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Transition Management Guide 2020/21

Covid-19

Experts reflect on the performance of the transition management industry

ANALYSIS

Driving value from the data generated during a transition

EXTRACTING VALUE

Are clients guilty of focusing on direct cost?

+ MIND THE GAP

Solutions that bridge the gap between managers

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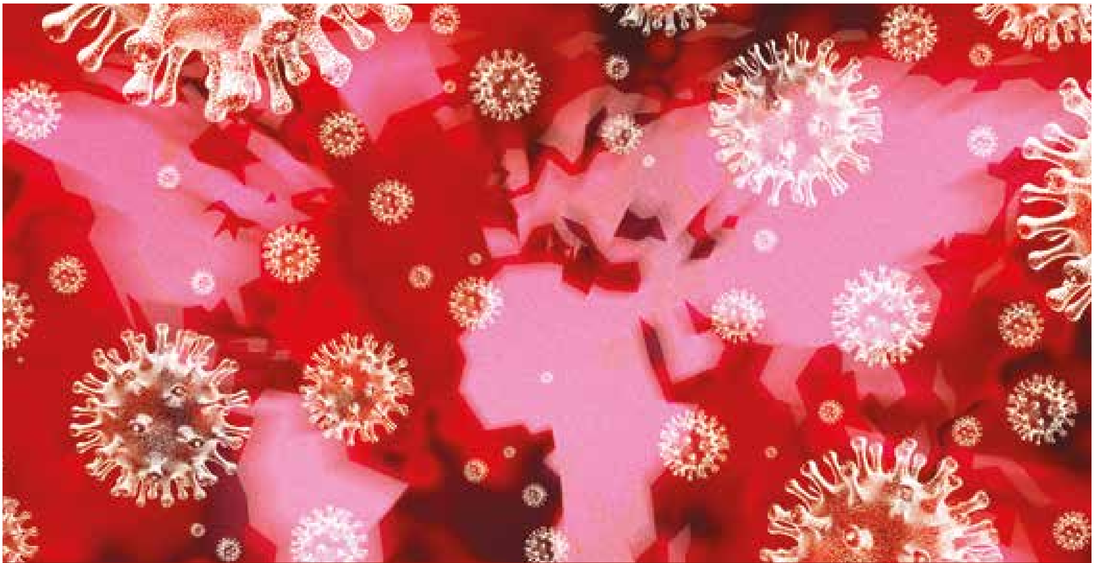


Covid continuity

In this most extraordinary of years we consider how the disruption caused by coronavirus has affected the transition management industry and the extent to which the changes we have seen will continue into 2021 and beyond.

In common with the other transition management experts we spoke to, David McPhillips, head of transition management sales, EMEA at Northern Trust says the industry has adjusted well to the pandemic environment.

"November was the busiest month for the last decade or so for the European based team," he says. "We saw a bit of a let up in March/April but since then - whether it is clients or managers that we are interacting with on transitions or the custodians we work with - it has largely been business as usual and it is impressive to see how everyone has adapted to the situation."

Looking ahead, McPhillips says that although video conferencing has been a decent substitute for face-to-face interaction, it has its limitations. "There is a professional element of sitting opposite a client at a meeting table and even from a personal perspective, the first ten or fifteen minutes of a meeting with a client on site is more of a catch up and that is an important part of human nature."

Having communication channels that are robust has been incredibly important. "We had full access to remote working and we transitioned to a remote environment seamlessly," says Artour Samsonov, head of transition management EMEA at Citi.

He suggests that some return to physical

"There is a professional element of sitting opposite a client at a meeting table and even from a personal perspective, the first ten or fifteen minutes of a meeting with a client on site is more of a catch up and that is an important part of human nature."

- David McPhillips, head of transition management sales, EMEA at Northern Trust

interaction is inevitable but will be more balanced. "It will be more about practical implications," says Samsonov. "There will be more focus on cost management and the environmental impact. Flying internationally for one client meeting is increasingly seen as extravagant and unnecessary."

The response to the coronavirus crisis has been positive in terms of the amount of disruption caused according to Neil Miller, assistant director transitions at Inalytics.

"Transition managers are used to working from home from time to time so rolling it out full time has been successful, especially as it was all done very quickly," he says. "There was a lot of nervousness and concern as to whether IT systems would hold up but companies were forced to quickly put a lot of improvements in place. Since March we have seen continuous transitions and we have had no concerns regarding the transition managers we deal with."

Graham Dixon, director transitions at Inalytics notes that fixed income credit trading was a problem in March/April but that there were solutions that target managers and clients could go for to make sure they were safe.

"I think one of the lessons learned is that in terms of lead times and planning, people need to start planning earlier than they might like to," adds Miller. "Custodians tend to be quite spread out globally and have their day jobs to do so they see transitions as a bit of an add-on that were easier to cope with when they were in the office. We have seen with custodians that a little bit of extra lead time seems to help them plan and resource accordingly so they can accommodate transitions on top of what they need to do for their day jobs."

The new way of working has undoubted benefits in terms of manager travel costs and the associated impact on the environment. However, Miller says it is important not to lose sight of the fact that the office environment is still important to many people. "For young people coming into the world of work who want to learn and grow, they are not going to do that by sitting in on Zoom meetings," he adds.

Dixon does not expect a return to previous

practices. "The office will be part time - what we have proved in the transition world is that clients, advisors and everyone else involved in a transition can work remotely," he says. "We may not have known this in the beginning but we know it now and it has not led to increased risk or errors."

Clients probably appreciate the amount of communication that goes into an event even more than they did pre-coronavirus according to Chris Adolph, director of customised portfolio solutions EMEA at Russell Investments.

"When volatility is low and you don't have large swings in asset classes, outcomes are more predictable," he explains. "During the first 3-6 months of the pandemic the increase in volatility led to not only increased estimated costs, but in a number of cases materially wider 'ranges' around those costs, so there was a greater level of engagement with clients to manage expectations. The skills we have very much came to the fore and I think clients appreciated that."

Adolph reckons a number of the changes we have seen this year could well become more permanent. "I don't think we will go back to teams all gathered together in an office at the same time," he says. "Most people are comfortable working from home and we have the systems and processes to manage it effectively. We have found innovative ways to get in front of our clients and engage with them and I think that has helped us all."

The disruption caused by coronavirus has affected many clients to a greater extent than their transition managers suggests Paul McGee, Head of portfolio solutions, EMEA at Macquarie.

"For pension schemes to take decisions, they typically need to physically convene their investment committees," he explains. "While we didn't see transitions cease, we did notice some delays as clients got to grips with new logistical challenges. Of the transitions that did proceed during the heightened volatility, we observed generally longer lead times and more go/no-go check points in the decision making process as prevailing market conditions were a significant factor."

"Covid may trigger clients to assess their managers more closely in terms of their performance over the last 12 months, which could cause a spike in manager changes in the near future."

At the onset of the pandemic, clients (as they have previously done in times of stress and volatility in the market) took a step back and looked at their overall portfolio to assess the moves they were planning observes Daniel Morgan, senior managing director, global head of agency trading, transition management and outsourced trading at State Street.

"There was a healthy pause as asset owners thought about everything that lay ahead of them - planned or unplanned - and entered a period of reassessment," he says. "Gradually through the summer

"Covid may trigger clients to assess their managers more closely in terms of their performance over the last 12 months, which could cause a spike in manager changes in the near future."

- Paul McGee, head of transition management at Macquarie in EMEA

CASE STUDY:

Macquarie undertook a complex global equity transition in a KVG structure, which required simultaneous trading in seven different custody accounts, for Universal-Investment. The AUM of in-scope assets amounted to €2.6 billion, requiring €7.9 billion of equity, FX and futures trading to complete the project in a period of heightened market volatility due to the coronavirus pandemic.

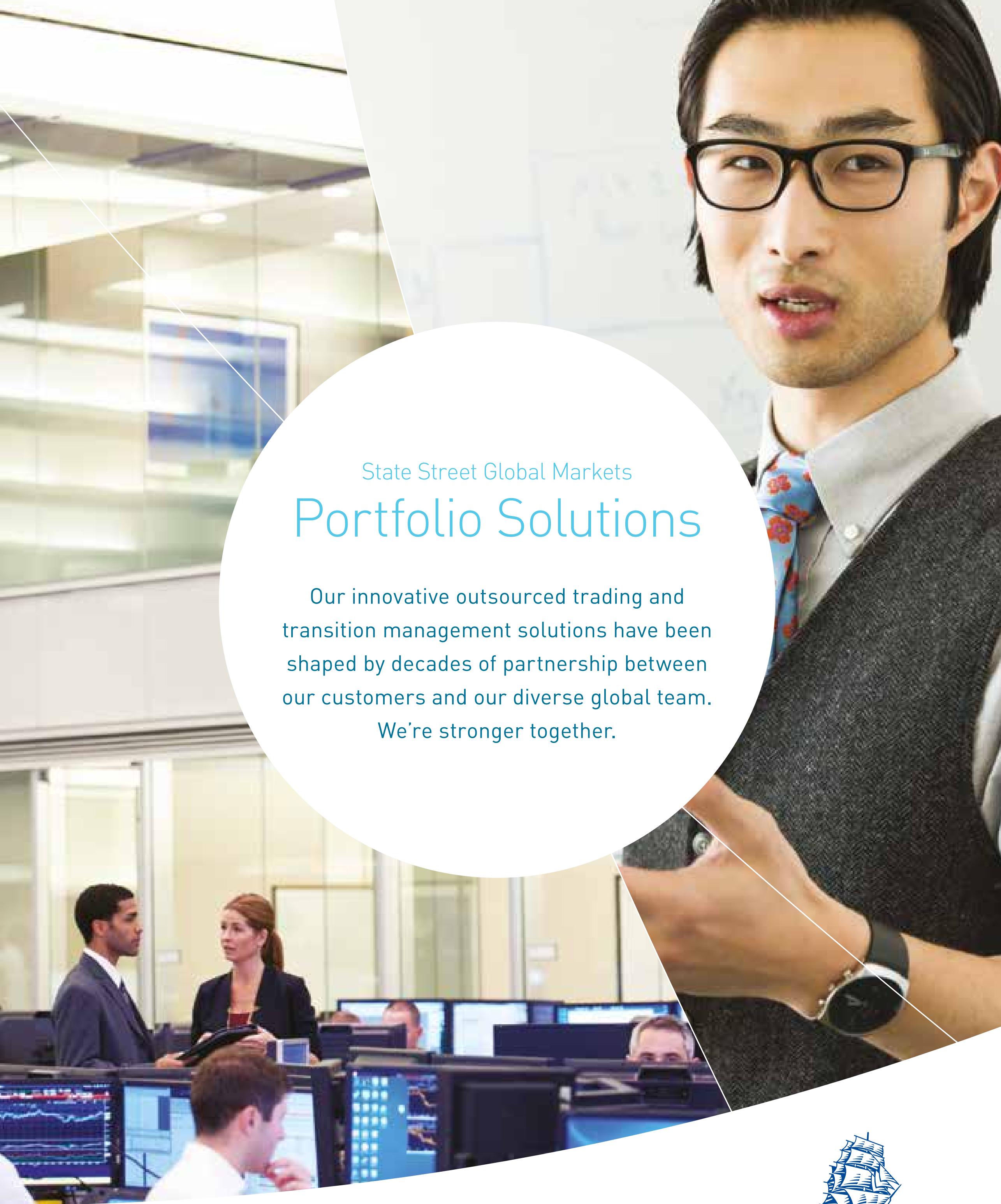
Despite the challenging market conditions over the four week trading period all stakeholders were pleased with the transition outcome.

The event was complex in nature from both a trading and operational perspective due to the number of segments involved. The implementation strategy used exchange traded futures to mitigate market risk whilst executing nearly 7,300 global equity trades and managing associated FX exposure.

From an operational perspective trades were processed across seven custody accounts with cash flows monitored for each and balances transferred accordingly to meet settlement. Dual swifts and reporting were provided to the client for each of the accounts on a daily basis.

In addition, Macquarie worked closely with the underlying client's overlay manager to ensure that a seamless hedging strategy was implemented during the transition.

"Out of our pool of transition management partners, Macquarie was able to win this challenging mandate through a sophisticated trading strategy and competitive fees," says Thomas Casper, head of portfolio management services at Universal-Investment in Frankfurt. "The implementation was carried out in a professional and targeted manner, with comprehensive and transparent reporting throughout and resulting in a very good result for the client."


State Street Global Markets
Portfolio Solutions
Our innovative outsourced trading and transition management solutions have been shaped by decades of partnership between our customers and our diverse global team. We're stronger together.

“In a period of crisis, transition managers can help through introducing liquidity into portfolios, the ability to assist with overlays and helping to manage exposure and understanding at what point there might be entry times and greater liquidity.”

- Michael Putica, head of sales for portfolio solutions Americas at State Street

and certainly at the beginning of Q4 they were consulting with their boards and their investment advisors and really starting to get back on track and sort out their short, medium and long term planning for their portfolios.”

There is still a question around when to complete some events and there are few indicators as to when we will have low volatility and optimum times of trade, so there is a lot of thinking about when to have events or if they should be deferred even at this point adds Michael Putica, head of sales for portfolio solutions Americas at State Street.

“There has been more transitioning this year than in previous years but there are definitely people out there waiting for a good entry point,” he says. “We are gathering as much information as we can and some of it is definite (such as central bank announcements) and some of it is not, for example the timing and efficacy of the vaccine.”

Putica notes that going into the coronavirus crisis, asset owners were already thinking about their asset allocations and equities exposures.

“From some of our own research we can look at the amount of cash that sits across the custodial holdings and we could see some of those holdings were quite high going into Covid,” he says. “In terms of being prepared asset owners did a good job in terms of the defensive use of liquidity in portfolios. That defensive use also comes in where you have got to continue to undertake participant payments and outflows that might be occurring in defined benefit plans and then maybe pivot.”

Putica says he has spoken to a number of clients who saw their liquidity value fall down over time because they were in a ten year bull market and effectively harvesting those gains, the capital growth they had achieved and just shaving those off to keep their asset rotation in check.

“Those clients needed to quickly make a change because equity was down around 30% at the time and they couldn’t continue to sell equities to pay out participant cash flow requirements,” he continues. “They needed to quickly pivot into income allocations in their portfolios, but if they did have cash they could also consider using it for offensive tactical allocations.”

“In a period of crisis, transition managers can help through introducing liquidity into portfolios, the ability to assist with overlays and helping to manage exposure and understanding at what point there might be entry times and greater liquidity.”

Business continuity is an established component of the due diligence clients perform to assess the capabilities of a transition manager. However, Cyril Vidal, head of portfolio transition solutions at Goldman Sachs observes that prior to this year he could only think of one instance of a business continuity plan being implemented – and that was during the big freeze of 2010.

“Now we can all see that business

continuity planning is a very important issue to address in an RFP because if you are in the middle of an event you want to make sure that risks are adequately managed, especially as the timing of any BCP would usually coincide with increased market volatility," he says.

"In a BCP situation, you want to make sure that your transition manager has full access to systems, execution desks and all the operational support".

Keeping clients informed has been vital during the coronavirus crisis period. Goldman Sachs increased the frequency of its communication and was adjusting cost estimates dynamically to ensure clients fully understood the implications of changing market conditions for their event.

Most interactions with clients are now done via video conference.

"We often have a lot of information to share in our reports and having the ability to share screens during calls has made our interaction with clients more interactive and interesting," says Vidal. "Transition management is a process that involves a lot of teams including operations, settlement and trading and interacting with our teams via video conferencing is a major improvement on calling or emailing."

Andy Gilbert, EMEA head of business development within transition management at BlackRock suggests that although clients are not going to get back to the old way of doing things immediately, managers need to be there for them should they wish to.

"You can't beat face-to-face meetings and the connectivity you have with someone when you meet them across the table," he adds. "People are remarkably resilient in making things work but I do think there will come a time when people start getting back to how things were done in the past. We communicate in whatever way suits the client, but I do think that clients, consultants and the industry are missing that personal interaction."

Gilbert says transition management firms have become more aware of employees that might be struggling working from home or who don't want to go back to the office full time. "I think there has been a period of reflection and of looking into the welfare of employees, which is refreshing," he adds. ■

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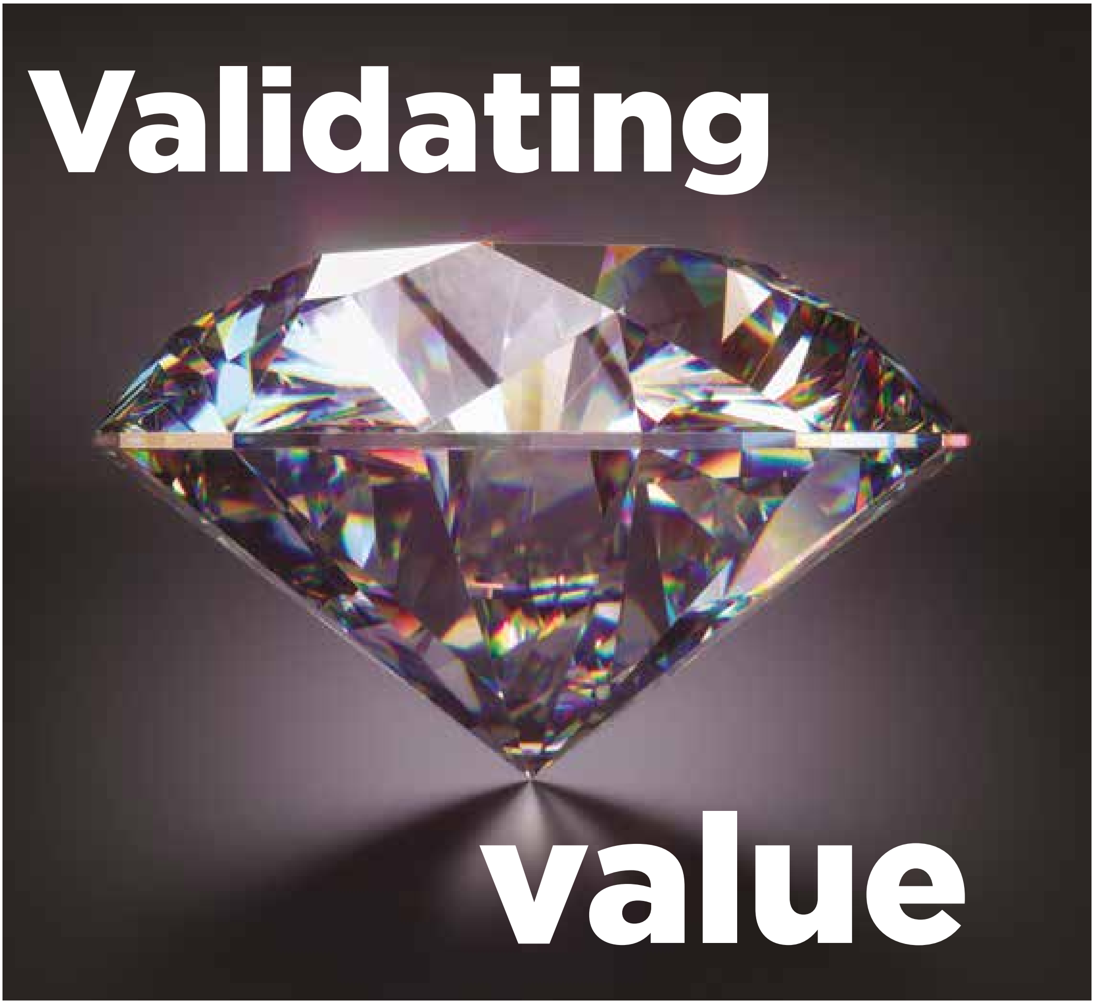
- Cyril Vidal, head of portfolio transition solutions at Goldman Sachs

Validating value



Value means different things to different clients. Are clients guilty of focusing on direct costs rather than overall costs of a transition – and could managers do more to show clients how they add value and/or be more transparent in their pricing?

A transition manager needs to be able to explain the actual cost of performance of a transition versus the estimated cost and explain the source of any variations, observes Andy Gilbert, EMEA head of business development within transition management at BlackRock.

"When you start looking at those variants, you come into the sphere of transaction cost analysis and taking a bottom up approach, looking at the contribution to costs and risks of each individual stock," he says. "However, the transition manager should be doing that already. If you want to understand the major contributors to cost to risk, you need to do that at an underlying trade level and that should be part of the output and analytics both pre-transition and post event."

Gilbert says the client should be prepared for all performance outcomes from the planning stages. "It is incumbent on the transition manager to explain clearly all potential sources of costs, how they may arise and all potential outcomes."

He suggests the industry has come a long way when it comes to being clear about costs. "We always want to be in that education mode, making sure clients understand all the sources of costs. It is a question of set performance and preserving asset performance, because ultimately costs are the crystallisation of the risks you are taking. We are always talking about implementation shortfall so we are already quite wedded to looking at all aspects of costs."

According to Graham Dixon, director transitions at Inalytics, clients are only too aware that lower fee transitions don't always produce lower cost results.

"In our experience, where clients apply a weight to explicit direct costs, that weighting is usually between 20 and 25% so it is by no means the determinant as to who gets appointed," he says. "Far more important is the manager's track record on similar transitions, the strategy they are putting forward and the total costs and total risks. Clients are looking for managers that can demonstrate their overall credentials for the task."

Dixon accepts that there are challenges around transparency for transition managers. "To suggest in your post-trade report that you have added value doesn't feel right - it feels much better to have the client or the advisor run the numbers to

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- Graham Dixon, director transitions at Inalytics

highlight the value the transition manager has brought to the table," he says.

Transaction cost analysis has a part to play but clients have to understand the context suggests David Edgar, director transitions at Inalytics.

"A lot of these transitions are so big and have so many moving parts that a manager has literally spent months getting it ready," he says. "By the time the particular trade comes along it can almost be secondary to what has gone before. You have to trade on those days because everything is dependent on it and one is to an extent at the mercy of what is happening on the market on that particular day. Transaction cost analysis is just one component of something that is very complex."

"We have seen clients who use a generic tender process for transition management projects that may not deliver the best outcome," says Artour Samsonov, head of transition management EMEA at Citi. "When clients are constrained by such structures they need to be mindful of asking additional questions to gain transparency of assumptions on which responses are based."

Estimated costs are not guaranteed, so picking a manager on the basis of the lowest estimated cost is not a prudent approach as the actual cost might be considerably higher. This is where consultants play a role in public tenders, applying judgement and sensibility checks to the process.

Traditional conversations around the use of transaction cost analysis (TCA) refer to individual security executions, explains Samsonov.

"Transition management is unique in that you look at costs from the portfolio perspective and when you are trading a large portfolio, mismanagement of risk can add millions in unnecessary costs," he says. "Therefore saving cents on execution is less critical relative to making sure that the overall transition strategy is sound and was implemented correctly. More innovation is required in this area to find a way of applying TCA to transition management in a way that makes sense and allows managers to demonstrate to clients that portfolio risks were managed efficiently."

One of the key roles of the transition manager is establish the client's expectations at the outset and how the event will be evaluated.

"Cost is of course important, but most clients want to feel the transition has been well managed, that the underlying managers are satisfied with the interaction they have had, the custodian is happy because everything settled on time, and that there has been good communication with all stakeholders," says Chris Adolph, director of customised portfolio solutions EMEA at Russell Investments.

"One widely-used definition of success is if – regardless of whether the event came in on its mean cost or not – nothing came as a surprise. This means we have explained and communicated everything that happened, as it happened and not just in the final report."

This is particularly important for defined contribution events, which tend to be more complex in terms of the number of stakeholders involved, or where operational considerations can carry more weight than investment considerations.

"Making sure all parties get their trade details or valuations on time and hitting the various cut-offs can be far more important than a marginal difference in overall costs," adds Adolph.

According to Cyril Vidal, head of portfolio transition solutions at Goldman Sachs, pricing is becoming ever more transparent. The challenge for the client is to be sure that when they are raising quotes, the various providers can make a like-for-like comparison.

"You can have a different cost versus risk profile depending on the urgency of execution you choose, which is why it is important to be able to show the different scenarios," he explains. "There are also other nuances. For example, the start time for your execution that will affect the regional risk in your transition."

"We can now provide much more granular analysis and clearly show the impact on the

"You can have a different cost versus risk profile depending on the urgency of execution you choose, which is why it is important to be able to show the different scenarios."

- Cyril Vidal, head of portfolio transition solutions at Goldman Sachs cost estimate of all the assumptions being made."

When it comes to assessing costs, it is important that clients have transition managers working to the same assumptions and with the same information, for example around the timing of the event and assumed participation rates.

"Clients should focus on the experience that transition manager brings - how well-versed are they in managing this type of event, how they propose to manage the risks involved, who will be the core team, and what is their experience," says Paul McGee, Head of portfolio solutions, EMEA at Macquarie.

"We still see some clients only focused on explicit costs (namely commissions) when in fact there are many other factors to consider, such as how a provider is going to manage risks; what trading strategy they are proposing to deploy, and how their costs outcomes in the past compare to their estimates for similar events."

Where clients are deciding on managers purely on a cost basis it is up to the industry to provide education on the other factors they should be considering.

"Transparent and comprehensive reporting is critical in giving clients comfort that they made the right decision," adds McGee. "As opposed to the manager saying, 'this went well, costs were in line, haven't we done a good job', transition managers ought to be able to offer clients an independent third party review as standard."

Unless a client was undertaking a large number of different transitions (which very few do) it would be unreasonable to expect them to have a full understanding of how to determine which proposal offers the best value.

"In this scenario they might be inclined go with the cheapest, so our role as advisors is to help them to determine which one best suits their needs," explains Steve Webster, director of transition & trading solutions at MJ Hudson.

There is an acknowledgement that managers are attempting to deliver the

"Cost is of course important, but most clients want to feel the transition has been well managed, that the underlying managers are satisfied with the interaction they have had, the custodian is happy because everything settled on time, and that there has been good communication with all stakeholders."

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best solution for the client at the lowest cost while running a commercial business, so there is always a balancing act between what is appropriate and what is commercial.

But more importantly, there are difficulties in determining the real value add component. This can be based on a number of different parameters, such as the asset class or specific constraints the client might have.

“As an example, if you have an environment which allows complex and sophisticated hedging then the transition manager can actively manage high risk events, reducing the variability of outcomes,” says Webster. “Whereas if you are constrained as to where and how you can transition, many value add solutions may not be available and transitions may be subject to comparatively higher risks and therefore greater costs.”

Public sector pension funds are always under pressure to prove they are getting best value for money and this can sometimes make it difficult to justify the choice of an optimal transition solution over one which might be cheaper.

“This need to demonstrate value is the reason why we are seeing more clients choosing to work with advisors and also because the transition managers cannot offer completely unconflicted advice,” says Webster.

“We also have to accept that transition managers do a hugely valuable job for not a lot of money generally speaking. The problem is that they often struggle to articulate where that value add component is coming from, often because it is quite a technical point. It is difficult to get a trustee or a pension fund manager to really understand the technicalities, but they can be hugely important as they reveal the difference in value add proposition and likely outcome.”

Webster adds that the role of the adviser is to balance criticism of managers' poor performance with clearly articulated praise for value add.

"Bad news stories often make better headlines, but it is equally important to be able to independently demonstrate where savings were made," he says. "Sometimes clients are just looking for validation, but most of the time we are assessing what is the best transition solution and even whether a client actually needs a transition manager. It is important to consider all options when planning for transition as some of the most cost effective options may not be the most obvious."

One of the enduring questions around transition management is the extent to which clients are guilty of focusing on direct costs rather than the overall cost of a transition.

"If you go back 20 or even ten years there was more of a focus on straight up commissions," says Michael Putica, head of sales for portfolio solutions Americas at State Street. "The reality is that most transition managers are pretty sophisticated, they have experience in systems and models and what clients see has improved in leaps and bounds. As fiduciaries they will look to get as much value as possible and use the competitive landscape to get the best pricing they can."

Where clients have an existing engagement they have a lot of trust and there might be some additional elements to what the manager can bring, in which case they may overlook some of the pricing difference.

"Clients are also pretty astute in determining when managers may be seeking trying to 'buy' a transition by lowballing without having experience with that client and with questionable motives," adds Putica. "Most clients are used to working with transition managers and the ones they trust they will stick with. You certainly see new entrants that will come in and try to push pricing down to a low level to gain market share, but it is difficult to break in on this basis and maintain credibility."

Depending on the level of activity a client has they may only look at their transition management business a couple of times a year or even only once every two or three years, so with some clients it is almost a re-education for each transaction.

That is the view of Daniel Morgan, senior managing director, global head of agency trading, transition management and outsourced trading at State Street, who says that where clients outsource some of the particulars and the nuances of the business, a consultant is an extremely powerful resource in terms of decomposing the various transition bids.

"We see it as a really straightforward business and there really shouldn't be many variables in pre-trade analysis bids," he says. "However, a couple of decades into this industry there still are and it is an important role for the senior staff at the transition manager as well as the investment consultant to bridge that education gap if needed." ■

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Interim exposure

When a client decides to change manager or make a tactical shift they need a solution that bridges the gap between managers or allocations while protecting them from downside risk.

An interim solution can be defined as a service where a manager looks after an investment portfolio when a client doesn't have a long term home for it.

The solution can be structured 'as is' or with some risks taken off the table, although the interim manager will usually be managing toward some type of active risk benchmark and taking that active risk down to a lower level while performing care and maintenance on the portfolio.

The impact of Covid on managers and their resource requirements means a number of managers have had significant outflows explains Michael Putica, head of sales for portfolio solutions Americas at State Street.

"Part of that could be that their style didn't work in that environment," he says. "Then we saw some of those managers getting down rated by consultants and there was a run for the door that precipitated a decline in the assets and ultimately some of these managers going out of business."

"We have had this solution for a number of years and it has been used intermittently depending on what has been going on in the market. The compounding effect in 2020 is that asset owners have found it difficult to find an alternative manager quickly, do the due diligence in a timely fashion and make decisions because of the squeeze on resourcing."

Putica says he has had a number of clients on the asset owner side reconsidering their allocations across their portfolio construction and reconsidering the efficacy of a portfolio when interest rates are effectively zero.

"That might mean they are thinking about benchmark changes without necessarily having a new manager in place or are having to react," he adds. "I think the interim solution is a large part of that reaction to external factors that are impacting the client and where they need to quickly find an outcome."

One of the main factors behind demand for interim management is where the client wishes to make a decision to move assets from a manager but hasn't yet appointed a new manager because they have to go through due diligence and assessments and secure legal agreements.

This means that if you wait until the point where you have got a target manager signed up and ready to go, many months may have passed, possibly with a legacy manager underperforming explains Andy Gilbert, EMEA head of business development within transition management at BlackRock.

"If you are looking to terminate a manager because they are underperforming, it may be that you can hold those assets in an interim construct while you figure out how you want them to be managed in the future," he says.

The client may also be considering moving their assets from active to passive management. In this scenario, interim management can reduce the risks associated with the portfolio, not taking it all the way to passive because a decision hasn't been made yet but reducing the tracking error and the potential volatility of these assets until those decisions have been made.

"Volatility will affect your portfolio regardless of how it is held, so interim management can be a good solution," adds Gilbert. "If you are reducing tracking error, for example, it may be that you become less sensitive to that volatility."

He offers the scenario of a legacy manager disappearing and the client doesn't want to be the last one out the door.

"It doesn't tend to be correlated to performance or volatility in the market but rather the management of the mandate," he explains. "Because you offer an asset management service effectively through that interim exposure period, you really need a provider with multiple capabilities. Asset managers are typically best placed because they already have these capabilities in-house."

"I think the interim solution is a large part of that reaction to external factors that are impacting the client and where they need to quickly find an outcome."

- Michael Putica, head of sales for portfolio solutions Americas at State Street

David McPhillips, head of transition management sales, EMEA at Northern Trust, agrees that interim solution has increased in relevance through the coronavirus crisis.

"I think the real value add with clients is solution setting - clients will come to us with a challenge and we will go back to them with a number of ideas to help them bridge their exposure gap," he says.

"For example, we are working with a number of asset aggregators who were looking at taking pension funds into their asset aggregation model and more often than not there are going to be settlements cycle issues coming out of those funds on the legacy side and the target side. The last thing those organisations want is to have their investors and clients out of the market."

In this scenario the transition manager can assess the cash flow cycle, look at some of the areas that present out of market challenges and come up with a solution to bridge that gap. "Ultimately it is about protecting downside risk and maintaining exposure as clients are moving from one manager to another," adds McPhillips.

There are also examples of clients looking to make tactical shifts depending on the direction of the market and implementing derivative/futures strategies. These clients do not want to be sitting on cash if they have an allocation or a target allocation on equities regardless of the size.

"When a tweet can move the market a couple of percent, as we have seen over the last number of years, the interim solution really comes to the fore," says McPhillips. "In our space, change is a constant so it will continue to evolve and we are tested to come up with new solutions."

When asked in which specific circumstances clients might be interested in interim exposure, Artour Samsonov, head of transition management EMEA at Citi explains that the premise is that you get exposure to the market for a period of time and may also take off that exposure or increase it.

"The key question is what kind of exposure you are putting on," he says. "There are three main use cases, the first of which is tactical allocation, which looks to take advantage of market moves - so if a client thinks that the outcome of an election means markets go up they can get temporary exposure to the market by using derivatives, and then take the exposure off."

The next use case relates to managing uncertainty. When clients select a manager it can be quite a lengthy process so there may be uncertainty for a while as to where assets need to go, whether in terms of allocation or manager selection.

The final use case relates to liquidity. There are some clients who have constraints and need to have access to cash, but holding cash in its own right is not the most prudent investment strategy so what they do is invest money conservatively and into something that is very liquid that can be sold quickly.

"These three elements all play into the current environment quite well," says Samsonov. "When you have events such as the general market shock caused by coronavirus you have to deploy capital quickly. It may not be clear what long term investment strategy will outperform and for some clients their budgets will be constrained by the collapse in domestic economic activity, so they need to manage their liquidity efficiently."

If clients are considering interim portfolio management they are typically doing so

"When a tweet can move the market a couple of percent, as we have seen over the last number of years, the interim solution really comes to the fore. In our space, change is a constant so it will continue to evolve and we are tested to come up with new solutions."

- David McPhillips, head of transition management sales, EMEA at Northern Trust having considered a number of factors including performance, governance and cost, says Chris Adolph, director of customised portfolio solutions EMEA at Russell Investments.

Clients will typically have a structured process for evaluating manager performance, so establishing the reasoning behind any change is crucial. It is important to determine whether they are just moving from one manager to another in the same strategy, or whether they are making an asset allocation or strategic change.

"If it is an active portfolio, they will consider whether they are willing to sit in active risk, paying active manager fees for another 3-6+ months with a manager who they potentially have lost confidence in," says Adolph. "If not, typically the most expensive solution is to go passive and move back to the active structure when the new manager is signed up. This takes the alpha risk off the table, but maintains the market exposure."

This approach also addresses the governance issue, but can be costly, so clients will want to look at other options that balance risk and turnover as the greater the reduction in risk, the higher the potential trading cost. In an interim scenario they might be happy to accept a degree of tracking error (1 -1.5%) to keep turnover costs down, as long as any material stock specific risk is reduced.

"In addition, the transition manager fee could be quite modest, especially if the interim mandate is over a relatively short period and they are managing the transitions either side of the interim mandate," says Adolph. "So not only does an interim manager reduce their portfolio risk and minimise potential transaction cost – they have also lowered their headline manager cost."

"One scenario could be that a client has cash that needs exposure to the market, but hasn't yet determined how to deploy that cash."

- Paul McGee, Head of portfolio solutions, EMEA at Macquarie

There are a variety of motivations for clients holding money in interim solutions observes Paul McGee, Head of portfolio solutions, EMEA at Macquarie.

"One scenario could be that a client has cash that needs exposure to the market, but hasn't yet determined how to deploy that cash," he says. "Another could be where the client has been reviewing an investment manager for underperformance and decides enough time has been provided to turn things around."

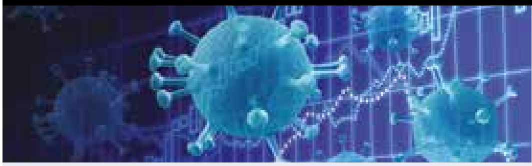
In this scenario the client won't necessarily have decided on the replacement manager and often that leads to a request for proposal and a final pitch to determine the recipient of the mandate.

"If a client wishes to exit from an underperforming investment manager swiftly, but hasn't decided who the mandate will go to, the ability to offer interim exposure can offer them a flexible, short term position with index-like exposure and potentially lower costs," says McGee.

There might also be occasions when a client needs to exit from a manager in an emergency situation, perhaps when the star fund manager or even the entire portfolio management team leave or following the departure of senior management. The ability to act quickly in this situation can allow the client to get ahead of any rush for the exit doors with this particular manager.

"It is not uncommon to see large day-on-day percentage moves in the market and if you miss out on a rising day, that loss of market exposure can be very costly," adds McGee. ■

CASE STUDY:



The coronavirus market environment resulted in differentiated manager performance, including the collapse of a range of strategies. This environment was particularly challenging for value portfolios as the style had been steadily underperforming for more than a year before sharply diverging to the downside in 2020.

After a significant decay in assets under management from investment losses and client redemptions, in October 2020 a value-oriented manager declared it would close at year end. This left redeeming asset owners to reallocate assets and many sought transition management and interim management services to manage the change.

One such asset owner held a collection of portfolios with the closing manager and sought to de-risk and fund a passively managed interim portfolio tracking the MSCI USA Value Index. This interim solution was designed to bridge the gap while investment management agreements were progressed and other logistics handled.

Pre-trade analysis, planning and coordination, and trading were all completed within week of the manager publicly announcing its plans to close. Transition trading was completed in a single trading day ahead of the US election, with costs coming in close to the mean cost estimate. The transition accounts were then put under supervision of State Street's exposure solutions team who continue to manage assets while actions are taken to onboard with the ultimate target manager.

At the end of November, the benchmark index experienced significant turnover at nearly 12% (one-way) and the client's portfolios were efficiently rebalanced to effect these changes. This fact pattern mirrors the original inspiration for the interim management solution which recognises that not all transitions have a defined target at commencement.

Accelerating analysis

Managers and clients have much to gain from capturing and extracting full value from the data generated during a transition.

In the analytics space, one of the most interesting questions this year has been the extent to which regulatory and cost pressures have forced managers to divert IT budgets into compliance and using technology to reduce headcount.

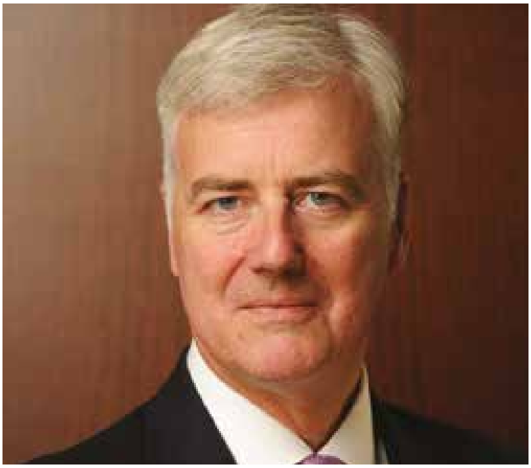
"There is a portion of the IT budget to cover the vast global compliance and regulatory changes that seem to hit every year, whether that is exchange rules, different reporting regimes or changes to regulatory regimes, so I don't think that we or any of our competitors are new to the optimisation game and prioritising," says Daniel Morgan, senior managing director, global head of agency trading, transition management and outsourced trading at State Street.

There are regulatory changes and deadlines across the course of the year that are very prescriptive so it is incumbent upon the industry that a portion of its annualised revenue is put back into the business for compliance.

However, Morgan says this doesn't mean that investment in analytics stops, rather that managers have to balance their priorities. "Like our competitors we continue to invest in our business both on the regulatory and non-regulatory side. We don't sacrifice 100% of any investment in the product - we find ways to do both."

State Street acquired BestX in 2018. While previously an FX-focused product, BestX has expanded into a multi-asset solution.

"We are also partnering with third party



Often you are forced into a trading strategy that you wouldn't pursue if you were not under any external constraints.

- David Edgar, director transitions at Inalytics

vendors, so there is a lot of investment going on in analytics," says Morgan. "We are constantly looking at different portfolios - a lot of data is generated at different points of trade lifecycle and we need to harness all that data over time."

The challenge is to make sense of it all and bring it back to the firm's investment process. "Trading analytics is something that is gaining more traction and focus in the industry," says Steve Fenty, managing director, head of strategy at State Street Global Markets. "One thing you will find from a transaction cost analysis perspective is that there is no TCA firm in the world that analyses transitions perfectly. Transitions are a very niche product – and most TCA is exclusively focused on trading so it really demands the TCA firm and the transition provider work together in understanding and improving transition performance."

There are many reasons why a transition manager might seek to leverage the value of data generated during an event. However, Andy Gilbert, EMEA head of business development within transition management at BlackRock observes that transitions can be very discrete events specific to a client and their needs.

"Just because you have this data it may not inform you," he says. "If you are capturing data across the firm, that might be a better place to start drawing conclusions. There is an awful lot of data generated beyond what we do just in transition management and our PhDs and various groups around the firm use data science to draw conclusions from all of that data."

Gilbert says the risk of relying solely on data is that you lose sight of what the client is trying to achieve.

"You don't want to wait until you have analysed and interpreted every piece of data because by the time you get there, something new will come along to analyse or there will be a new market environment that changes what you thought your outcomes were," he explains.

"We sometimes need to take a step back and think what the purpose of this is, how it is going to improve the experience of the client and how will it improve the experience and the outcome of the transition? Don't do it for the sake of doing it."

According to Gilbert, clients also need to ask how their transition can benefit from the data generated by the particular provider.

According to Artour Samsonov, head of transition management EMEA at Citi, the transition management industry has not yet fully realised the value of the data it generates.

"There is a lot of value in data - we just have to figure out how to use it efficiently," he says. "From my perspective, sharing data within our organisation and business structure is very helpful in improving client service levels. Our clients have global needs and as an example, we have worked with clients who have offices in both London and New York, and as a global provider we need to be able to connect the dots and facilitate their investment processes while identifying efficiencies."

"I don't think there has been under-investment in analytics - it is becoming a big focus and more important as a differentiating factor for transition managers."

"Analytics is a really important area and we have seen continual improvement," says Graham Dixon, director transitions at Inalytics. "If you look at how many times a provider revamps its reporting package you can see how much importance they attach to it, although there are different audiences to address."

For example, clients want an executive summary that points out at the pre-trade stage the most important aspects of risk, where the costs are coming from, and what the costs are going to be. For the transition manager there is detailed information in the trading aspects and a feedback loop that leads to continual improvement in the analysis.

David Edgar, director transitions at Inalytics says that when thinking about analytics it is important to understand what is driving the trading strategy.

"Often you are forced into a trading strategy that you wouldn't pursue if you were not under any external constraints," he explains. "A lot of transitions we get involved with involve pooled funds with their own administrators and transfer agents, multiple clients and multiple managers all of which operate in different ways, which means that not everything arrives in your account on the same day and at the right time so you can execute the perfect trade."

"So when you are analysing a trade, you need to capture that information as well - it is about understanding what is possible in each scenario when you analyse it afterwards. The general level of analysis and reporting (both pre- and post-trade) has improved immeasurably over the last decade. Those transition managers that are left in the market are doing it properly and the level of detail and scrutiny is at the highest is has ever been."

On the issue of data analysis and how it can benefit the transition management process, Cyril Vidal, head of portfolio transition solutions at Goldman Sachs says the two key areas are cost estimates and risk management.

"For the former you need a vast amount of execution data to fit your transaction cost models," he says. "This is a computation we run for each of the 13 clusters of stocks that we use to characterise stock behaviour,

"You don't want to wait until you have analysed and interpreted every piece of data because by the time you get there, something new will come along to analyse or there will be a new market environment that changes what you thought your outcomes were."

- Andy Gilbert, EMEA head of business development within transition management at BlackRock

From my perspective, sharing data within our organisation and business structure is very helpful in improving client service levels. - **Artour Samsonov,** head of transition management EMEA at Citi.

significantly increasing the explanatory power of our market impact models to build a more detailed expectation of cost."

In terms of risk management, analysis of the correlation between assets is key given the transition manager is aiming at minimising the costs of the total portfolio and not single stock orders. Here again, data analysis is required to better establish the asset correlation and the optimal trade schedule, taking into consideration intraday dynamics.

"Typically, people would focus on idiosyncratic risk as that is easier to estimate and correlations, where used, would rely on long horizon models not suitable for trading and intraday stock behaviour," says Vidal.

The direction of travel was clearly to increase investment in technology, he continues. "We have made a push for providing open API to clients and this has resulted in a number of applications that can be consumed on our digital storefront by our transition management clients."

"Of course we encourage our clients to look at the total costs - direct and indirect. However, advanced pre-trade technology allows us to estimate indirect costs scientifically. Clients can focus on ensuring that their transition manager has the right portfolio algorithm to control these indirect costs." ■

Continental shift

The European transition management industry is largely UK-based. In this article we look at how managers navigate the different manager structures and practices that are prevalent across the rest of Europe and how they are preparing for the UK's new relationship with the European Union.

It is vital for transition managers to be able to navigate the different structures and investment objectives that are prevalent across Europe. Clients in the Netherlands may have more liability driven investments than a client in the UK, while a German pension fund may be very fixed income heavy - unlike their counterpart in Italy.

Service providers require a fundamental understanding of how each market works explains Andy Gilbert, EMEA head of business development within transition management at BlackRock.

"In the UK you will work directly with the investor, whereas in Germany you will find a management company structure where you never have any contract with the underlying investor," he says. "In France you need to be a management company in order to provide transition management services and we see a similar trend in Switzerland although we still contract with the underlying investor on occasion."

Gilbert suggests a firms' overall experience is more important than the frequency of transition assignments undertaken in a particular market and refers to a distinct difference in the investment strategies clients are focusing on.

"If you were in the Netherlands for example, you might be very focused on ESG and sustainable investing, but these

"In the UK you will work directly with the investor, whereas in Germany you will find a management company structure where you never have any contract with the underlying investor."

- Andy Gilbert, EMEA head of business development within transition management EMEA at BlackRock

investments are only just emerging in countries like Switzerland and Germany," he says. "Likewise, liability driven investment-type strategies are uncommon in Italy compared to the Netherlands or UK."

Artour Samsonov, head of transition management EMEA at Citi says there is an interesting dynamic in Europe as there are very few places in the world with such a large concentration of different cultures and legal structures.

"Even in the eurozone the overarching legal directive can be implemented differently so clients and providers have to be sensitive to those differences, as well as cultural and language differences and differences as to how pension funds are structured," he says.

Given that London is the de facto centre of the financial industry in Europe there can be a tendency to focus on the UK client base. "UK clients have the same need as clients everywhere else - access to cost efficient and transparent solutions," adds Samsonov. "There is also simplicity in structural differences - because occupational pension funds are more consolidated in some parts of Europe you are potentially dealing with a smaller number of large clients."

David McPhillips, head of transition management sales, EMEA at Northern Trust refers to the commonality amongst clients who are focused on managing costs and managing risks. "Around the edges there are differences between fiduciary managers, but again the processes and steps we go through to protect these clients are consistent," he says.

The evolution of the UK pension market is moving it closer to the continental European pension fund model. In this context it is no surprise that the focus of UK-based transition managers has shifted more towards multi-asset, liability focused mandates as UK defined benefit (DB) schemes have largely de-risked and thus have fewer investments in more 'risky' asset classes such as equities, suggests Chris Adolph, director of customised portfolio solutions EMEA at Russell Investments.

He adds that since the early 2000s, especially in well-developed pension fund markets such as the Netherlands we have also seen a number of pension fund mergers and this consolidation has produced a move towards more segregated mandates. "It is within these more flexible structures that transition managers have been seen to add value," he says.

As the UK has now left the the EU, it is pertinent to ask how UK-based transition managers might be impacted by Brexit.

"Brexit doesn't mean having a UK model and a continental Europe model, because there isn't a single model for the whole of the continent," says Gilbert. "You need to be able to understand and navigate the differences from country to country and region to region and try to understand what is driving change and what you need to be cognisant of from a structural perspective. Brexit doesn't fundamentally change how one should approach working with different investors."

Managers had to prepare for all eventualities. In the current scenario there will be less impact on decentralising from London, whereas in a hard Brexit scenario there would have been more focus on a decentralised approach.

"For us it is more about reallocating resources than starting from scratch," says Samsonov. "It is important to remember that when clients form a relationship with a transition manager it is for a long time, so it is important to keep the client's needs in mind. If you start from the question of how you continue to service clients without interruption you will come out with the right answer and be prepared for whatever comes."

Northern Trust has taken steps to make sure it is prepared for all Brexit eventualities. "We are in a fortunate position in that we have a Luxembourg based bank so when Brexit eventually happens, we have the ability to service our UK based clients and our non-UK based clients through the operating company route to market," says McPhillips. ■

"It is important to remember that when clients form a relationship with a transition manager it is for a long time, so it is important to keep the client's needs in mind."

- Artour Samsonov, head of transition management EMEA at Citi

Industry roundtable

Despite the challenging circumstances, Global Investor managed to bring leading transition managers and consultants together (virtually) in early December 2020 to discuss key industry themes from outsourcing and ESG integration to the longer term impact of coronavirus on client expectations and industry practice.

Leading transition managers and consultants discuss key themes

Chair: Does growing interest in outsourced CIOs demand a different set of skills from transition managers - and is there a role for transition managers in making their lives easier?

Steve Webster: We have seen a lot of these businesses come under greater scrutiny in relation to the way they offer their services. Transition managers should be utilised more by that particular segment, not least because of some of the findings that came out of the CMA review in relation to fiduciary management.

When the client is giving over fiduciary responsibility to a third party it is important they retain that level of transparency and performance and transition managers are unconflicted in that situation. I am not saying necessarily that the fiduciary manager would be particularly conflicted, but certainly the transition manager independence is important to that process.

Cyril Vidal: The implementation of the CMA's recommendation to run an open tender process for awarding fiduciary mandates should change the competitive landscape and is likely to increase the number of sophisticated end users of our transition services.

We welcome this development as this is a natural client base for us, especially with the suite of analytical tools we provide to fiduciary managers on our digital storefront.

Artour Samsonov: Another interesting element is that these outsourced CIOs are becoming larger. If a service provider has a wider suite of services (for example trading support, custody or lending) there are other services that these fiduciary managers might be interested in engaging.

Chris Adolph: It is becoming a differentiator for some fiduciary managers to be able to offer a broader service than just asset management, whether that is more technical onboarding in terms of the transition management or being more able to be actively involved throughout that process, via their implementation capabilities, while they are acting as fiduciary manager.

In some cases the need for a transition manager is dismissed where there are just pooled funds involved. For the more complex events with multiple pool vehicles clients are increasingly realising that a transition manager can add value

PARTICIPANTS:

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Steve Webster,
director of transition & trading solutions at MJ Hudson

Michael Putica,
head of sales for portfolio solutions Americas at State Street

Cyril Vidal,
head of portfolio transition solutions at Goldman Sachs

Artour Samsonov,
head of transition management EMEA at Citi

David McPhillips,
head of transition management sales, EMEA at Northern Trust

Chair: Paul Golden,
moderator, Global Investor Group

Note: Roundtable was undertaken virtually via video link. Any pictures used to illustrate participant quotes were taken at the previous roundtable before covid restrictions were in place.

> **Having a good appreciation of the complete investment set is vital, as managers are often faced with implementing total portfolio solutions.**
>
> **- Andy Gilbert.** EMEA head of business development within transition management at BlackRock

Chair: Following on from what you are saying there, do you get a sense that OCIOs could almost be advocates for transition management going forward? They can obviously see the benefits - do you think that they have got some sort of a role to play in reinforcing the value of transition management among clients?

Chris Adolph: The traditional players in the fiduciary management marketplace have got some capabilities to onboard the assets themselves, but I think increasingly they are looking for other specialists to do that because of the risk involved. There is not a lot of margin in terms of managing a pool fund restructuring, so why would they want to take on that risk without the dedicated specialist skills and systems to manage it?

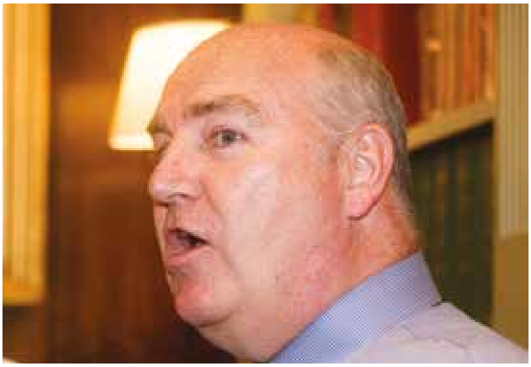
David McPhillips: To go back to your initial question about whether it demands a different set of skills I would probably make the point that it is not necessarily a different set of skills but rather a different set of demands that the fiduciary manager or the OCIO will place on the transition manager.

Andy Gilbert: Having a good appreciation of the complete investment set is vital, as managers are often faced with implementing total portfolio solutions. This isn't just a question of transitioning equity or fixed income portfolios; managers should also consider alternatives. Understanding complexity and offering a solution to manage the risks that complexity creates is where transition managers will play to their strengths.

Michael Putica: Transitions do get more complex and as new clients might come in from different fund structures dealing with the complexities of different fund structures and different operating requirements is not a small task and requires an experienced team that also provides a lot of transparency, which helps with the fiduciary element.

Once you get a close relationship with OCIOs there is that feeling of certainty around how you operate, providing specialist skills and having that complex dialogue.

Paul McGee: The skills required by OCIOs are far from a straightforward, one-manager-to-one-manager-type transition,



“It is becoming a differentiator for some fiduciary managers to be able to offer a broader service than just asset management.”

- Chris Adolph. director of customised portfolio solutions EMEA at Russell Investments

reinforcing the value a transition manager can add as a one-stop-shop to coordinate everything. The transition manager needs a deep understanding of the platform you are dealing with, the legal framework, tax implications, stakeholders, key deadlines and reporting requirements.

Chair: If we could move on now to ESG, does increased interest in ESG create opportunities for transition managers?

Michael Putica: If you think about long term stewardship for asset owners, their focus is on understanding broader risks within portfolios. One element they have been trying to implement and which has impacted on transition providers is negative screens, where they might say ‘Here is a transition event, we are implementing a new mandate and need to make sure that you are also checking these screens’.

In this scenario we are performing a secondary check in some cases for clients to ensure that the manager is not providing a set of securities in the target portfolio that isn’t allowed within the mandate.

Andy Gilbert: Different parts of the world are embracing ESG at different rates and have a different focus, but it is certainly an opportunity for the transition management industry to engage with clients and educate them in terms of the costs and risks associated to change. There may be clients that haven’t necessarily been through a significant portfolio change

“The skills required by OCIOs are far from a straightforward, one-manager-to-one-manager-type transition, reinforcing the value a transition manager can add as a one-stop-shop to coordinate everything. The transition manager needs a deep understanding of the platform you are dealing with, the legal framework, tax implications, stakeholders, key deadlines and reporting requirements.”

- Paul McGee, Head of portfolio solutions, EMEA at Macquarie Group

"Transition managers will play a significant role in the portfolio rotation to ESG, in the same way that we have in the past helped clients go from active to passive or from external to in-house."

- Cyril Vidal. head of portfolio transition solutions at Goldman Sachs

before, but now ESG is part of their remit.

This change is a catalyst for engagement, to discuss implementation strategies where it is relevant to their portfolio. We expect the current focus on equities to move further down the spectrum into fixed income and beyond.

Cyril Vidal: While the transition manager would typically not be involved in the instrument selection when transitioning to an ESG portfolio, we can assist clients in implementing their ESG switch in the most efficient way and expect that transition managers will play a significant role in the portfolio rotation to ESG, in the same way that we have in the past helped clients go from active to passive or from external to in-house.

Steve Webster: When we talk about crowded or cyclical trades which are the result of allocating to into asset classes or specific stocks, which meet certain criteria but don't have the liquidity profile to match this demand, there is sometimes a sudden shock and horror at the expense.

It is important that transition managers help clients understand the dynamic of making those changes, particularly when they are making large exclusion trades or significant exclusions across different index sets where you have to then swap again into other securities, creating a tilt to the portfolio which they might not have previously experienced.

David McPhillips: Where you are moving to something of a factor-tilted portfolio, invariably there will be a commonality between your legacy and your target portfolio and just creating that awareness and going through the cost benefit exercise can be very helpful for clients. One of the areas we have seen benefit in that regard is offering interim custody services where clients are tied up in a comingled fund with a core strategy looking to move to a like vehicle (another comingled fund with an ESG bent, for example).

Artour Samsonov: I would like to come back to the liquidity premium and also the market risk factors. There are screening processes for selecting investments that are liquid, but then also ESG itself, developing financial products that are ESG-specific and where markets are developing

"I suspect that in 18-24 months' time ESG will be a commodity - no one will be managing a fund that doesn't have some kind of ESG screening and investors just won't be buying funds that don't have that."

- David Edgar. director transitions at Inalytics

and there is not so much liquidity, green bond markets and products such as ESG futures. With clients being more and more interested in moving to these types of new asset classes, transition managers are perfectly positioned to look at the underlying liquidity and advise clients on how to manage transition from more traditional asset classes to something more ESG specific.

Something we have seen very much this year is where volatility overall is relatively benign, but the factor volatility is actually quite significant. When you are thinking about ESG you think that for some clients Tesla falls into an ESG friendly stock criteria, but then it also forms part of a growth factor and obviously it is a stock that has experienced significant volatility over the past year. So if you are transitioning to these kinds of stocks or asset classes it requires different thinking around how you manage that risk exposure.

Paul McGee: A transition manager in this space needs to be able to offer sophisticated risk management techniques and trading capability, especially when trading very illiquid positions and acting in volatile markets.

David Edgar: ESG is interesting for transition managers, but it is no different in many ways to the move away from market cap indices. I suspect that in 18-24 months' time ESG will be a commodity - no one will be managing a fund that doesn't have some kind of ESG screening and investors just won't be buying funds that don't have that. The breadth of skills required by transition managers has never been broader - we are seeing that across all sorts of transitions and this is just another example.

Chris Adolph: We have seen instances where we have acted for clients to screen portfolios for ESG requirements, but also where we have rebalanced their portfolio (even where the manager might not have changed) purely due to the size of the changes involved and the client wanting to manage the costs and risks associated in making those changes and provide transparency over the whole process.

Michael Putica: Another aspect here is that sometimes the asset owner is getting a custom portfolio from their investment manager which might be a specific ESG mandate, but the manager is running 90% of their assets on non-ESG. So if they are creating a custom sleeve for that client, the client wants us to make sure they are not throwing in other assets that shouldn't be in that mandate.

Paul McGee: If a transition manager is responsible for building a mandate to exclude specific countries or sectors that are published, that is relatively easy to

"If they are creating a custom sleeve for that client, the client wants us to make sure they are not throwing in other assets that shouldn't be in that mandate."

- Michael Putica. head of sales for portfolio solutions Americas at State Street

screen for. Where it is more of a challenge is the expectation that the transition manager should interpret whether a stock is adhering to specific ESG criteria or not.

Chair: We have talked about ESG from an investment perspective. To what extent when clients are engaging with you are they thinking about the governance aspect of your business?

Chris Adolph: Clients are interested in what you do as a firm, not just your core skills. They will want to get into the detail of what it actually means for us and whether we are someone they want to partner with from a governance perspective.

Steve Webster: Many procurement policies now require a level of due diligence in relation to how different managers or service providers conform to ESG requirements.

Paul McGee: We have certainly seen an increased focus on ESG, whether it is in a request for proposal (RFP) or in guidance from regulators. In particular, the governance aspect is about accounting policies and managing conflicts of interest, so there is quite rightly huge focus on that in guidance from the FCA on how transition managers should conduct themselves.

Chair: Moving onto market management, has this year's crisis highlighted the difference in approach between managers and made it easier for clients to see how managers differ in their approach, or has it to some extent just reinforced the fact that most events are managed in broadly the same way?

David Edgar: The way the industry has reacted to the coronavirus crisis has been extraordinary in terms of how everyone just stepped into the new methods of communication very smoothly. Business continuity planning used to involve everyone getting out of their office and going to another office out of town, but that couldn't happen this time.

My experience was that maybe those a little bit further down the trade cycle – such as the custodians and administrators - have found it a little trickier. But in terms of front office and trading it is just extraordinary how people have reacted.

Andy Gilbert: Technology has really played its part here, not just in terms of communication but also how managers access the market, data and trading. The crisis has also very much been a human issue; large, diverse teams that span the globe helped reduce this key person risk.

Cyril Vidal: Given what we have learnt during recent events, I expect clients will have a greater focus on business continuity planning when performing their due diligence on transition managers.

"One area where we have seen some clients ask questions is how organisations that run transition management businesses, which are potentially inherently conflicted in certain ways, manage supervision of communication."

- Steve Webster. director of transition & trading solutions at MJ Hudson

Steve Webster: One area where we have seen some clients ask questions is how organisations that run transition management businesses, which are potentially inherently conflicted in certain ways, manage supervision of communication. I have to say I don't really have all the answers just yet on that.

Chair: From the client perspective has the enhanced level of communication made them more knowledgeable about the transition management process? Does the average client understand an event better than they did this time last year?

Michael Putica: One of the key lessons for asset owners to take out of this is that they need to understand who they have on their panel and why they have them there, but also use each of the transition managers on their panel and get to know them all. How that manager links in with other aspects of what you are doing in the portfolio and how you create that partnership is incredibly important.

Artour Samsonov: What we have heard from clients is that the difference in approach that transition managers took on client projects during these volatile times and the disparity in cost estimates were much wider.

Steve Webster: This year has been a great lesson for everybody in the investment industry because who do they come to when the investment world turns upside-down?

They come to the people that know about the 'how' rather than the 'what'. I would agree that this period has helped clients understand markets better and respect the work that transition managers and those involved in migrating investments and making changes do more than they have previously.

David Edgar: When times are good people want to make changes to their portfolios to reflect those times, and when times are bad people want to make changes to their portfolios for the same reason.

The need for transition managers, for people who understand the markets, understand portfolios and pooled funds, how it all works and fits together is not going away anytime soon.

"Having contingencies in place and the ability to bring solutions driven options to the table for our clients has benefited them this year and will continue to benefit them into the future."

- David McPhillips. head of transition management sales, EMEA at Northern Trust

David McPhillips: Change is a constant in our space. Having contingencies in place and the ability to bring solutions driven options to the table for our clients has benefited them this year and will continue to benefit them into the future.

Chair: Has the coronavirus crisis served as a reality check for clients, a reminder that not everything is predictable and not everything can be forecasted and that events don't always pan out the way they should and is this a healthy development going forward in terms of tempering unreasonable expectations?

Andy Gilbert: Clients understand that during periods of heightened volatility, risk increases and during market illiquidity, resulting from a global pandemic for example, transaction costs may be inflated. It is our responsibility to ensure clients understand what these risks are and that what they are faced with today is going to potentially be very different to what they are going to face next week.

Paul McGee. In all this volatility and the sudden shift to work from home, it is not the transition managers that have been found wanting. Instead, what changed was that clients struggled to get to grips with new logistical challenges, such as convening their investment committees to make decisions or getting key documents signed. So if anything, transition managers were ready and able to support things that the clients were suddenly challenged by.

Chair: Finally, what changes that have been implemented this year may survive post-COVID and how will that affect the industry in terms of relationships with clients and how clients embark on events?

Michael Putica: On-site due diligence has been really interesting. We used to have clients coming in and speaking to the team and viewing systems and this has migrated pretty easily to the virtual world. It is astounding that we are now all very proficient at videoconferencing and I can see online due diligence continuing in the future.

Clients are much more engaged, much more willing to see a longer set of analytics, proposals and details that are very concise and to the point but with a lot of analytics in the background. They will want to see that we are putting in the time and effort and really helping them to understand environment and risk.

Cyril Vidal: The level of expertise amongst transition managers is increasing as well as their supporting technology, such as portfolio algorithms that execute portfolio rebalancing in a smarter way. A more volatile environment can exacerbate the differences in trading performance across providers. I'm expecting that clients will have an increased focus on quality of execution, as we observed after the global financial crisis.

"The relationship with clients is still based on trust and partnership, but in a way it is probably more transactional in terms of how clients interact across different industries and we are not immune to that change."

- Artour Samsonov. head of transition management EMEA at Citi

David Edgar: The days of everyone going into a meeting room and sitting round a phone to call a client have gone for good. We have found that clients want to be able to see who they are talking to and to that extent what the coronavirus crisis has brought home to me is that this business is still all about people and relationships.

The best transition managers have had the same clients for years. You can have the best technology in the world and people will just turn around and say 'Great analytics but so what? Tell me about it, why is it good?'

The ability to take the client through what you are trying to do and what they need to do is what matters. It is about making sure clients understand the processes and the risks and that is about people. Technology will continue to advance and systems and trading techniques will become more sophisticated, but what actually makes the client pick up the phone to you will always be the most important thing.

David McPhillips: The virtual environment where we move away from the anonymous conference call has certainly enhanced and strengthened relationships, definitely a silver lining on an otherwise dark cloud.

Artour Samsonov: The relationship with clients is still based on trust and partnership, but in a way it is probably more transactional in terms of how clients interact across different industries and we are not immune to that change. More analytics only seems to support that push into more quantitative-based assessment rather than just pure relationship. You need technology as well as people.

Andy Gilbert: If we can engage with our clients in the formats they want us to - whether that is virtually or face-to-face - I think that has a lot of benefits. But to reinforce Artour's point, that has to be backed up with analytics, with access to liquidity, and with market insights. ■

"You can have the best technology in the world and people will just turn around and say 'Great analytics but so what? Tell me about it, why is it good?"

- David Edgar, director transitions at Inalytics

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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 60+ transition professionals are located in London, Amsterdam, Budapest, San Francisco, New York, Hong Kong, Tokyo, and Sydney 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, 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.

Citi Transition Management (CitiTM)

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Citi is a leading global financial services company, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions.

The company history dates back to the founding of the City Bank of New York (later Citibank) in 1812. Citi Transition Management (CitiTM) is a core businesses within Citi's Global Markets franchise, operating as a fiduciary to deliver innovative portfolio solutions to institutional clients such as sovereign wealth funds, pension funds, insurance companies and asset managers. CitiTM also offers non-discretionary portfolio management services, which include FX and futures overlay management.

The business provides global coverage and risk management of client projects through its dedicated TM teams in London, New York and Sydney.

Goldman Sachs

Goldman Sachs

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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 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 Portfolio Transition Solutions Group consists of a team of specialists comprised of Transition Strategists, Portfolio Strategists, Execution Coordinators and Operations. Our approach that involves multiple specialists within GSI ensures that clients benefit from the best practice know-how and service Goldman Sachs has to offer along every single step of a transition trade.

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 pre- and post-trade analytics and increased transparency in executions.

Inalytics Transition Management Consultancy Services

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Inalytics ensures that your objectives are being met and your investments are protected during a transition. The need for independent scrutiny in the transitions industry has never been more acute. Inalytics scrutinises and verifies the actions of an appointed transition manager to ensure a satisfactory conclusion for our client. The three phases of our engagement are:

Before: Independent, empirical scrutiny of potential transition managers' proposals to help you understand their implementation strategy. We critically assess their previously completed transitions to reveal their level of skill.

During: Expert monitoring during the transitions event to ensure that any potential disruptions to completion are quickly identified and mitigated.

After: Clear and objective reporting which verifies the implementation shortfall and provides a critical assessment of the transition manager's performance.

MJ Hudson

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MJ Hudson's Investment Advisory division provides fully independent investment consulting and advisory services to corporate pension schemes, local government pension schemes, insurance companies and a variety of large asset owners. With over £80bn of assets under advisement and a high calibre team, all of whom have many years of experience in the investment industry at Investment Director or CIO/CEO level, the team is extremely well placed to provide pro-active, bespoke and truly independent advice on all investment matters.

Our services include Manager Selection, Transition Advice, Operational and Investment Due Diligence, Investment Strategy Advice, Asset Allocation and Independent Investment Advice. We provide the following Transition advisory services.

Planning & Advisory
Advice on the likely costs and risks in a transition event and the optimal route and structures required in changing investment exposures.

Transition Manager Selection
We manage the selection of transition managers utilising our proprietary TM scorecard powered by our detailed survey of all providers. This allows for both a qualitative and quantitative approach to selection.

Oversight
We provide experienced oversight and reporting on all aspects of the transitions process in flight.

Cost Analysis and Reporting
Our manager transaction performance analysis considers a full range of deliverables, costs and risks across the transition process.

Macquarie

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Macquarie portfolio solutions is a global provider of transition management and related services based in London, New York and Sydney. Our highly experienced global team leverage technology to offer clients innovative transition solutions. Macquarie's unique platform, PILOT, was internally developed by experienced transition managers enabling the team to offer a complete end-to-end project management and execution service, whilst helping to manage risks and minimise costs. Experience, technology, strong communication and a commitment to complete transparency form the basis of our offering. We work in partnership with our clients providing bespoke solutions to successfully achieve their project's objectives.

Northern Trust - Transition Management

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

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

- Customised trading strategies built around the client portfolio leverage our extensive 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 supports the transition event
- Expert risk and cost minimization techniques help mitigate potential exposure, execution, operational and process risks and associated expenses
- Clear, comprehensive transparent reporting includes detailing both estimated costs and actual costs post-event.

Leveraging the heritage, strength, technology and innovation of Northern Trust, we provide clients with solutions from across our capital markets business. These strategies for success are designed to enhance performance, increase liquidity, manage exposure, mitigate risk and reduce costs, while providing the governance and transparency our clients expect while trading in global markets.

Russell Investments

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Russell Investments is a global investment solutions partner, dedicated to improving people's financial security. Russell Investments offers actively managed multi-asset portfolios and services that include advice, investments and implementation.

Russell Investments has £230.1 billion* in AUM and works with over 1,800 clients globally, independent distribution partners and individual investors in 32 countries globally. As a consultant to some of the world's largest pools of capital, Russell Investments has £1.9 trillion in Assets Under Advice, Assets traded around £1.7 trillion, £76 billion managed in overlay services globally and managed 237 transition events representing £98 billion all through its Customised Portfolio Solutions.

*Data at 30-09-20. All other data at 31-12-19.

State Street Global Markets – Portfolio Solutions

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State Street is one of the world's largest global custodians, servicing more than US$36.64 trillion in assets as of September 30, 2020. State Street Global Markets (SSGM) delivers innovative, value-added solutions to meet clients' financing, liquidity, and asset intelligence needs.

The Portfolio Solutions group within SSGM supports investors by delivering multi-asset outsourced agency trading and risk management services through an experienced global workforce and resilient infrastructure. The group provides transition management, exposure and interim management, and outsourced trading solutions, each offering institutional investors opportunities for improved operational and cost efficiencies.

SSGM has also introduced a new way for clients of State Street Alpha, our front-to-back investment servicing platform, to unlock liquidity, one security at a time, right on their desktops. Clients also can access new trading technology and tap into multibank channels - all within the contours of their Alpha desktops.

Services: Transition Management, agency execution and brokerage, outsourced trading, currency management, exposure management.