiple pension plans following a corporate acquisition and carried out a competitive process for the transition. The plan sponsor engaged Northern Trust and the two entities worked in close conjunction. Northern Trust also worked with the sponsor's consultant, which was heavily involved throughout the transition.

The restructuring event encompassed six distinct plans under the oversight of the plan sponsor, with each one differing in size, asset type and allocation mix. Northern Trust was made responsible for ensuring that no single plan was either advantaged or disadvantaged over any other. Creating a robust project plan – with detailed timelines and action items – was crucial to the success of the transition.

The event essentially consisted of two transitions, under the umbrella of the six plans and a single client contact and involved rebalancing within the fixed income and equities allocations. Coordinating all activity was a crucial factor in mitigating risks and keeping total costs to a minimum.

The event entailed the movement of 177 different funds/accounts – 136 cash trades and open market trade activity for 41 legacy and target managers – with a focus on fund notification dates, settlement cycles and liquidity needs.

The event had a total value of approximately $1.8bn and the trade duration was seven days. For this highly complex event, Northern Trust completed all activity on the schedule set out in the original timeline.

The implementation shortfall proved to be within Northern Trust's pre-trade estimate for each plan and asset class. Most importantly, at the end of the event, the plan manager was satisfied and in a position to relay the success of the event to his investment committee. Key lessons learned from the event included the importance of strategy and project management.

"As a client centric transition manager, we recognise that our clients are not – and perhaps should not be – experts in managing transitions," adds a Northern Trust spokesperson about the event. "For the vast majority, transitions are both occasional and generally non-recurring and in this context leveraging relationships with specialists in the field is a prudent approach."

"For a transition manager it creates a different dynamic throughout the event, as the wants and needs of the stakeholders may vary. That said, with in the region of 200 transitions managed on an annual basis at Northern Trust, we have the reporting, the team and the expertise to satisfy those needs."

JUDGEMENT DAY

Whether a transition should be considered a success depends on a range qualitative considerations as well as outright performance, writes *Alastair O'Dell*

Assessing the work of transition managers can seem a daunting task, given the complexity of transition events and components of the service provided. An accurate appraisal requires a nuanced approach to measuring performance and qualitative consideration of project management.

Fundamentally, all transitions should be judged by the criteria that are important to the individual institutional investor client. This means that even at the earliest stage of the process, before an appointment has been made, discussions take place between the client and potential transition managers that will shape the strategy of the transition.

"It all comes down to communication," says Chris Adolph, head of transition management, Emea, Russell Investments. "Right at the start, if the client makes it clear what is important to them and we set out how we are going to manage the process, it makes the evaluation process at the end that much more straightforward. The whole process is geared around making sure there are no surprises."

In the early stages the transition manager works as an advisory role, which develops once the appointment is made and lasts the entire lifecycle of the transition.

> "The whole process is geared around making sure there are no surprises"
> *Chris Adolph, Russell Investments*

Justine Anderson, global co-head of transition management at BlackRock, says: "The important thing is that even at the very early stage you have to be a close partner to your client. We have an ongoing dialogue with the client, even during the analytics stage, to assess the scenarios that may make sense for the client. That only works if there is two-way communication."

These early discussions will result in a pre-trade analysis documents. These are designed to capture as accurately as possible a strategy, or range of strategies, that matches the preferences of the client. It covers both trading strategies and operational arrangements, which for many clients may be just as important for the success of the transition.

"We view the pre-trade as a tool for the client to make the right decision on strategy, not as a way to present the lowest cost number," says Anderson. "It's about working with the client and finding the optimal strategy. The clients that compare strategies rather than numbers are typically the ones that are most satisfied with the result in the end. The biggest mistake a client can make is simply to compare numbers."

Nick Hogwood, head of implementation, transition management, Emea, BlackRock, adds: "There will always be a series of trade-offs between cost and risk, or cost and immediacy. There is not necessarily a right or wrong answer – our job is to outline the options, the pros and cons, and help the client choose the optimal strategy."

Cost estimates

While the strategy is of central importance, costs are clearly very important. Transition managers submit pre-trade cost estimates, based on the client's data and transition manger's strategy but are subject to market conditions.

Graham Dixon, director of transitions at Inalytics, says that clients with a panel of transition managers have an advantage as they can compare multiple cost and risk estimates. "Best practice is to give all of the panel members the same information," he says, adding that the actual portfolio data can be amended at this stage to protect confidentiality.

The pre-trade analysis remains an important document throughout the transition as it forms the basis of whether performance is ultimately deemed a success. "The big thing we tell clients is that you don't want the transition manager to be the owner of the benchmark – you should not just accept a cost estimate. What deems it a success or a failure should be owned by the client."

He notes that this is another advantage of obtaining multiple pre-trade estimates. "There is a temptation, if you are not in competition, to put in an overly prudent cost estimation – so you have a greater chance of looking good against the benchmark after the event."

During the transition

By the time the transition actually takes place, very little should be left in doubt. The strategy should cover every foreseeable scenario, with pre-agreed contingencies built in for unforeseeable events. The level of communication will be tailored to the needs of the client; an end-of-day statement is considered to be the minimum and many will want intra-day communication.

"Clients should definitely have a clear expectation of what they are going to receive. There should be open and clear communication of progress and performance – not just the numbers but also the operational aspects," says Hogwood.

The pre-trade analysis is based on expected market conditions, which can of course change during the actual transition. This can range from a mild deviation, such as a tightening of liquidity, to a market-shaking terrorist attack or even a full-blown market crisis. This means trading costs can increase so it is essential to agree beforehand how to proceed under the full range of circumstances.

"Some clients will want to be involved in decisions, others say they engaged us to use our professional judgement and, knowing their objectives, do what is reasonable during the transition," says David Goodman, division director at Macquarie Group.

"There needs to have been a conversation about their preferences regarding potentially incurring larger opportunity costs, from taking longer amount of time to trade, versus the lower market impact from slowing the pace of trading during the more expensive times."

Common problems include market-related issues, such as temporary volatility or illiquidity, as well as operational and stakeholder management elements. It is usual for the transition manager to have a pre-agreed amount of leeway to make decisions.

"It comes down to expectation management," says Hogwood. "There are things you can foresee and those you can't. Part of the planning protocol is to agree at which points a transition manager should consult the client and ask permission to change the strategy."

News relating to a specific stock may result in challenging trading conditions but should not require the transition to be halted, while any events that fundamentally effect the functioning of markets are another matter. "Those are definitely the scenarios where you escalate and talk to the client and agree a path forward," he adds.

Post-trade analysis

After the transition has occurred the post trade-analysis will be conducted in the context of the pre-trade analysis, both in terms of performance and project management.

Performance will be measured in terms of the implementation shortfall. "It is a fair, verifiable measure of the performance costs of a transition. It is 100% replicable," says Goodman. "The significant change over the last couple of years is that clients expect an independent third party to validate the process, to calculate the implementation shortfall, and also go back and ask the valid question of what the pre-trade should have been."

> "The project manager sits in the centre and how well they respond to events during the transition is absolutely vital"
> *Graham Dixon, Inalytics*

The industry-standard setting T-Charter lays out a template for cost estimates. "That template is pretty good," says Inalytics' Dixon. "If all of the boxes are ticked for the pre-trade cost estimate you can take the post-trade template and compare like-with-like. "With that information, you can do an attribution at the end and say whether it was a fair estimate or identify things for which you should make an allowance."

The attribution stage is very important – a badly-managed transition could appear successful if market conditions were favourable and a well-manged one could miss the estimate through no fault of the provider.

"Market movement is often the biggest component of cost – it you are one-sided [with cash] it will dominate the costs, up or down, if it is two-sided it will be the relative performance of the two, which you may or may not be allowed to hedge with futures," says Russell Investments' Adolph.

The report also assesses how effective the strategies set out in the pre-transition analysis. Adolph says: "If you put on hundreds of millions in futures trades there should be something stating what you did, why you did it, whether it was successful or not, and if not why not."

Once the mathematical measures are agreed the conversation can move on to what actually happened during the transition. "More and more work is done communicating the story of the transition," Goodman says. The transition manager may identify three or four large events and explain the decisions that they took. "For example, this could be accessing liquidity through crossing or using index futures to hedge – did they add or subtract value?"

Clients will also want to see whether the processes that were set out at the outset were actually followed. "Poor project management can cause costs and delays that are not captured in the implementation shortfall," says Goodman.

"Clients are looking for more dimensions. They want to be able to assess whether the transition manager did a good job given the markets they were operating in. They want a lot of granularity and visibility into the underlying decisions, especially those that were different to the expectation at the pre-trade."

The transition manager needs to be able to show to the client that at each stage the decisions they took at the time were objectively reasonable.

"Performance is important – but other things contribute to its success or otherwise," says McGroaty. "Where there failed trades, overdrafts or other operational difficulties? Were the custodian and assets managers happy? Was it delivered on time? You might have great performance but if you have got these things wrong they might overshadow the performance."

Inalytics, which is involved throughout some of the most complicated transitions, does a formal post-mortem with the client and transition manager after every exercise. "Performance is just one dimension of deeming a transition a successful. Clearly, there are all sorts of non-quantitative aspects that are absolutely vital to the smooth running of a transition," says Dixon.

He says project manager's role is essential as that person coordinates the custodian, other record keepers, outgoing and incoming asset managers, the client and their advisers. "The project manager sits in the centre and how well they respond to events during the transition is absolutely vital," says Dixon.

"It you have got the right project manager and s/he is surrounded by the right team, you are really in a good place. It is an area of competitive advantage. Sometimes we actually prefer individuals within organisations. It is equally as important as performance."

Maintaining MARKET EXPOSURE

A transition undertaken by Russell Investments on behalf of Nestle's pension scheme shows how a transition manager can add value even while raising cash from an equity portfolio

Nestle's corporate pension scheme needed to liquidate a European small cap equity component of a broader European equity fund on the platform. The aim, at the strategic European equity fund level, was to facilitate the 100% redemption from two European small cap portfolios at a specific month end to cover some immediate cash flow requirements.

The small cap exposure was a tactical bet within a broader European equity fund and one that the client wanted to maintain as long as possible. However, the liquidity profile of the small cap securities held meant that they could not all be sold into the month-end pricing point of the fund.

Nestle needed a transition manager that could design a strategy that ensured all securities would be liquidated by month-end, while maintaining exposure to the small cap element as long as possible and ensuring the fund was fully invested if some of the liquidations had to commence well before month end.

Russell Investments analysed each of the portfolios and designed strategies that would keep the small cap exposure in place as long as possible. Where trading needed to commence prior to month-end (to ensure all securities were liquidated), in order to avoid any out-of-market risk all cash raised would be equitised with EuroStoxx 50 futures.

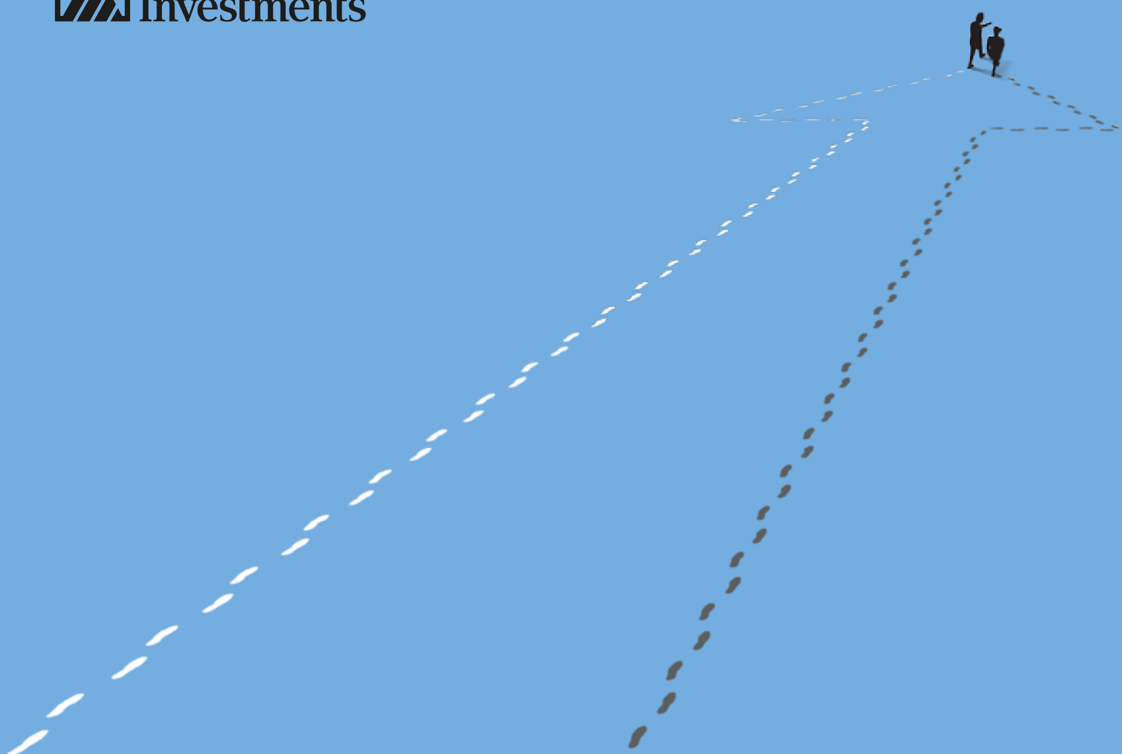
The redemptions were being made in euros, but it was recommended that any non-euro cash raised during the month be left in the local currency as the underlying currency exposures of each of the portfolios were a good proxy for the overall strategic benchmark. Keeping the local currency exposure helped to further reduce the overall tracking error relative to the strategic benchmark.

Russell Investments modelled trading by dividing the portfolio holdings into liquidity groupings and then devised a trading strategy to sell only the least liquid names first. Trading progress would then be tracked through to month end.

The transitions for both portfolios exceeded expectations:

- Full liquidation was achieved in the desired time frame
- The small cap bias and market exposure were maintained for as long as possible, minimising performance short-fall
- Patient and opportunistic approach to trading in the liquidations resulted in a small market impact even in highly illiquid names
- The actual costs were lower than the pre-transition estimates

"The best of all worlds outcome, importantly contained within the one standard deviation range of expectations, was most satisfactory," says the spokesperson for Nestlé Capital Advisers. "Russell Investments demonstrated flexibility to engage on timing, strategy, simulations with futures and FX forwards and estimated liquidity of positions, such that the most appropriate strategy could be recommended for approval."



Bespoke transitions

Transition manages can provide a full service or certain components on a flexible basis to match the needs and sophistication of the client, finds *Paul Golden*

Transition management can be broken down into three distinct functions – project management, risk management and trading/execution. While the latter function is often considered to be central to a transition it may actually only contribute 20%-30% of the value added and the other functions can be provided independently.

In this context it is increasingly essential that transition managers have robust cross-functional capabilities. The importance of each function will depend on specific transition complexities as well as the capabilities and preferences of each client.

For example, defined contribution (DC) pension scheme mergers often have fewer trading requirements than sub-advisor changes, but require intense project management often spanning three to six months prior to the effective date.

By contrast, one-to-one sub-advisor changes can require light project management. Here, the focus shifts to strategy design, such as investment risk management and trading to minimise market impact and preserve value for participants.

While the importance of trading, project management and operations is dynamic, reporting and compliance are [always] areas of increasing significance.

The value added by transition managers has never been greater, according to Justine Anderson, global co-head of transition management at BlackRock. Good transition managers are now trade strategy advisers, ETF specialists, portfolio managers, dealing specialists and risk analytics

specialists, which is why the list of transition providers is not very long, she says. "In order to be all of these things you need the right resources and skills."

Peter Weiner, senior managing director, head of transition management Americas and head of global sales at State Street Global Markets says: "We have found that the variety of transition exercises is widening and success is determined by an increasingly nuanced set of challenges. Therefore, we believe a multi-functional and dynamic transition manager is the chief component in preserving value for plan participants."

Project management

When evaluating a transition, it could be found in certain circumstances that it is optimal for the asset owner or manager to complete the trading or provide cash. Weiner says that in cases where some or all trading is completed in-house, or by a third-party asset manager, the transition manager can add value through strategy development, project management and post-trade evaluation.

In effect, all of the transition manager's services (except trading and reconciliation) could be made available to the client through a project-based transition agreement. "Such an arrangement would allow customers to leverage our tools to manage risk, increase in-kinds, prioritise trading or select optimal transition dates," says Weiner. "Asset owners would also have access to experienced transition managers capable of coordinating a multi-faceted project."

It is still important to recognise that transitions managed in a hybrid fashion can be more difficult than those managed completely by a transition manager. Typically, a transition manager will maximise in-kinds and crossing while managing a risk plan across all aspects of the trade, according to Weiner.

Any "blind spots" created by bifurcation of responsibilities can create risk, he says. "Examples include changes to trade strategy, miscommunication of positions during trading and settlement issues. These risks are only mitigated with ongoing manager engagement with transition managers in all phases of an event."

Ongoing analytics

Clients want to confident that their transition management provider is able to provide a full range best-practice solution but there is also recognition that the process has become more unbundled, suggests David Goodman, division director at Macquarie Group.

> "The events that clients are undertaking are becoming more complex, with a wider range of instruments and a greater variety of strategies required to achieve their objectives"
> *Justine Anderson, BlackRock*

"As a transition manager, we work closely with asset managers and they get a feel for the sort of analytics and reporting we are able to do," he adds. Those asset managers may be in a situation where their own clients want to fund them with cash – but they want to show that they have access to sophisticated reporting or risk management tools and funding directly from another portfolio is an option. "They may ask a transition manager to white label their pre-trades or post-trades or help them with an execution strategy," he adds.

He observes that large assets owners increasingly want to become part of the transition process and that in some cases they may only need an execution partner.

Most of the work done in the industry is full service transition management – which are episodic events – but these clients may also be engaging with counterparties on overlays, liquidity management and other risk strategies that are more frequent, says Goodman.

He stresses the importance of offering flexibility and the need for transition managers to deliver

the plan that is most appropriate for each client – an approach that is not always compatible with a transition manager's legacy processes.

Internal investment capabilities

Client sophistication has increased significantly with the build-out of internal investment management capabilities and the operations and services that go along with that, including transition management.

Artour Samsonov, head of transition management Emea at Citi, notes that consolidation projects, such as LGPS pooling (see page 44), mean asset managers that were investing externally may create a framework for developing internal investment capabilities.

"Operational and transition management functions tend to flow from this," he explains.

There is a sharper focus on costs and greater emphasis on the asset owner taking ownership of the decision-making process, whether it is a sovereign wealth fund or a public pension fund, adds Samsonov. Regarding asset management, "we see consistent support for the transition management service, driven recently by M&A activity".

> "We have the same objective as the client – to achieve the restructuring through tight risk and execution management while keeping control on cost""
> *Artour Samsonov, Citi*

This has led to fragmentation of the transition management service, in the sense that clients are not always looking for the full-service offering where the provider takes over the custody account and does all the restructuring.

"Some clients will have their own dealing desks and develop their own links to interact with the brokers and we are seeing an increased volume of this kind of separate demand," says Samsonov. "However, there will always be clients who prefer to delegate all aspects of the process and there is still strong demand for pre-transition analysis and reporting associated with the trading as well as some of the project management in terms of managing the trading."

"We want our clients to be engaged in the process," he continues. "We have the same objective as the client – to achieve the restructuring through tight risk and execution management while keeping control on cost – and they end up with a greater appreciation of the amount of work involved."

Transition brokers and transition managers

A distinction is made between transition managers and transition brokers. In the latter, legacy and target managers typically interact directly with a single broker, bypassing the needs of transferring assets to a transition account, while maintaining the benefits of project coordination and achieve the cost efficiency for the assets to transfer in-kind (assets in common between legacy and target managers).

Cyril Vidal, co-head of portfolio transition solutions at Goldman Sachs says "hiring a transition manager can be operationally and legally onerous, transition brokers can, in certain instances, provide a turn-key solution for implementing a transition swiftly."

Outsourced dealing

Certain users of transition management services have morphed into fully fledged asset managers. These clients often go back to a transition broker to assist them for certain aspects of their projects, including trading/execution for high volumes or complex transactions.

"Transition brokers have global cross-asset execution capabilities that can complement in-house trading teams" says Vidal. Post-trade reporting is also an element that can entice clients to use a particular counterparty. "Client's dealing desks may use a single executing (transition) broker, knowing they can receive a comprehensive post-trade report after the event", he adds.

Increasing skillsets

BlackRock's Anderson says that the expanded range of expertise of transition managers has helped them to address the trend for some sophisticated asset owners and managers to carry out part of their transition events in-house.

"Because we are able to break down a transition assignment into the different individual elements we can work with clients' in-house teams, which take care of certain elements of the project," she says. "This allows all parties to be more scalable and to integrate more easily. However, the key factor in making this work is having specialists and the right technology."

In the main, Anderson says that in her experience clients who prefer to handle some elements of the event in-house have the necessary skills and expertise and understand where the transition manager's offering compliments their skills. He believes that dialogue and trust are the key factors in ensuring clients who bring elements of the event in-house understand how this might affect the outcome.

"We start talking to clients long before they start down the implementation route, taking account of not just transaction cost analysis but also operational and liquidity considerations and feasibility studies," she adds. This means that expectations are aligned when it comes to the transition point and each side knows exactly what is expected from them, backed up by service level agreements that clarify each of these aspects.

Anderson observes that the role of the transition manager has changed over the last decade from that of a transaction partner to more of a trusted adviser, involved in the very earliest stages of event planning. She says this is likely to lead to an increase in strategic partnerships and fewer managers being chosen through the panel process, with clients working with no more than one or two managers on all their events.

"The events that clients are undertaking are becoming more complex, with a wider range of instruments and a greater variety of strategies required to achieve their objectives," concludes Anderson.

STRATEGIC approach led to SUCCESS

Good planning was an essential component for State Street to deliver a DC pension plan a transition on time and below the estimated cost

A defined contribution (DC) pension plan offering more than 180 fund options wanted to restructure $4.1bn in assets across seven sub-plans and included both equity and fixed income options. The plans also utilised multiple record keepers and custodians, adding to the operational complexity of the event.

The strategic theme of the transition was consolidation. The plan sponsor sought to merge plans and record keepers, while streamlining and enhancing investment options. Recognising the operational and investment complexity of this event, the pension plan sought a transition manager with a proven track record in complex, multi-asset DC transitions.

State Street was appointed the transition manager for the event. The pension scheme had already had a series of successful previous engagements with the provider and was aware of its expertise in complex, project-heavy transitions.

State Street was responsible for coordinating operations, mitigating portfolio risk, executing trades efficiently and providing clear post-transition cost analysis.

State Street worked closely with the DC plan and other counterparties to organise and complete the transition. The foundational component of the transition was the creation and management of a shared project plan and timeline for use by the client's custodians, record keepers and other counterparties to the transition.

During the planning phase, transition account structure was optimised to maximise overlap between target and legacy securities for each sub-event and reduce costs. Where residual macro risks remained post-mapping, hedging strategies were employed.

Finally, where available hedging instruments were not effective (for example, in managing idiosyncratic risk), an optimised trading schedule was designed and deployed to minimise costs and manage risk. State Street's trading strategy prioritised the completion of securities that contribute most to risk.

The transition took many months to plan and approximately three weeks to complete the trading. The client's expectations for both operational efficiency and transition results were exceeded and the project plan was closely followed with on time completion.

The total cost of the transition came in below the estimated cost due to in-kind retention (28% of legacy value) and reductions in spread and market impact from trade crossing ($800m). The futures hedging positions were effective in managing portfolio risk.

This type of transition highlights the importance of both project management and planning. While this event was a large planning exercise, its lessons are valuable even for less complex transitions. A successful event blends all aspects of transition management from planning to trading, according to the plan manager.

LESSONS from AMERICA

The US is a leading market for transition management services and trends in client demand, user profile and growth potential may well be felt around the world

The transition management industry model in the US has solidified over the last 12-18 months, with providers acting in an agency capacity to provide best execution to clients. Demand for transition management is strong from both defined benefit (DB) and defined contribution (DC) pension funds.

Public DB plans have been particularly active in the last few years, according to Paul Francis, head of transition management US at BlackRock. There have also been some large DC events, helping plan sponsors to combine platforms or effect wholesale changes in their investment portfolios.

Francis says that there has been increasing recognition among providers and clients that this is a skilled business and that scale is required to effectively service clients and generate enough revenue to reinvest in the platform.

Francis says there is a particularly high sensitivity to transparency and best execution among US clients, which results in providers being asked to operate as a true Fiduciary and to execute all transactions as an agent.

"As an asset management provider we cover every type of asset class and investment vehicle, which helps us access liquidity across multiple asset classes," he says. "We always contract as a Fiduciary with our clients – not just those that are ERISA-regulated – which provides all of our US clients with assurance that we are acting in their best interest."

> "Clients in the US expect transitions to be prepared and implemented extremely quickly""
> *Paul Francis, Blackrock*

The US market has moved away almost completely from transition managers having the ability to execute with their own book, says Francis. He also says: "Clients in this market also expect transitions to be prepared and implemented extremely quickly, which is partly due to our clients' heavy involvement in the transition management process and their experience with such events."

William Cobbett, head of transition management Americas at Citi TM, describes the market for transition management in the US as strong, referring to a large number of events from a wide range of clients. Unlike other markets, he says the US has not experienced any significant changes in the competitive landscape over the last five years.

"We have helped clients build up their internal capabilities and some of these clients are now more programme trading than transition management clients," he explains. "However, they will still come to us in special situations where they feel that either the operational aspect is too much or their trading desk is too busy."

Expanding user base

Virtually every type of institutional asset owner, as well as many family offices, have made use of the services of transition managers. At the same time the number of investment managers involved in transitions has increased, reflecting a natural growth in complexity of their businesses.

Ben Jenkins, senior vice president and global head of Northern Trust Transition Management, says public fund and corporate asset owners are the most frequent users of transition management, adding that these clients tend to have historically had the most experience with transition management and have consistently seen value in its services.

UNITED STATES

Jenkins says the types of clients it works with have expanded since 2011, a time period over which he says his business volume increased by 41%. He says the common themes driving interest among all client groups are robust project management oversight and strong trade execution. "We are seeing increases in the use of transition management by a range of client segments, notably fund managers and insurance companies."

The US institutional client base has adopted ETFs to a greater extent than elsewhere in the world and, in line with this, BlackRock's Francis says that many transitions handled by Blackrock involve ETFs.

ETFs can also play a key role in fixed income creation and redemption. "It is not necessarily plain vanilla asset restructuring – we might be brought in to work with an asset owner that thinks the liquidity that fixed income ETFs bring can be useful," adds Citi TM's Cobbett.

"Our analytical tools allow us to help clients look at different ETFs that their portfolio might go in and out of and see if there are opportunities to add value. ETFs have been used in transition management for a long time – we are now talking to clients about using them outside of transition management."

> "We are seeing increases in the use of transition management by a range of client segments, notably fund managers and insurance companies"
> *Ben Jenkins, Northern Trust*

Francis adds that he is also seeing the impact of other recent investment trends. "We see clients continue to execute multi-asset type transitions and see the potential for expansion in the DC space. We have colleagues who understand the sensitivities involved in effecting transitions for DC clients and we partner with other business units in the firm."

Keys to success

The key features of a transition management services for US clients, according to Jenkins, are threefold.

Firstly, project and risk management; as transitions become more complex, clients rely upon a transition manager's ability to create an implementation strategy. This includes management of all aspects of the restructure and detailed timelines for each transition.

Secondly, trade execution and performance, and more specifically global execution as an agent for equity and fixed income. And thirdly, the reporting suite including cost estimates and performance analysis at all stages of the transition. This includes the pre-trade and post-trade reports, which details the actual costs against estimates and transaction level transparency.

In addition, DC plan clients, which are a large set of Northern Trust's US client base, require further operations. "These entities require additional support and structure given the addition of a record keeper and our preference to not operate a transition in a 'blackout', which adds to

complexity but ensures DC participants do not lose investment choice."

Best practice

The large US DC market requires a higher level of process and risk management, but beyond that Jenkins suggests there are no best practice elements unique to the local market.

"Transition management is a global business in every sense and we are seeing an increase in clients using our services in multiple regions, such as regional pension plans for global corporate clients," he says. "A consistent and normalised service, especially around best practices, ensures an optimal process and transparency for clients."

Jenkins adds that the US market provides opportunities to expand transition management services. "We are working with clients on expanding the traditional role of transition management to include more project management and execution services. Within the US market, this is especially for our insurance and fund manager clients, who have very specific needs as it relates to their asset allocation decisions."

> "We have helped clients build up their internal capabilities and some of these clients are now more programme trading than transition management clients"
> *William Cobbett, Citi*

One area of particular growth in the US market is involvement with insurance M&A activity, where the acquiring firm wants to restructure the target firm's balance sheet. This is similar to a traditional transition management event except that the buyer of the service (the acquiring insurance company) is not normally a transition management client.

Foreign exchange risk

According to Citi TM's Cobbett, one of the interesting features of the market is that most US pension plans don't hedge their foreign exchange exposure. This contrasts with their international counterparts in France and Australia in particular, which almost always put on an FX overlay to separate the foreign exchange from the equity component. This can be attributed to the fact that over the very long term the US dollar has slowly weakened, increasing the value of foreign holdings.

Following the US presidential election there were a number of de-risking transitions. Equity prices were strong and interest rates picked up a little so the funding status improved for plans – some of which were on an automatic glide-path, says Cobbett. "We have also seen activity where a portion or all of the pension is sold into an insurance company and the insurance company assumes the liability."

In some cases there are open bonds that need to be bought to satisfy the insurance company's asset allocation, but many of these are happening in cash. "We continue to see outsourced managers take on significant assets," he concludes. "We ha ve done a record number of $1bn-plus onboardings of corporate pension plans this year."

Customised approach yields HEALTHY OUTCOME

A complex event covering multiple plans was an opportunity for Northern Trust to demonstrate the value of holistic project management

A large healthcare system, based in Pennsylvania, wanted assistance with the restructuring of its multiple investment plans. It wanted to transition from its existing outsourced CIO (OCIO) provider to its new provider. In addition to the interactions with the OCIO providers, there was also an array of underlying investment managers that were part of the transition.

Northern Trust was chosen to carry out the transition. In total, there were four underlying plans, each of which had their own unique manager mix and allocation structure. The healthcare system instructed the transition manager to ensure that all plans were treated equitably, with a focus on reducing both cost and risk throughout the event.

Due to the varying sizes of the plans, the treatment of the vehicle types within each plan had to be customised. The small plan, holding commingled funds, would redeem/subscribe using cash, whereas the larger plan was subject to receipt/delivery of in-kind securities.

Cash transactions, which may appear to be straightforward, present the predominant driver of risk through a transition event. In addition to ensuring settlement dates are aligned, cash has a zero correlation with the majority of other investment assets and can detrimentally impact the opportunity cost of the transition.

Significant planning took place both within Northern Trust and by the other key stakeholders to the event – the custodian, the OCIO providers and the underlying investment managers. The healthcare system also undertook its own planning.

Although the underlying liquidity of the assets was reasonable, the implementation, trade execution, settlement and delivery of assets to the new managers took a calendar month to complete.

The event consisted of 106 different funds and accounts with total value of approximately $5bn. The restructuring activity was across multiple asset classes: US equity, non-US equity, emerging market equity, fixed income, real estate and commodities. All aspects of the event were completed on schedule and within the pre-trade cost estimate provided.

Although transition size is a commonly used metric to assess the proficiency of a transition manager, this can be misleading. The complexity of the event – the varying asset classes, the number of managers and the vehicle types – is what differentiates one event from the next. This complex event warranted the expertise of transition manager where the focus is on risk containment and holistic project management.

It is expected that type of activity to become more prevalent over the next number of years, with the maturation of the OCIO offering and initial relationships testing the market for potential new providers.

SAFETY
by design

Transition managers can call on a range of tools to manage volatility and risk from futures and options to ETFs. *Ceri Jones* investigates

Despite the perception that stock market volatility has escalated during the last few years it has remained exceptionally low in recent months. What seems to remain, however, is an increase in the likelihood of scenarios such as geopolitical crises and natural disasters that cause volatility to spike, leaving risk harder to forecast

Transition managers have long used futures to manage market volatility and hedge against adverse currency movements. For instance, a transition from the Eurostoxx 50 index to the S&P 500 index will be at risk from the dollar rallying relative to the euro during the transition period so the manager will take a position in FX forward contracts or a long-dated FX spot to avoid a situation where there is insufficient funds to settle the S&P 500 purchase.

"Generally, we analyse risks inherent in changing the exposure in a transition and form a strategy based on a detailed appreciation of client objectives and their required pace for the transition to the target exposure," says Cyril Vidal, co-head portfolio transitions solutions at Goldman Sachs.

"We study the resulting opportunity cost as a key factor in our decision-making. We can use derivatives such as FX overlays to reach the target exposure more smoothly and in a risk-managed way.

Most of the time clients will hedge their currency risk as the benefit usually outweighs the costs by far – this is especially true in times of increased FX volatility, for instance currency pairs such as euro/dollar have appreciated by almost 10% over the past three months."

> "Most of the time clients will hedge their currency risk as the benefit usually outweighs the costs by far – this is especially true in times of increased FX volatility"
>
> *Cyril Vidal, Goldman Sachs*

Limitations of derivatives

Hedging is sometimes an imperfect solution, however. One potential weakness is a mismatch between the portfolio and the index used to match it, whether that is the legacy or the target exposure.

"The effectiveness of hedging using equity futures is limited by a number of both practical and exposure constraints," says Steve Webster, senior advisor at Allenbridge, part of MJ Hudson. "From an exposure perspective, hedging using equity index futures will mostly be limited to the more common index benchmarks, so the less the transition is correlated to available benchmark indices, the less effective a derivative hedge might be."

Hedging against currency risk has some practical considerations, not least that the rate of the FX forward may be different from the current FX spot rate, owing to the currency interest rate differential.

Obviously, too, some emerging market currencies are restricted in the way they can be executed, requiring the underlying custodian of the client account to execute the transaction, Webster adds. Asset owners that use a global custodian may also have to rely on pre-agreed terms to manage foreign exchange balances at the point of settlement, which can be sub-optimal for a transition, potentially increasing the exposure timeframe and risk.

To use futures, however, investors must have an account and be able to manage collateral, and opening such an account can be complex and time consuming, with reporting requirements adding to the legal and administrative burden.

The rise of ETFs

Exchange traded funds are often used for the hedge where an investor does not have the operational procedures in place to implement a futures strategy. Furthermore, as transition hedging is a low margin and episodic business, banks that are mindful of their capital reserving tend to focus on their platinum clients.

"ETFs may be considered as a hedge where a client is not operationally set up to implement a futures strategy," says Artour Samsonov, head of transition management Emea at Citi TM.

"We see three scenarios in transitions where clients use hedges. First, clients hedge market risk as part of portfolio restructure. Second, some asset management clients hedge inflows and outflows from their funds. Third, clients hedge their portfolios at macro level against market risk. We see a growing trend of using ETFs both as investment vehicles and hedging tools."

Clients are getting more comfortable with using ETFs as a means of hedging risk. "In today's market, clients find that setting up new futures clearing relationships is challenging. It is a capital intensive business so most brokers have focused on offering this service to high volume clients only.

Generally ETF liquidity is driven by the liquidity profile of the underlying assets. "However, ETFs' growing popularity is improving their secondary market on-exchange liquidity, which in effect is attracting more clients," he says.

> "Using futures may be cheaper but if a client does not already have a futures clearer, operational set up may be burdensome"
> *Artour Samsonov, Citi TM*

"In the short term, using futures may be cheaper but if a client does not already have a futures clearer, operational set up may be burdensome and therefore delay the transition project."

Physical rather than synthetic ETFs are typically preferred for use in transitions. "Because we are restructuring physical assets, we steer towards using physical ETFs that could be deconstructed into the underlying physical holdings, which often results in more efficient execution for clients from cost and risk perspectives," adds Samsonov.

Transition managers work with ETF providers to create or redeem units in an ETF, so that clients can swap a physical asset for units in a fund. This will involve helping clients restructure their portfolios to fit the profiles required by ETF providers. The timescale for ETF creation can be quick, just one or two days if the assets are liquid.

Vincent Denoiseux, head of ETF quantitative strategy at Deutsche AM, says institutions such as pension funds often swap their shares via a broker for units in an ETF. "We frequently receive shares directly and issue units, with the help of our ETF capital markets team, looking at the securities brought by the investors and the benchmark they want to get into," he says.

"This eases the transition from one portfolio to another, making it very cheap to implement. It is a service we frequently conduct not just for large schemes but schemes as small as £1m, and not only for equities but for fixed interest portfolios as well."

Pension funds can use swaps and derivatives, and they usually do. "But for smaller funds ETFs are a great tool to park their portfolios during a transition, including FX-hedged share classes that can be used to preserve currency exposure. This removes the need for both futures and FX overlay transactions," says Denoiseux.

"We see a significant move to passive managers, and using an ETF gives very fast exposure to a market. If a transition needs to be accomplished within three to six months, then the case for using an ETF is particularly compelling. If the timeframe is above six months then a customised mandate solution may be more competitive."

Opportunity costs

Implementation costs can erode the projected benefits of the target investment allocation and are usually well scrutinised but as decisions to change portfolios typically take months to come to fruition, there has been greater focus recently on the potential opportunity cost incurred between the point at which the decision is made and when trading commences.

State Street has produced some influential work on the issue in 2015 and concluded that the delay costs may have an impact on risk and return assumptions as well as allocation requirements, especially for pension plans. They suggest that interim exposure management strategies should be tailored to an investor's needs and have coined the phrase 'Event Shortfall' to benchmark transitions undertaken this way.

It may be preferential to secure earlier adoption of the revised exposure using an interim solution to form a bridge from the time of the decision to the point when a new mandate can be delivered.

"Such early adoption can certainly have a performance impact where the new allocation or strategy is being broadly adopted across a wider group of investors, positively impacting the target exposure," says Allenbridge's Webster.

> "The less the transition is correlated to available benchmark indices, the less effective a derivative hedge might be"
> *Steve Webster, Allenbridge*

He looks at this as a two-part process, initially converting the legacy assets into either the final target or interim benchmark exposure while the exact required exposure is unknown, and a second phase to convert this interim portfolio into the final target portfolio. The interim configuration can be achieved by futures, an ETF or a segregated mandate.

For example, derivatives can be used to hedge both legacy and target benchmarks, while leaving the legacy investments in place for the period of the hedge. This process would involve removing the beta of the legacy investment by selling the relevant index futures and simultaneously buying the target index futures, in close co-ordination with the existing manager.

Another approach is to terminate the legacy investments and re-invest the proceeds in an ETF or index futures that will provide the required beta for the interim period and can then be converted into underlying benchmark constituents for final transition into the target mandate.

Alternatively, a more customised approach is to convert the legacy investments into an interim segregated mandate, which more closely matches the desired target exposure. This can be useful where asset screening, dynamic allocation or conditional exposure is required.

INVESTMENT trends in TRANSITION

Institutional investors are seeking out ever more esoteric opportunities to secure decent returns and transition managers have had to work hard to keep pace, finds *Cherry Reynard*

The days when transition events were restricted to basic equities-to-equities reallocations have long since passed. Institutional investors have increasingly been allocating to more esoteric parts of the markets in pursuit of broader diversification and/or higher returns and transition managers are often being asked to facilitate the moves.

The prevalence of low interest rates and low growth has demanded a more nuanced approach to investment, with asset owners as well as regulators putting downward pressure on costs. The move to passive funds has been one of the clearest and most enduring trends of recent years. Active mutual funds lost around $350bn during 2016 to withdrawals amid widespread scepticism about whether unambitious benchmark-hugging strategies justify their fees.

As a result, asset owners are increasingly clearly dividing their investments between cheap index-tracking beta funds and high-conviction or alternative alpha funds, the so-called barbell investment strategy. William Cobbett, head of transition management, Americas, at Citi, says the shift from active to passive accounts for a significant amount of transition flow, with their clients increasingly adopting the barbell strategy.

With an equity-to-equity transition, a shift from active to passive is generally a relatively straightforward transition. As much as 80% of the assets may be funded with legacy assets. "The complexities in building equity index funds lie in the operational capacity to book out 1000s of trades in dozens of countries seamlessly across a single day. Unless the fund is of a massive size, the assets are pretty liquid," says Cobbett.

Factor investing

The money flowing into passive funds has mainly gone into market cap weighted index funds but also into factor strategies, which focus on the drivers of risk and return, and this has introduced a new complication for transitions.

"Factor investing lies between active and passive and we have seen some flow move that way," says Cobbett. "We have helped move a number of large US pension funds into factor models. These are relatively straightforward to build from a liquidity point of view, but they do bring another risk to manage – it is imperative that the factor tilts are closed early."

Russell Investments has set up factor funds, such as a low volatility product, to ease transitions involving the sector. Asset owners can park capital in these funds until they make a final allocation. Chris Adolph, head of transition management, Emea, at Russell Investments, says this is still relatively rare at the moment, but he expects it to happen more and more.

The search for yield

There are greater complexities inherent in building passive mandates from fixed income, says Cobbett. Individual bond issuers may offer multiple fixed income securities and an active portfolio manager may buy many different types of fixed income securities to deliver their returns.

By contrast, fixed income passive strategies aim to replicate the performance of an index using far fewer securities. This adds complexity to the conversion and is exacerbated by the fact that fixed income securities are traded over the counter (OTC) and liquidity can be poor. Cobbett says that there is a challenge in ensuring client portfolios are transitioned using the cheapest-to-acquire portfolios and getting both in and out at an advantageous price.

Sourcing bond liquidity has been made easier thanks to the electronification of the USD denominated corporate credit bonds. According to Cyril Vidal, co-head of portfolio transition solution, Goldman Sachs: "We now have algorithms that can compute executable bond prices on a wide investment universe for orders below $1m. This is a significant step forward for allowing transition manager to screen for liquidity and implement client's passive strategies efficiently."

James Mitchell, co-head of portfolio transition solution, Goldman Sachs, says: "The execution and liquidity landscape will transform as we move into a Mifid II compliant world in January 2018. One example will be the wholesale removal of broker crossing networks and the migration of flow to other venues, including systematic internalisers. Access to a transition manager who is close to these changes and has the technology, experience and personnel to continue to efficiently access the right liquidity for clients will be critical in achieving value for money in execution."

Transition managers will hold bonds to help manage the transition, both as part of its fiduciary duty and as a regulatory requirement. For example, Cobbett says Citi has built technology to analyse its own inventory against the ETF equivalent to ensure it has the right options to help investors to transition. He adds: "This is both within and beyond transition management, but is important."

In response to persistently low interest rates, investors have had to look at high yield bonds or emerging market debt to deliver higher income. But rates cannot stay low forever. Cobbett says that he has recently seen asset owners preparing for interest rates to go higher and this is reflected in some investment allocations. BlackRock has recently lowered the fee on its mortgage-backed security ETF from 29bps to 9bps in anticipation of this trend.

The trend to tolerate greater risk in search of returns is evident elsewhere. On the equity side, Adolph says that he is increasingly seeing clients move into emerging markets. However, emerging market equities present less of a problem as long as the volumes are not huge. It may be more expensive and require greater local knowledge to trade but there are usually constant prices and some liquidity.

Illiquidity issues

The problem with this search for yield is that, in general, assets are moving from liquid to less liquid areas, rather than just from one credit or equity manager to another. It means transition managers have a more complicated task – but also the opportunity to add more value.

Adolph says: "There are challenges in transitioning to less developed asset classes. For example, in emerging markets there is typically less liquidity and trading is more broker-driven and there are fewer electronic trading platforms.

"There are also challenges on the foreign exchange side, with certain restricted currencies needing to be traded with the client's custodian, with the transition manager often having little control over the timing and quality of those trades. Furthermore, new regulations on the collaterisation of non-deliverable forwards (NDFs) may further inhibit currency hedging."

> "Factor models bring another risk to manage – it is imperative that the factor tilts are closed early"
> *William Cobbett, Citi TM*

For frontier markets, the situation may be even more complex and require significant planning.

In addition, less liquid assets can be unduly influenced by outside issues. For example, at one point the high yield bond market was very influenced by the oil price, because many US issuers are in oil-related areas, and this reverberated through the rest of the market and made it became very expensive to trade.

These types of problems are surprisingly common; indeed, clients may have been prompted to make a transition in the first place by worsening market conditions for the assets they hold.

Adolph says this increasingly requires specialist skills and transition managers have adapted: "Among the biggest developments in the transition industry has been the enhancement of fixed income capabilities and the broader use of hedging strategies."

At the same time, he says, asset managers have tended to become more narrowly focused and may be less able to deal with transitions between asset classes internally.

De-risking

The inevitable question in defined benefit (DB) pension scheme investment strategy is when to de-risk. De-risking is desirable for maturing schemes (especially when pension payments exceed new contributions) but the timing is problematic given how low yields are, and have been in recent years.

However, there are also strong signs that some equity markets look expensive. A recent report by

Goldman Sachs shows the forward P/E multiple of the S&P 500 up by 80% since 2011, while the trailing P/E multiple is 22x, against a long-term average of 16.7x. It expects the S&P to fall by the end of the year.

However, many pension funds are not in a position to de-risk. Many remain poorly funded and cannot afford to move away from higher growth assets. In the UK, for example, the funding position of pension funds has deteriorated over the past 12 months.

Adolph says: "Although the much-publicised worsening of many pension schemes' funding levels is a setback, as a whole pension schemes are still focused on their end game. How can they move out of growth assets and into assets matching their liabilities? What are their triggers, and if these are hit how quickly can we respond?

"Transition managers can play a vital role here in not only monitoring those funding levels, but also, should any triggers be hit, being able to quickly reposition a scheme's asset allocation using derivatives and then unwinding those positions in conjunction with managing the changes to the underlying physical assets."

He adds that some clients are looking to protect their growth assets from a correction in equity markets. "This interest, in some instances, is also driven by the scheme's sponsors, who don't want a negative surprise on the contribution side if markets significantly correct.

"Derivative strategies that provide downside protection tend to be bespoke in nature, depending on the amount of protection the scheme or sponsor requires and how much up-side they are willing to forego to minimise the cost of the downside protection."

> "Among the biggest developments in the transition industry has been the enhancement of fixed income capabilities and the broader use of hedging strategies"
> *Chris Adolph, Russell Investments*

Looking to the future

One issue on the horizon is how much longer the trend from active to passive funds will continue. In the years following the financial crisis, there was a far greater correlation between individual securities, sectors and countries than is typically the case.

Over the last couple of years, with a reduction of quantitative easing and a return to more widespread growth, this has started to break down. The relatively low level of volatility at the index level is deceptive. Bubbling below the surface there is already a greater dispersion, which should be good for active managers. The question is whether this may be enough to tempt investors to reverse the longstanding trend from active to passive funds.

Another investment trend, which is already evident, is towards multi-asset investing and alternative asset classes. Russell Investments, which has a well-established multi-manager range, reports more asset owners converting, usually to improve diversification and to reduce the overall cost level and complexity associated with managing multiple portfolios. However, from a transition management perspective, it is still in its infancy and they have not seen much volume in this type of transition.

Transition managers have needed to become more sophisticated and develop specialist skills. Most have risen to the challenge, broadening their expertise across a greater range asset classes. It is a trend that is certain to continue.

Reallocating for RETIREMENT

Transition managers are heavily involved in the end-game of DB funds and are increasingly being called in to solve the very different issues presented by DC funds. *Cherry Reynard* reports

The most recent IMF Global Financial Stability Report gloomily suggested that a combination of slow-moving structural factors, notably aging populations and slower productivity growth, is generating a background of lower economic growth and interest rates across developed economies.

This outlook, which flattens yield curves and presents other long-lasting challenges for defined benefit (DB) pension funds, is driving asset allocation decisions and therefore the demand for transition management services. Meanwhile, the increasing prevalence of defined contribution (DC) funds means that transitions are more frequently occurring, but these bring a different set of challenges.

DB decline

DB pension funds are continuing their gentle retreat from the workplace savings scene. In the UK, for example, only 21 companies in the FTSE 100 are still providing DB benefits to a significant number of employees (defined as the cost exceeding 5% of payroll) according to JLT Consulting. Those schemes that do remain are maturing, trying to de-risk where possible.

Despite their decline, DB funds remain a very important client group of transition managers as there is still plenty of reallocation work to be done as member profiles mature. There has been a remarkable shift in the average fixed income allocation from 34% ten years ago to 62% at the end

of 2016. Although the flow into bonds slowed to just 1% during 2016, further de-risking is expected to resume when conditions become more conducive.

Many companies are still running large mismatched equity positions in their pension schemes. This creates unwelcome volatility for the sponsoring company's balance sheet, further fuelling the desire to de-risk. Three FTSE 100 companies changed their bond allocations by more than 10% in the past 12 months alone.

Phased de-risking

De-risking is high on the agenda, if not at the top, for pension schemes, says Andrew Williams, investment consultant at Mercer. However, total de-risking is still not an option for many schemes due to the need for investment returns to bridge funding gaps. Indeed, funding positions are weak and have become weaker over the past 12 months, leaving relatively few with the option of moving wholesale out of growth assets. Nevertheless, some are doing it progressively.

"De-risking is more complex than it was 10-15 years ago, when it would probably just entail moving into a gilt fund," says Williams. "Now it will more likely involve transitioning into an LDI portfolio with complex derivative and bond arrangements. Gilts may be overvalued right now but, for a lot of pension funds, it is still the best hedge for their cash flows."

Certain investment managers have introduced the concept of liability-responsive asset allocation for de-risking. This brings in more frequent monitoring of key financial measures such as the funding status and surplus volatility, rather than a focus on individual managers and their relative performance.

Transition managers will have an ongoing role to play in this area, according to Chris Adolph, head of transition management, Emea, Russell Investments. He says that some asset owners will periodically want to partially de-risk as funding status improves, often calling on the expertise of transition managers for the task. The transition management team will work alongside a LDI completion manager, who looks at the fixed income programme relative to the LDI programme and makes adjustments.

Fiduciary management

There is also a regulatory push relating to trustees' responsibilities. Tightening UK regulation means they need to understand far more and bear far greater responsibility, which is prompting them to seek additional third-party support.

Max Lamb, head of transitions at Willis Towers Watson, says that the main trend he is seeing is for DB schemes to move to fiduciary management arrangements. Fiduciary management takes the investment decision-making strain away from trustees, but usually means significant portfolio restructuring with targeted liability matching. "Legacy assets need to be transformed into a better set of assets," he adds.

Lamb says that the challenges are different for every scheme, but the skills required of a transition manager remain largely the same. Transitions invariably involve trading a large amount of the scheme's assets and, as ever, transition managers need to be very careful about how it is done.

That said, compared to the options available 10 years ago, transitions are more complex today. That is partly due to low bond yields but also the range of investment options available to pension funds. As such, transitions need more detailed planning. Consultants can help the pension fund trustees decide whether they need the services of a transition manager, based on the complexity, cost and exposure involved.

> "Now de-risking will more likely involve transitioning into an LDI portfolio with complex derivative and bond arrangements"
> *Andrew Williams, Mercer*

Lamb says that a key change for pension funds in recent years is the number of investment mandates they award. Previously, they may have had between five and seven managers – one for UK equities, another for overseas equities and so on. It has since become common to diversify more broadly and schemes may have as many as 40 managers.

"This means they have a lot of transition projects to organise," he adds. "Each investment manager mandate needs operational due diligence, legal review and a project timeline."

Transition managers can add more value when the mandates are larger and more complex. With an investment below £30m there are relatively few trading challenges and it may not be worth employing a transition manager to make the change, he adds: "It is often best made in cash."

The move to buyout

Buyouts are another key area for DB schemes. A number of high profile schemes have been bought out over the past 12 months. Legal & General completed a £1.1bn pension buyout for the Vickers Group Pension Scheme – part of the Rolls-Royce Group – covering over 11,000 members in 2016. Engineering giant GKN also offloaded pension liabilities to a specialist insurer in a deal worth £190m.

Likewise, pension buyout specialists are booming; Pension Insurance Corporation (PIC), for example, raised £250m from Chinese investors less than a year ago. Specialist provider Chesnara has seen its share price more than double and hit new highs in August 2017.

However, buyout remains an option open only to those schemes that are fully funded, or where the sponsor is willing to pay. "It tends to happen where the schemes can afford it, if their funding level is strong and the premium quoted by the insurer looks suitably attractive," says Williams. "The decision to move to a buyout is more of a strategic decision. We have a specialist team advising on buy-out transactions."

The pension fund agrees the price with the insurer for the buyout based partly on the desirability of the makeup of its existing assets. Up to £100m, the transfer tends to be entirely in cash. In larger funds, of £1bn+, insurers are more willing to take on the assets of the client. In the latter case, it becomes more a project management exercise.

There may be two asset transitions involved in a buy-out. "The first is to move assets into a portfolio that better matches the asset profile the insurance company might want – for example a big, equity-dominated portfolio would be moved into government and corporate bonds," which would therefore reduce the premium. "Then there is the actual transfer of assets to the insurance company."

Williams believes that transition managers will be looking to play a greater role in buyout business in the future.

Defined contribution

Transition management for defined contribution DC schemes is still a relatively small part of the business entrusted to the industry. Such schemes, where the eventual pension payments are determined by the individual's investment returns, have typically been established for a shorter time period and have smaller AuM. They are also buoyed by fresh flows and have a longer maturity profile.

Where DC transitions occur, they tend to be to swap platform providers to those with a broader product set. "There is more DC activity in transitions these days, a lot of which involves platforms," says Williams. "The platform approach is very popular, so the trustee's decision tends to be more around choosing the right platform provider, and choosing default and lifestyle strategies."

Transition management for DC is often more akin to project management, as it is with a pooled fund transition, rather than physically trading the assets during a transition. For example, transition managers can co-ordinate trading in unitised funds to build a new target structure.

"A DC transition is mainly operational," says Mercer's Williams. "Specialist transition managers tend to operate through trading portfolios of individual securities. Trading isn't generally required for DC as the schemes are invested in pooled funds, so specialist transition managers generally haven't handled them. Consultants have taken on the project management instead."

> "Each investment manager mandate needs operational due diligence, legal review and a project timeline"
> *Max Lamb, Willis Towers Watson*

The key stakeholder in DC transitions is the scheme administrator. "They maintain the records for each member's stake. Making sure the administrator is centrally involved in the project plan is vitally important. The administrator updates every member's records once the transition has taken place – ensuring that each one has exactly the same share of the assets after the transition as they did before."

DB schemes are still the bread-and-butter business of transition managers. In particular, the transition into bonds, de-risking strategies and adoption of fiduciary portfolios are creating demand for the services of transition managers and consultants. Buyout business is building for selected well-funded schemes.

DC scheme transitions remain in their infancy and, as things stand, are largely providing business as much for consultants as transition managers. However, the pensions market is constantly evolving and the proportion of DC transitions will inevitably increase over time.

SIMPLIFICATION proves COMPLICATED

The combination of a rationalisation of a pension scheme sections and an overhaul of its investment strategy presented a complicated task for a transition manager

A reduction from 13 sections to four sections – coupled with a review in investment strategy – resulted in a complicated, multistage transition for a medium-sized UK DB pension scheme.

The trustees and its investment sub-committee, chaired by Melanie Cusack, client director of independent trustee firm PTL, had a strong, established relationship with their investment consultant and decided to use the investment consultant's in-house transition management team to handle the event. The total asset pool was approximately £700m and was predominately in pooled funds.

Before embarking upon the transition, the transition manager provided an estimated timeline and details of all costs, setting out those that were manager transaction costs, investment consultant costs covering advice and transition manager costs. It was helpful that the upper end of these costs were provided, noting that where efficiencies could be found the costs would reduce.

The key challenge was that each of the remaining four sections required a combination of managers from the original 13 and some managers were removed completely. In addition, the dealing dates and notice periods for the different investment funds were not aligned. Therefore, a great deal of paperwork across all sections had to be prepared and checked and since many transactions were dependent upon earlier transactions, there was little scope for slippage.

The most significant elements that ensured the transition proceeded smoothly were:

(i) A clear detailed project plan setting out the key dates for each transaction. This ensured the money to be invested with one manager was already disinvested from another manager within the tightest possible timescales.

(ii) The trustees and investment sub-committee delegated the signing authority to two trustees a t the start of the process based on availability over the period.

(iii) The documentation required by each manager to provide the necessary instruction was agreed in advance of the transaction. This ensured there were no delays due to incorrect signatories or AML checks.

The transition manager provided updates on the transition throughout and produced a full report at the end of the project, setting out all the costs incurred against the budgeted expectations.

Cusack says the trustees were pleasantly surprised at how smoothly the transition went and that the overall costs were lower than expected. The only change to the original planning was the date the transition started, but this was partly for pragmatic reasons rather than a view on market conditions.

The trustees had a subsequent transition when they chose to appoint a liability driven investment manager for one section. They did not hesitate to use the same transition manager although this was a more straightforward transition.

STRENGTH in numbers

The creation of eight investment pools for the UK's 89 local government pension schemes will entail the transition of up £200bn of assets. *Ceri Jones* investigates

The 89 local authority pension funds across England and Wales that are merging to create eight co-investment vehicles, to boost scale and reduce costs, are at very different stages in the process. But their structural plans are nearing completion and they are expected to start moving assets within a year. Only one, Borders to Coast Pension Partnership (BCPP), has announced a delay.

The scale of the project is unprecedented, with a significant proportion of the pools' £217bn in assets set to be transitioned over the government's relatively short timetable. The pools must identify the most efficient way to transition assets, taking into account the need for flexibility around market conditions, while minimising restructuring costs, and putting in place a manager line-up that fulfils future investment requirements and delivers the cost savings required.

The transition management industry worked closely with the pools in providing cost analysis for their submissions to the government in July 2016. The next stage will be advising on the restructuring work and providing detailed cost analysis and transition planning once the pools have decided their manager line-ups. Firms have also been sharing their experiences of managing assets within a multi-manager pooled environment, which is new to many of the pools.

Framework Agreement

A key part of the process will be the completion of a national Framework Agreement for the provision of transition management and implementation services. Following the consultation in May, the focus is now on the contractual language, with completion of the request for proposal (RFP) process expected in the third quarter. The framework will give the pools more clarity on the different providers and their capabilities across not only transition management, but more broadly across implementation in general, which will be relevant for the future management of the assets.

The structures employed to manage pool assets vary, ranging from complete out-sourcing of the investment management and investment operations to a third party, to the creation of FCA-authorised entities that will manage the assets using a variety of vehicles, including – but not limited to – authorised contractual schemes (ACS).

Even within the ACS vehicle approaches differ. Some pools will act as gateways to investment structures that the underlying schemes directly

invest in, while others will invest in units within funds created by the pools themselves – and others will use a combination of the two. A number of pools already have an internal asset management capability that will remain a part of their solution in addition to external managers.

The London CIV and Local Pensions Partnership (LPP) are ahead of the game. "They have both been very helpful to the others in sharing experiences and lessons learnt from the various stages of the process," says Nick Buckland, LGPS adviser for JLT Employee Benefits. "The Cross Pool Collaboration Group has been regularly meeting to enable representatives from each of the pools to share thoughts, common issues and to act as a voice for the pools if one is required. Each pool is operating in a slightly different way, due to the requirements of the underlying funds and therefore each has a different perspective."

"A couple of the pools are in the process of putting key staff in place to start working on the investment plans, and firming up details of the underlying sub-funds or portfolios," Buckland adds. "Until this process is complete, I imagine the plans for actual investments and the timelines will remain in the planning stage."

> "A top transition manager can use the scale of its organisation to reduce transaction costs, which directly improves the generated alpha of the fund"
>
> *Andy Gilbert, BlackRock*

Although London CIV is a large and complex pool, it has not used transition managers so far, according to non-executive director Chris Bilsland. "So far, the London CIV hasn't used them as until now we have lifted and shifted existing managers and appointed new managers. We have yet to move funds between managers, or to release a manager, and I think it is then when we will look to utilise transition management."

Cost savings

The pooling project comes with great potential to save costs. In countries where there is scale in the pensions sector such as Australia, pension operating costs are said to be 40% lower than in the UK.

"Professional transition managers will be vital in the process of transitioning the pools in the most cost-efficient way," says Andy Gilbert, managing director, BlackRock. However, "poorly-executed transitions have the potential to offset a large portion of the cost savings the funds try to achieve, and the overall objective is of course to strengthen performance so preserving it is only the start."

"Better performance does not have to come at additional cost. The cost and risk savings of a bespoke solution typically offset any additional fees, making a strong case for using professional help. Furthermore, a top transition manager can use the scale of its organisation to reduce transaction costs, which directly improves the generated alpha of the fund."

The operation itself will be highly complex. "The

rationalisation of active equity mandates will require careful management of idiosyncratic risk within the trading, in addition to liquidity and market impact, volatility and information leakage," says James Sparshott, head of local authorities at LGIM. "The operational risks will require expert project management – coordinating the volume of information and maintaining clear and effective communication will be critical."

Differences in size, investment complexity and experience in transition management within LGPS schemes suggests great diversity in the challenges faced and the most appropriate solutions for each pool. Critically, there is still much debate about which managers should be retained – which leaves the sequence in which assets from each scheme should be transitioned into the pools still very much at the discussion stage. Only when there is clarity on target managers and investments can the similarities and differences in transition risk and cost, and consequently the optimal investment sequence to share transition costs, be determined. Compromise from both the schemes and pools will be required.

> "The role of the transition manager is not to generate alpha but to preserve asset value through intelligent execution strategies"
> *Craig Blackbourn, Northern Trust*

"Under a collective investment, scheme performance as well as costs are shared on a pro-rata basis," explains James Mitchell, co-head portfolio transitions solutions, Goldman Sachs. "At first glance this seems to be a hindrance to different schemes which may have greatly varying levels of commonality and cost to rebalance their own mandates into the chosen pool structure. In reality, with some forethought on the sequencing of events and a malleable structure for investment one might be able to achieve a fairer split of costs than by simply consolidating all assets in each asset class in one go."

One consequence of going from a £2bn to a £40bn scheme will be a seismic change in service consumption. "We believe that the change not only in the services provided but also in the way they are delivered may not yet be fully appreciated," adds Mitchell. "Clearly, the mostly immediate challenge is how one fairly consolidates the asset base and equitably shares costs. After this many opportunities exist for investment services utilised in the prior life to be accessed in a different way as a much larger fund. Obvious examples are whether to hold pooled or segregated investments and what type of agency lending programme one should consider."

Mifid II investor status

For all the pools, the additional buying power will also open up access to greater investment opportunities, including more specialised and illiquid asset classes such as infrastructure and private assets that require additional skills and knowledge.

Pools that are regulated will also require new skill sets for their various responsibilities. Many funds are seeing the transformation as a timely opportunity to set standards of governance and performance monitoring.

Mifid II rules remain an issue for investing in sophisticated asset management strategies, however. Initially, Mifid II required all local authorities to be treated as retail clients by their asset managers. But in July the regulator dialled back the rules, making it easier for LGPS schemes to be "opted up" to professional investor status, by changing the classification of professional investors, so all administering authorities can now be opted up if they run £10m (€11.4m), which of course is small fry to these funds. Despite these concessions, the funds face a significant administration burden in the months before the regulations are implemented in January.

"The need for these funds to opt up cannot be emphasised enough," explains Andy Todd, head of UK pensions and banks, asset owner solutions, State Street. "Mounting cost pressures and persisting lower-for-longer yields have led pension fund investment committees to seek higher yielding and often illiquid assets to assist them in meeting their strategic investment targets.

"Despite Mifid II rules around local authority pensions and their exposure to illiquid assets being softened, these funds still need to declare they're happy to have an exposure to such assets. If this is overlooked they risk significantly increasing existing liabilities, and may end up receiving a termination letter from their asset manager, who will legally no longer be able to provide an alternative exposure."

> "The extended timeframes for implementation and the many parties involved in each pool mean that it is unlikely that the pools will adversely impact each other"
>
> *James Mitchell, Goldman Sachs*

At London CIV, "so far the emphasis has been in equities", but Bilsland says that the pool is now looking at fixed Income. "We are looking to go to market with that in the autumn, and we are also looking at low carbon solutions. In the first instance, we will probably invest in some low carbon index funds as trying to be active in that market is more difficult," he says.

Infrastructure investments

Investment in infrastructure has evolved considerably since 2011, when then-chancellor George Osborne backed the establishment of a UK-wide national infrastructure platform by the Pensions and Lifetime Savings Association (PLSA), which subsequently disintegrated after some founding schemes pulled out.

There have been a number of collaborations such as the Pensions Infrastructure Platform and GLIL, a joint venture set up by Greater Manchester Pension Fund and the London Pension Fund Authority, but it is expected that the concept of a national infrastructure platform will re-emerge when the pools are up and running.

"A number of initiatives around consolidation that we are seeing the LGPS adopt have, at some level, been adopted by the private sector already, especially in areas such as infrastructure, but it may encourage a greater focus on consolidation in more liquid asset classes too and, more broadly, at the administration and governance level also," explains Russell Investments' Adolph.

"The benefits of consolidation, not only from a cost, but governance perspective, have been driving pension fund mergers in the Nordics and the Netherlands for a number of years, so this is not a new phenomenon. But it is one that the private sector in the UK has been slow to adopt, with notable exceptions such as Railpen and the Electricity Supply Pension Scheme to mention but two."

Others also cite RailPen as an example of how pooling has worked well and welcome the appointment of its chief executive Chris Hitchen as chairman of the Borders to Coast Pension Partnership (BCPP), in the expectation that he will drive similar initiatives in the local government sector.

Market impact

The benefits of pooling should also extend beyond the immediate impact of economies of scale on costs. With scale, pension fund trustees will be able to have a far bigger impact on the firms they invest in, which should help improve long-term returns.

In the shorter term, however, there is concern over how such extensive trading activity might impact the market. "There needs to be a degree of co-ordination, with various parties not trying to do the same thing at the same time," says Craig Blackbourn, head of transition management Emea at Northern Trust.

> "We have yet to move funds between managers, or to release a manager, and I think it is then when we will look to utilise transition management"
> *Chris Bilsland, London CIV*

"It will also be important to identify opportunities for crossing between pools. The role of the transition manager is not to generate alpha but to preserve asset value through intelligent execution strategies, and of course part of that role is to avoid information leakage. Authorities have resource constraints and will need services to help navigate these changes and their execution from the project management side."

Consolidation is a well-trodden path in the corporate world with large multinationals setting up pools with proven benefits. "It was evident that there was a huge variation in what local government schemes were paying for the same asset management," says Blackbourn. "There will be tangible cost savings but there will also be administration costs and the costs of getting there."

An additional factor in terms of market impact is that market participants will be expecting these transitions. Buckland adds: "The LGPS is very transparent and everything is being played out in the open, meaning that all market players will be anticipating these not insignificant transitions, and will be looking to position themselves accordingly,"

On the other hand, the timeframes for implementation are long. "We believe that the liquidity challenge may have been overestimated," argues Mitchell. "While there is no doubt that the total trades to execute are large in relation to the market, the extended timeframes for implementation and the many parties involved in each pool mean that it is unlikely that the pools will adversely impact each other, or the market, during the execution phases of their transitions if properly managed. Clearly, cross pool communication should aim to share broad activity detail to guard against this eventuality and more importantly to allow the pools to benefit from any crossing opportunities."

Staying one step ahead

The transition management industry has come a long way in the last few years and developed sophisticated processes to meet evolving needs of institutional investors

PARTICIPANTS

- **Pádraig Floyd,** chair
- **Graham Dixon,** director, Inalytics
- **Peter Loehnert,** global co-head of transition management,BlackRock
- **Artour Samsonov,** head of transition management (Emea), Citi
- **Chris Adolph,** head of transition management (Emea), Russell Investments Implementation Services
- **Cyril Vidal,** co-head of transition management, Goldman Sachs Portfolio Transitions Solution Group
- **Graham Cook,** senior transition manager, portfolio solutions group, Macquarie Europe
- **Craig Blackbourn,** head of transition management (EMEA), Northern Trust
- **Peter Weiner,** head of transition management Americas and Emea, State Street
- **Steve Fenty,** global head of strategy, portfolio solutions group, State Street

Chair: What is the current state of the transition management market?

Peter Loehnert: The transition management industry is flourishing. Old and new clients are using the service and the complexity that has been introduced by regulation, new asset classes and new market structure changes has led to an increased use of transition management.

Chris Adolph: As an industry we've found other avenues to demonstrate our capabilities, and that's helped grow the business. It's that adaptability and flexibility in terms of solutions that we provide that has helped the industry grow.

Cyril Vidal: I'm very happy to see transparency has moved on and the industry is now a more mature industry where clients are benefiting from experience and using best practices.

Graham Dixon: From a client perspective, the industry has improved out of all recognition. There are fewer providers, but in terms of transparency, professionalism, quality of reporting and the extent of supervision both internally and externally, you wouldn't recognise the industry from a few years ago.

Artour Samsonov: The industry is changing. Clients are becoming more sophisticated and therefore more demanding of transition managers. As a result, transition managers have – and still have to – adapt in order to continue to deliver valuable service to clients.

Graham Cook: The FCA thematic review has driven a lot of change and it had really focused people's minds on providers' obligations. It's also sharpened the minds of clients and I find due diligence much deeper and more meaningful. In the future, Mifid is going to significantly change the liquidity profile, and that's something to really bear in mind.

Chair: What must transition managers do over the next few years to support the kind of demand that's in the market?

Adolph: It's more of the same. The landscape has definitely changed in terms of the asset classes people are trading, so we must adapt. We're not product sellers, but looking at clients' challenges and finding solutions. There is an increased use of derivatives for hedging purposes, and I see that continuing as clients have adapted and become more sophisticated. It will be interesting to see what happens with the LGPS in terms of the sophistication of the solutions we've got to come up with. That helps all of us get access to broader resources that we have and showcase the capabilities our firm's each have.

Dixon: Most important is the solution and the strategy – the weighting given to cost and risk estimates and fees has gone down to about 20% in the decision to appoint a transition manager. There are some large challenges that clients present to transition managers, where there isn't an obvious solution and somehow the transition team has got to provide one.

Craig Blackbourn: Investors need somebody to help them navigate through the market, particularly if it's a period of market stress. We've found that transition management is almost non-cyclical, in so far as investors are always looking to hire and fire managers and they need a trusted partner to help them unwind a particular portfolio. The areas where transition managers can add value has grown. It's not just for hiring and firing of managers, but scenarios such as the LGPS restructuring, pension fund mergers, demergers as well as corporates looking to set up pooling mechanisms for their global pension arrangements.

"A transition is now far more complex so the transition manager adds value by coordinating across all the relevant parties"
Craig Blackbourn

Loehnert: As long as we add value, we will be in business. Our biggest competitor is the portfolio manager who attempts to do the transition without a professional transition management framework. But as long as we can cope with more complexity and can deliver better scale, we will be in a very good position. That requires both innovation and ongoing development of ourselves and our solutions.

Vidal: There is a spectrum of complexity that transition events fall under. At one extreme – high complexity – using a transition manager can be a no-brainer and on the other end it can be unnecessary with cost outweighing the expected benefit. Among industry players, we are all targeting the middle ground – transitions with multi-day execution, multi-assets in need of another layer where we can offer the client added value. The challenge here is adapting to an ever-changing market structure and being sure we always have tools available to us that are better than the ones the selected legacy and target asset manager will use. This means lower cost execution, better and broader access to pools of liquidity and superior risk management.

Samsonov: As a broker provider of transition management services, we're focused on quality of execution, but the analytical side is equally important in terms of prudent risk management and optimal trade strategy. That is something transition managers must continue to evolve and use a greater range of products. The structural market changes mean that nowadays market liquidity is generally lower than a decade ago, which creates challenges in large portfolio restructures. Therefore, transition managers must have the sophistication to intimately understand the risk of various asset classes to be able to identify the best way to restructure them for the client.

Steve Fenty: We're seeing that our clients are better able to understand where and when it makes sense to use a transition manager. In the past, clients may have primarily used transition managers for equity restructurings, but are now looking for more solutions and starting to see value in even some of the simpler transitions that might have otherwise been completed by asset managers.

Cook: The key in developing the opportunities is really the focus on being a problem solver and that involves listening to your clients and having much deeper conversations than we used to. We see much less of the plain vanilla single asset class transitions in favour of complicated ones that require you to think differently to how they were approached before. Maybe that's one of the reasons why a number of providers aren't there anymore, because they just don't have that depth.

"I'm thrilled to see the developments in fixed income and the ability of the transition manager to handle thousands of orders in a very short period of time"
Cyril Vidal

Adolph: Some asset managers have strong relationships, and that's sometimes a hard nut to crack. However, most asset managers may see 90% of their volume go through 10-15 counterparties, whereas all of us trading fixed income on the transition side will have 30, 40 or even 50, so it's a very different focus. That's quite a powerful argument and a key strength of transition managers.

Chair: Is there enough due diligence being done and is it of a high enough quality?

Loehnert: We see a lot more interest in due diligence and really deep diving into what actually happens during a transition. This means looking at the systems, meeting the stakeholders, transition managers, traders, and understanding the compliance framework – the entire governance model gets tested.

Vidal: There are a number of specific questions you need to ask, and only a handful of consultants know where to look. Too often people are very interested in elements of due diligence, but lack appreciation and understanding of the full process. This includes speaking with management and reviewing the whole governance activity.

> **Adolph:** Ultimately, an RFP doesn't manage a transition, it's the underlying people that are key. You need to meet the people who are actually going to be managing their events at the coalface. That's a team effort, not just one person sitting in a silo. Getting that co-mingled knowledge is really important.

> **Cook:** We've seen a real sea change, it's moved towards the client being much more interested in seeing whether you do what you say you do.

> **Peter Weiner:** I agree with that, but one question not being asked enough here is how orders are being routed. There's potential for hidden costs driven by the way orders get distributed across venues.

> **Dixon:** Due diligence on transition managers is arguably even more important than on asset managers, because the transition manager can be handling all of the assets at one time. There are three things we focus on: people, systems and fixed income execution, and that really exposes the differences between the transition managers.

> **Samsonov:** The key to due diligence is understanding the details. We have seen greater understanding of the transition management service from the client perspective recently, and therefore an improved quality of questioning, especially around processes and compliance. And while nowadays due diligence requires more resourcing from both the client and transition manager perspectives, we see it as an opportunity for differentiation.

"From a client perspective, the industry has improved out of all recognition"
Graham Dixon

Chair: What's changed about the flows over the last couple of years?

> **Vidal:** I'm thrilled to see the developments in fixed income and the ability of the transition manager to handle thousands of orders in a very short period of time in this asset class. We are now able to implement large passive mandates in two days for a 1,000 line portfolio when this used to take a few weeks – thanks to technology. It's a piece of business that allows us to make a real difference and have a greater impact while helping clients.

> **Blackbourn:** Another aspect is the project management component. A transition is now far more complex so the transition manager adds value by coordinating across all the relevant parties to make sure everything is aligned to mitigate for execution risk, operational risk and

adding value through the transparency and the quality of reporting. An asset manager is not optimised to deal with the complexities of so many participants, nor are their reporting suites geared up towards execution of high volume, high value in a very short period of time.

> **Loehnert:** We see ever increasing complexity of multi-asset class/multi-manager mandates. A transition manager used to be a bit of a jack-of-all-trades and sometimes a master of none. Today, to be successful you need to be a master-of-all-trades and that's what we see being asked more and more with transitions because they are so much more complex.

> **Samsonov:** Clients are becoming much more comfortable with using ETFs, both as investment vehicles and as hedging tools. The US market has led this development and the European market is now following. Over the past year we have worked closely with ETF sponsors on solutions for our client portfolio restructures.

> **Adolph:** We tend to follow marketplace trends, and we follow because that's what our clients are transacting and they seek our expertise in those asset classes.

> **Dixon:** The equity side is not as big as fixed income for us, but it can still be interesting. Asset managers don't always label their portfolios as equity and a diversified growth fund can contain a load of segregated equities along with almost anything. We are also seeing boutique equity managers being very successful so their portfolios grow large until they become unsuccessful and they go into transition. That's a notable characteristic of the marketplace – large concentrated portfolios – that wasn't there five years ago.

"As an industry we've found other avenues to demonstrate our capabilities, and that's helped grow the business"
Chris Adolph

> **Vidal:** Accessing liquidity for these equity small cap portfolios is interesting or challenging and will be especially so at the start of January 2018 with Mifid II. We will all have to adapt where we are routing orders and our analytics to measure the performance post-trade.

Chair: To what extent has technology been one of the major factors that's separated yourselves from the asset managers?

> **Vidal:** While asset managers are measured on alpha generation, transition managers would typically focus on the efficiency of the execution. Transition managers can provide their clients with more comprehensive post-trade reporting and, as a broker, we are at the forefront of what we call 'sight to source liquidity' to provide client with in-depth post-trade venues analysis.

> **Adolph:** Technology's important, especially in terms of the access to liquidity on the fixed

income side, where more electronic trading there has a big impact. As an industry, we have done reporting very well and it's something we all look at improving every year.

Cook: Transition managers have been at the forefront of post-trade reporting and developed things more or less as far as they can go. The big push from clients towards transparency will mean that asset managers will be expected to deliver to a similar level.

Loehnert: Technology is key to deliver the value-add sought by clients. The only way to handle complexity, multi-asset class assignments and today's reporting requirements is through robust and integrated technology. At BlackRock, we are fortunate to leverage custom-made transition tools that are fully integrated with our system.

Fenty: The other important component of transaction cost analysis (TCA) and transparency is that transition managers actually use the information. Just sending TCA to a client is great, but we should be using it to look at the trade itself and offer feedback to our processes.

"Transition managers have been at the forefront of post-trade reporting and developed things more or less as far as they can go"
Graham Cook

Adolph: The TCA analysis in terms of how good the execution was will increase post-Mifid. Equity is well developed, but on fixed income it's fairly embryonic, so what you can provide on the fixed income side in TCA where it's an OTC market, could prove to be a differentiator.

Samsonov: Having a robust operational process is key to successfully managing transition projects and technology sits at the centre of it. Over the years, the transition managers have developed dedicated systems to support project management functions, deliver straight-through-processing and eliminate errors in restructuring client portfolios. Our proprietary technology is a key differentiating factor

Chair: To what extent is the growing defined contribution (DC) pension market offering transition managers new opportunities?

Weiner: The DC market is very mature in the US and we have seen growth over the last five years. DC events tend to be very complex and take a tremendous amount of strategy and planning – often three to four months – just because of the amount of managers that are involved in the glide path and white label funds etc.

Loehnert: We see very large and complex DC transitions in the US, and they have an average volume that we don't see in Europe yet, but the European DC market is also starting to get large enough to warrant transition management. With the new types of complexity, we really have to prepare to ensure we add value. We've been involved in a few landmark UK

DC transitions and they really are very complex and require a lot more skill, system power and awareness of the various fund management vehicles.

Dixon: When a transition manager pulls a lever in a defined benefit (DB) or segregated asset space, something happens. In a DC transition, fingers get crossed that the platform provider or administrator will also do their stuff. There is not the same direct connection with your actions. This is a case of 'watch this space' – some DB schemes have closed and the amount accumulating in DC is now sizeable and growing fast.

Chair: How important to transition managers is the LGPS pooling project?

Adolph: It's probably the biggest change in the UK pension industry, if not ever, certainly in a generation. It's a massive challenge.

"It's very reassuring to see that transition managers are recognised as being vital for the success of the LGPS pooling exercise"
Peter Loehnert

Cook: I wonder if what people are expecting from the LGPS consolidation will actually be as big in the end, as not everybody is pooling fully. As to whether it will revolutionise the transition management business over the next year or so, I think that's probably been slightly overblown.

Loehnert: It's very reassuring to see that transition managers are recognised as being vital for the success of the pooling exercise. Transition management is part of the governance framework that makes this all happen. It shows how far the industry has come.

Samsonov: It is an important change for our industry as a single framework approach across all these formerly different entities will make engagement easier for us. As a client, the pooled entities are becoming more sophisticated as they are developing their own capabilities in terms of analytics and investment decision-making processes, as well as execution dealing desks. Against this background, the way we service these clients in the future will need to change accordingly.

Adolph: For us sitting round the table, the framework is the starting point. It's helping our industry reach a broader group of clientele, many of whom do already use transition managers, but it's a great opportunity to be involved with these big pools of assets.

Chair: To what extent has performance measurement been – and still being – improved? What needs to be done next?

Fenty: Performance is being viewed more closely and clients are focusing more on the post-trade, how the strategy that was communicated to them has been implemented, and looking first at management and then, now more so, at TCA. Overall, clients are more focused on the execution side of transition management.

Dixon: A primary finding from the thematic review was the need for a segregation of duties between the person that has run the project and the person calculating the performance. I can't emphasise how important that is. It cannot be done by the project manager, to remove any temptation to amend the data to generate a false performance number. As for the performance itself, I don't think we're in a bad place. There is a lot of material in those reports and you can overwhelm clients.

More providers are coming into the market to offer third-party measurement and the main users may be the transition managers themselves, because it may prove more convenient to parcel that data up and outsource.

Adolph: How independent is it though, if a transition manager hands off that data but they're actually paying the data provider, in terms of whether you've got the conflict of interest there?

Dixon: The regulator pointed at conflict of interest, senior management oversight and segregation of duties. It is up to each firm to decide how they discharge their obligations to clients.

Vidal: To me, the added value is explaining how the performance has developed, how you compare versus the expected cost that you get through the TCA, and this is where it really requires skills and access to broader tools.

"DC events tend to be very complex and take a tremendous amount of strategy and planning"
Peter Weiner

Cook: The custodian plays a key role here, and most of our clients who are big enough to use a transition manager have a global custodian. If you have the custodian providing directly to the independent performance measurer, as they do with all of their asset managers typically, there's no chance of anything untoward going on. That's a good way to ensure your independence.

Chair: What will the role of consultants be?

Loehnert: Consultants are immensely important because they are ambassadors of transition management and speak the language of the clients. That said, it shouldn't be necessary to have a consultant to engage with the transition industry as we are experienced enough to be able to service clients with or without the help of consultants.

Vidal: A client going into a transition management exercise for the first time should use a consultant with the relevant expertise for hiring a transition manager.

Adolph: I see this as more a UK-centric issue. In parts of Europe and the Middle East, they're not using consultants for managing a transition. In some of the bigger UK pension funds and the bigger plans in Europe and the Middle East they've got the technical knowledge, so they know what they're doing.

Chair: Most parts of the financial services market expect greater regulatory scrutiny, but what do you anticipate and how would you like to see the market develop?

> **Loehnert:** I would like to see the transition management industry continuing to become a vital part of the governance process of any change that happens in portfolio management with clients, and I think we are on a good path there.

> **Samsonov:** The transition management industry has done well in bringing transparency to client portfolio restructures and I think we will see this trend continue, especially as new regulation comes into effect. We should also focus on utilising technology to help improve execution and performance reporting.

"Clients are becoming more sophisticated and therefore more demanding of transition managers"
Artour Samsonov

> **Adolph:** The trust we've engendered from what we've provided over the years to put us at the heart of that decision-making process when clients are looking at the challenges they're facing, is to engage us more beyond what might just be a simple manager change.

> **Vidal:** Every year we see new themes in the industry, we do our best to stay on top of these changes, maintaining a proactive approach. The market has improved transparency and this is something we hope to see continue at the benefit of clients as well as providers. In this ever-changing market environment we continue to reach out to every possible user of transition management and do our best to convince them of the benefits of using our services.

> **Cook:** We're some way down that line now of becoming best practice in a governance framework when making changes and I'd like to see clients have enough confidence in us so they talk to us when they're thinking about doing something, not just the day before they actually want to get it done, because transition managers have a lot to add to their deliberations.

> **Blackbourn:** We've come a long way as an industry from 2011 and over the years we've managed to demonstrate to clients the value-add of our service. It's important we continue that theme, demonstrating to government the value add of our service as we as an industry help the LGPS community embark upon the greatest period of change in its history.

> **Dixon:** I've seen heroic tasks undertaken in the face of publicity, with huge reputational risks for the client; the transition managers have stepped in, taken control, become accountable, and delivered really good results for those clients. Transition managers aren't getting the recognition for what they are able to bring to projects. If that became generally understood, then we'd be in a much better place.

BlackRock

BlackRock was one of the world's first providers of dedicated transition management services since its inception in 1993.

We have built a market leading transition service, carrying out hundreds of assignments every year, among which are some of the largest and most complex transitions in global financial markets.

Our 50+ transition professionals are located in London, San Francisco, New York, Hong Kong, Sydney and Tokyo, and service clients across all time zones. Our team is fully dedicated to the transition service and leverages the many benefits of the wider BlackRock platform.

As an asset manager and fiduciary, BlackRock's business model is fully aligned with the objectives of our clients. BlackRock focuses on providing tailored transition solutions to meet our clients' needs and requirements.

Our clients directly benefit from the scale and size of BlackRock's trading platform, the pricing power it achieves and the experience of our traders across all asset classes.

Every transition is executed on BlackRock's world-leading portfolio and risk management platform, Aladdin, designed to handle the most complex transition.

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BLACKROCK®

Cantor Fitzgerald Portfolio Solutions

Cantor Fitzgerald Portfolio Solutions is a leader in multi-asset class portfolio transition management. Leveraging an advanced technology capability, as well as expertise in both equities and fixed income, our experienced team has managed some of the largest and most complex portfolio transitions in the industry. Our highly regarded approach includes agency crossing and trade execution backed by end-to-end transparency for all asset classes.

A history of innovation

Founded in 1945, Cantor Fitzgerald is an innovative global financial services firm. For over 70 years, we have pioneered new markets and led technological change in the industry.

Cantor is recognised for its strength in equity and fixed income markets, its global distribution model as well as its expanding presence in investment banking, prime brokerage and commercial real estate.

Having started as a bond brokerage, Cantor Fitzgerald remains one of 23 primary dealers authorised to trade US government securities with The Federal Reserve Bank of New York.

Global outlook

Cantor has trading desks in all of the world's major financial centres and offices in over 30 international locations. Together with our affiliates, we employ more than 10,000 people.

Cantor's major business areas include equities, fixed income and currencies, investment banking, prime services and commercial real estate.

For more information, please visit www.cantor.com.

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CitiTM

Citi Transition Management (CitiTM) offers portfolio solutions to asset owners, including pension funds, insurance companies, asset managers, sovereign wealth funds and foundations.

With offices in New York, London and Sydney, our teams deliver 24-hour coverage. We are a multi-asset business specialising in publicly-traded asset classes (equities and bonds) with capabilities to analyse less liquid assets (such as loan portfolios).

We work in partnership with clients to understand their goals and customise solutions specifically for their needs.

CitiTM is a full service portfolio solutions provider rather than simply a classic TM. Therefore, we excel beyond traditional portfolio restructures and also cover portfolio liquidations, hedging, portfolio overlay management, interim management and portfolio optimisations.

Our clients benefit from our analytical and operational expertise gained over the past 20 years, as well as the market-leading access to liquidity and low execution costs due to Citi's local presence in over 80 markets globally.

Given that almost all trading is done through Citi's own infrastructure, we offer full execution transparency which is an important element of our post-trade reporting.

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Goldman Sachs

Goldman Sachs has been a provider of transition management services as a part of its broader pensions and insurance franchise for over 40 years. The business occupies a key component of the solutions suite required by our clients as they evolve and manage their asset and liability challenges. The firm established a dedicated transition management team in London in 2000 and has been an active provider of services ever since under a 'broker model'.

Our transition management services are provided through a select group of highly experienced individuals who, while segregated from our trading floors, are able to directly leverage the expertise of our firm, across the globe and all asset classes. Structuring the team in this way, with a single degree of separation between the client and the market, provides an informed and adaptable platform at all stages in the process.

Goldman Sachs' transition team has access to a wide range of sources of liquidity, externally with access to multi-broker and internally through our trading desks and the support of our sales franchise. This unrivalled set-up gives us the ability to design and implement strategies that best fit our client's risk and cost objectives

Our team has been at the forefront of product innovation, designing best-in-class risk management techniques to solve for transition needs or leveraging on Goldman Sachs infrastructure for providing post-trade analytics and increased transparency in executions

Our experience in the recent past has seen a rise in the number of multiple beneficial owner transitions, which bring to the table many additional challenges in how one considers the impact to each beneficial owner in the implementation phase and whether this is the most cost effective route for them, both individually and in aggregate.

Often the best solution for the collective may not be the best solution for all of the individuals. Striking a practical balance between the one and the many to achieve the most cost effective transition plan is a challenge that we expect to face more and more often as the drive to achieve economies of scale leads to much more collaboration in the way assets are administered.


Cyril Vidal

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Inalytics

Inalytics is the global market leader at analysing investment decisions and providing clear insight. For over 15 years we have also provided transition management advisory services for clients who are transitioning from one structure to another. The need for independent scrutiny in the transitions industry has never been more acute. Inalytics reviews and verifies the actions of an appointed transition manager to ensure that no mistakes have been made and that everything has been undertaken in accordance with the client's wishes.

Our clients have used our analysis and reporting to hold their transition managers to account for their decisions and occasionally to recover fees or losses. We ensure a level playing field between asset owners and transition managers through transparency and accountability.

Our unique approach ensures we:
- **Independently measure transition managers and analyse their track records**
- **Employ individuals with direct experience of being a transition manager**

We have advised governments, public funds (including UK Local Authorities), corporate funds, endowment funds, insurance companies and sovereign wealth funds.

The UK Government appointed Inalytics to assist in the realisation of Royal Mail Pension Plan assets. At £28bn this was one of the largest and most complex transitions ever undertaken. We were instrumental in its success and generating significant cost savings for the UK taxpayer.

We acted as the specialist transition advisor to the Pension Protection Fund for transactions totalling in excess of £7bn including planning, transition manager panel selection, monitoring and evaluation of transition managers.

A major wealth management firm appointed Inalytics to build a robust process for selecting transition managers, monitoring and evaluation of the projects with a total value in excess of £23bn.

Our appointment to investigate the charging anomalies at a global transition management provider resulted in the provider refunding clients millions of pounds and subsequent investigations by regulators and the authorities.

We worked with a global insurance client to move £90bn of assets from multiple legal entities and tax statuses, without incident. And helped a UK bank monitor and evaluate each transition event for pension funds worth £43bn. The Inalytics team has extensive experience in transition management led by Graham Dixon who was involved in the transition project prompted by UK government's decision to bring Equitas into existence (£18bn) to rescue the Lloyds insurance market. He was also key in the Electricity Pension Fund segregation brought about by the Electricity Act.

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INALYTICS

Northern Trust Transition Management

Northern Trust Transition Management combines risk mitigation and robust project management along with global trading expertise (with trading desks in Chicago, London and Sydney) to help clients navigate the process of change and implement large and complex portfolio changes – all with ease and confidence.

With 30 years of offering transition management services to our clients, our approach is consultative and underpinned by four key fundamentals:

- **Customised trading strategies which are built around the client portfolio and leverage our full capital markets solutions, including agent-only global execution in equity and fixed income, supported by best of breed technology and intellectual capital**
- **Skilled, robust and fully auditable project management expertise to support the transition event**
- **Expert risk and cost minimisation techniques help to mitigate potential exposure, execution, operational and process risks and associated expenses**
- **Clear and comprehensive transparent reporting at all stages of the transition including detailing the estimate of the event cost as well as the actual costs post-event.**

Along with leveraging the heritage, strength, technology and innovation of Northern Trust, we also provide clients with solutions from across our Capital Markets business.

These strategies for success are designed to enhance performance, increase liquidity, manage exposure and mitigate risk and reduce costs all while providing the governance and transparency our clients have come to expect while trading in global markets.

Craig Blackbourn
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CELEBRATING 30 YEARS
TRANSITION MANAGEMENT
NORTHERN TRUST CAPITAL MARKETS

Macquarie

Macquarie portfolio solutions is a global provider of transition and related services based in London, New York and Sydney. Our global highly experienced transition team leverage technology to offer clients innovative transition solutions.

Macquarie's proprietary platform, PILOT, takes portfolio solutions system architecture to a new level. Internally developed by experienced transition managers, PILOT is an example of Macquarie's enterprising approach.

Macquarie sees an efficient transition as one where the transition manager utilises technology and the experience of the global team to minimise explicit and implicit costs. We work with our clients as partners, with communication at each stage of the transition. We do not expect your transition to fit a predefined process but build a transition process around your needs and priorities.

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MACQUARIE

Russell Investments

Established in 1936, Russell Investments provides investment services and asset management to institutional and individual investors across Europe. Transition management (TM) is a core capability. We have been developing our comprehensive approach to TM for over 30 years, working closely with some of the largest and most sophisticated institutional clients in the world.

Cost minimisation

Commissions are often synonymous with cost, however managing 'opportunity cost' is the key to minimising total cost. We therefore work to add value for clients with our application of short-term risk management techniques to reduce unwanted opportunity costs, while reducing transition related cost. Our ability to manage market impact has been the driving force behind keeping actual outcomes in line with expectations.*

We believe that our client-centric fiduciary model has been key to our success. It is focused on delivering the best performance outcomes for clients within a transparent fee structure. This combined with our award-winning trading capabilities and experienced, global team of dedicated specialists, helps to ensure we are a trustworthy TM partner.

Best execution

Demonstrating 'best execution' using third party sources is fundamental to providing transparency, especially in a post-MiFID II world. For equites, Elkins McSherry measure the quality of our trade execution. We have been included in their Global Equity Universe since 2010 and have consistently ranked in the top of their universe of brokers.

Sourcing liquidity

The ability to source liquidity from a multitude of dealers and venues results in significant cost savings for our transition clients. Our ability to transact in corporate bond markets with the use of execution data compiled by MarketAxess evidences this. We consistently achieve greater positive savings on secondary market executions measured in TRACE. Over the last five years figures compiled from MarketAxess show that, on average, Russell Investments has exceeded the average execution quality on TRACE 83% of the time (compared to only 58% of the time by the top 20 asset managers in their universe).

Award winning global excellence

Russell Investments has consistently been recognised globally for excellence in transition management, including being named Transition Management Firm of the Year in 2016 by Pensions Age and Europe Pensions.

** Source: Russell Investments, over 74% of all 2-sided transition events over the last five years were within 1 standard deviation.*
Past performance should not be taken as a guide to future performance.

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Russell Investments

State Street Transition Management

State Street Portfolio Solutions supports investors in restructuring portfolios and managing risk. We offer execution, transition management and exposure management solutions to asset owners and investment managers globally.

We collaborate with our clients to understand their specific investment objectives and develop customised solutions. These solutions include portfolio rebalances, liquidations, plan restructurings, overlay and interim management and portfolio optimisations.

At State Street, we believe that value is created and preserved through access. Our fully independent, end-to-end agency transition service gives our customers access to perspective and expertise, technology, liquidity and transparency.

We deliver perspective and expertise through a deeply tenured transition team, which has successfully completed transitions for more than two decades. We also have a dedicated Defined Contribution and Complex Deal Team focused on solutions for an increasing set of nuanced challenges in today's marketplace.

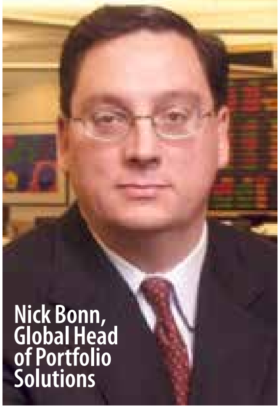
Our dedicated strategy team analyses risk; develops optimal trading, hedging and exposure management solutions; and delivers information that supports better decision-making.

Our clients have access to liquidity across global agency trading desks, each with multi-asset capabilities and local expertise. These capabilities span equities, fixed income, foreign exchange and exchange-traded derivatives.

Information is key to understanding and managing risk. That's why we provide full transparency through a range of reporting available before, during and after each event.

We deploy a suite of proprietary and market-leading third-party technologies, which collectively create an environment that fosters risk management and access to liquidity.

Most important, we recognise the value of long-term, trust-based partnerships; these are the foundation of our Portfolio Solutions offering.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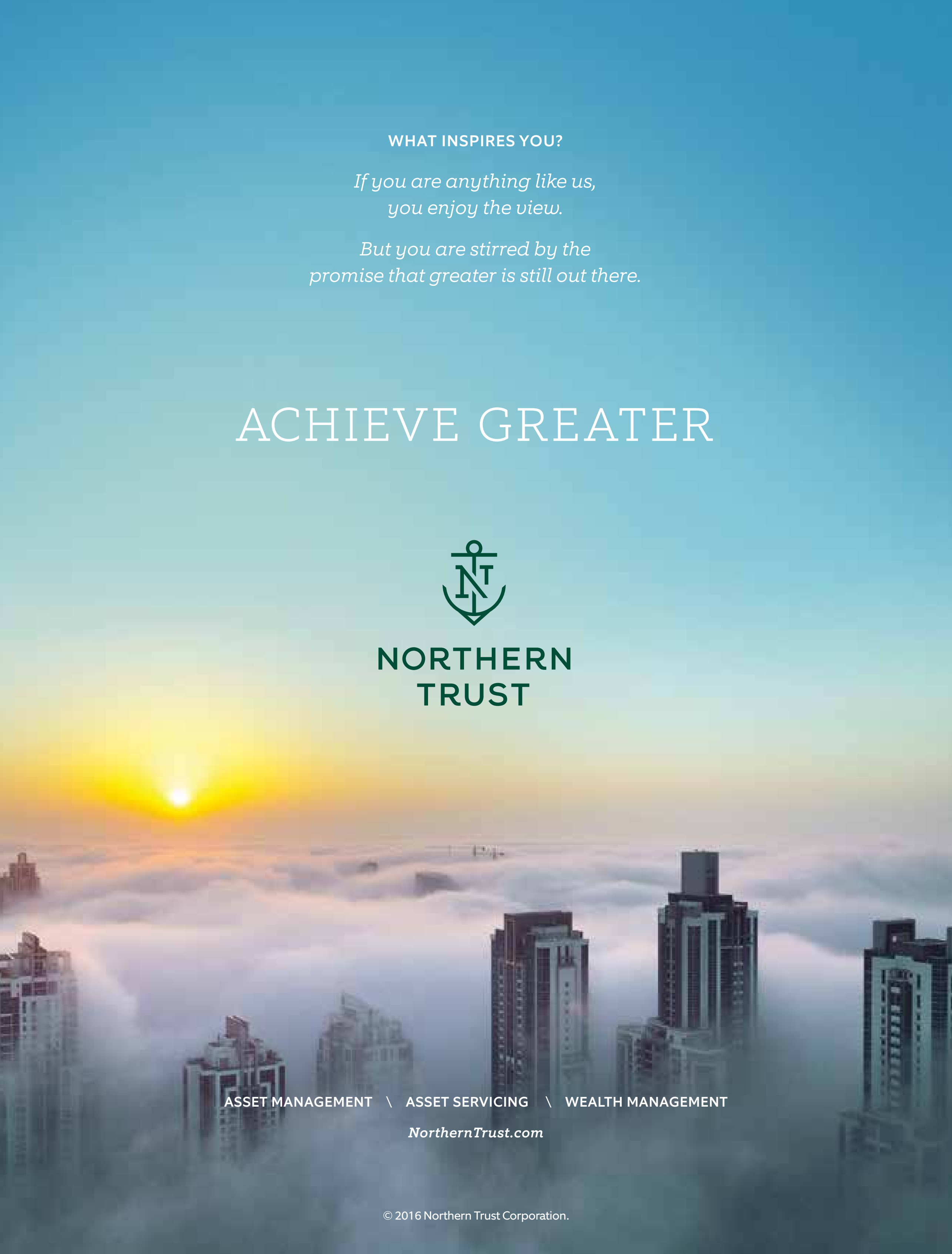
WHAT INSPIRES YOU?
If you are anything like us, you enjoy the view.
But you are stirred by the promise that greater is still out there.
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