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Transition Management Guide 2019

MANAGER SELECTION

The key questions to ask prospective providers

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Navigating transitions in the face of unexpected volatility

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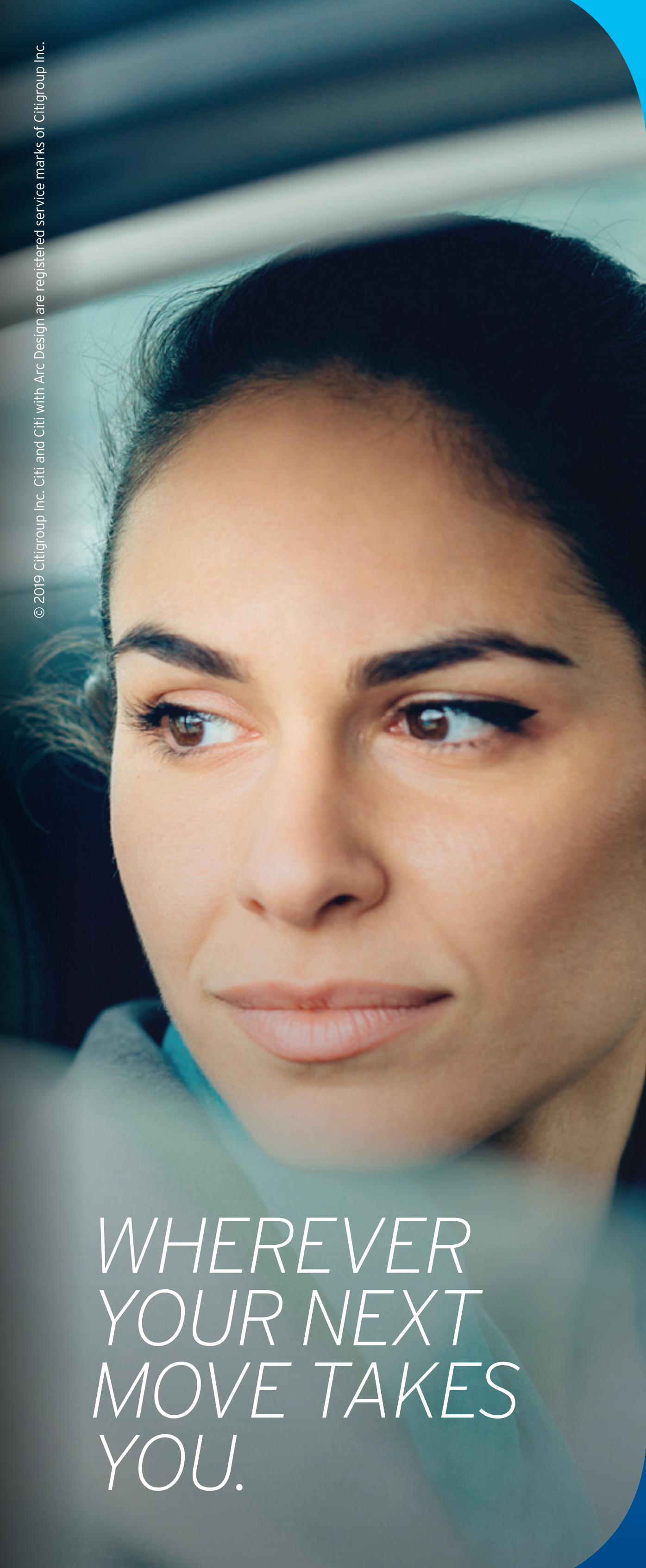
The latest trends and local developments impacting transitions in Australia, the UK, and the US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Contents

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Fundamental questions to find the right fit

Global Investor's **Louise Fordham** explores the latest trends in transition manager selections and examines the questions clients should be putting to prospective providers to ensure they appoint specialists who best suit their transition needs.

Structural market changes, such as the shift from defined benefit (DB) to defined contribution (DC) pensions, have had a downward impact on the frequency of transitions and transition manager selection in certain market segments where transition managers have traditionally operated. At the same time, however, there has been an uptick in transition activity, and a greater recognition of the value of transition management services, outside of the pension fund sector. "While the numbers are smaller, some of the non-pension fund client sectors are using transition managers a little more, whether that's fiduciary managers, insurance companies, wealth managers or investment managers themselves. These can be larger and often more complex events," says Andrew Williams, principal at Mercer Sentinel Group. "Many of these asset owners will have multiple funds, such as wealth management platforms, and a keen customer focus, so ensuring the customer experience is not adversely effected can be a key part of the transition process."

This increase in complexity has been a steadily rising trend across the gamut of clients that transition managers serve. As David McPhillips, institutional sales, transition management at Northern Trust, notes: "Although the number of events being conducted may have marginally decreased, the aggregate value and by extension, the risk attached to transitions, continues on an upward trajectory. Consolidation pervades the industry and as large asset aggregators (OCIO providers, master trusts, pooling structures, DC platforms, etc.) continue to amass client assets, the type of clients we are working with is beginning to morph from a traditional asset owner to look and feel more like an asset manager."

In line with this, many clients are now appointing a panel of typically two to five transition managers with specialist expertise in order to support their increasingly complex transition requirements across multiple events.

"Historically, each transition assignment has required a separate manager selection exercise. In recent years, however, clients have put in place a panel of providers, allowing them quick access to pre-selected managers. Whilst this approach ensures broadly less hassle in engaging a transition manager, it can lead to a couple of problems," explains Steve Webster, senior adviser at MJ Hudson Allenbridge. This includes ensuring that the manager selected for each transition can deliver the most effective solution for that particular transition challenge, and regularly conducting market reviews to keep track of the continually developing tools and skillsets offered by providers.

At the same time, other clients are looking to build longer-term partnerships with transition managers rather than taking a transaction-based approach for each transition event. Andy Gilbert, EMEA head of transition client strategy at BlackRock, says: "We see the world in two halves: the mature market where experienced clients are increasingly establishing one-to-one exclusive transition management relationships with a trusted provider and the growing markets where clients assemble panels but are more targeted in their selection of transition managers based on technology platform, depth and experience of the transition team, global reach, and the transition manager's trading platform and access to liquidity."

"Historically, each transition assignment has required a separate manager selection exercise. In recent years, however, clients have put in place a panel of providers, allowing them quick access to pre-selected managers."

- Steve Webster, senior adviser at MJ Hudson Allenbridge.

Established relationships can offer benefits such as greater familiarity with the client's culture, reporting preferences, portfolio and investment objectives. A senior executive who formerly had oversight for transitions at an Asia-based corporate pension scheme stresses the importance of long-term relationships, noting that conducting RFPs for every transition event can be unproductive. The executive adds: "Pricing in long-term relationships can be managed more effectively than trying to squeeze out every basis point via an RFP process."

Comparisons beyond cost

While approaches to transition manager selection will vary depending on the client and nature of the event, there are a number of factors that asset owners should consider. Although cost has been and will continue to be a key priority for clients, increased competition in the industry has tended to reduce the extent of cost differentiation and led clients to take a more holistic, value-driven approach to

"Clients' understanding of transition management has definitely increased over the years which in part explains the granularity of questions we see."

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manager selection. Rather than attempting to compare managers on an 'apples-to-apples' basis around fees, asset owners are now placing a greater focus on strategy, risk mitigation, and project management, says Bo Abesamis, executive vice president and manager in the trust, custody, securities lending and transition management group at Callan.

To select a provider that can deliver a strategy that most effectively aligns with a client's needs, the client must first have a thorough understanding of their objectives for the transition. Richard Butcher, managing director at PTL, a provider of independent trustee and governance services to corporate pension schemes and non-pensions trusts, says: "This analysis piece will often narrow down the number of choices that a trustee has, filtering out those transition managers who would be inappropriate for a particular project, for example if they have a different area of expertise. The key questions don't come when you are selecting a transition manager, they come when you're spending all that time thinking about what it is you want to achieve through that transition."

With these objectives established, prospective clients can better understand how the nuances of each transition manager's offering best suits their requirements, from the provider's governance framework and business model through to their reporting capabilities and the experience of their team, and their approach to transparency, trading, and risk management through to their operational infrastructure and systems. "Gaining an understanding of the transition manager's model is key," says Northern Trust's McPhillips. "How are they structured? How is liquidity sourced? Are there any inherent conflicts with their model? Can risk be effectively managed – and communicated – through the various stages of the transition? How committed is the provider to the space? Are they investing in their business? Ultimately, how does the transition manager mitigate cost through the transition, both explicit and implicit?"

Asset owners should not be afraid to ask transition managers probing questions about their experience and previous strategic approaches to transitions. "Transition management is a people business; it's such an involved process that it cannot be automated completely," says Artour Samsonov, head of transition management EMEA at Citi. "Clients should focus on questions around the types of projects the transition manager has done and their outcome, and how project-specific challenges were addressed. The key is to get the transition manager to open up about their experience and have a dialogue about their approach to managing risks."

Historical track record can help to inform the selection process, supported by client feedback and real-life examples. "I would encourage clients to ask for anonymised pre- and post-trade examples," says Cyril Vidal, head of portfolio transition solutions at Goldman Sachs International. "That gives you two things. First, it enables you to appreciate the level of transparency you will be provided with during the transition process, and second, you can compare the

"We're seeing more questions not just around our transition management service, but also about our compliance with the corporate social responsibility principles as a firm. Cyber security and business continuity are other important topics."

- **Artour Samsonov,** head of transition management EMEA at Citi.

finished product to what you have been promised, so it sets the standard. In my view, this is the most useful piece of information you will get in an RFP."

Getting into the details

More recently, some prospective clients have also been asking questions that extend beyond a provider's transition management capabilities to assess their suitability on an institutional level. Samsonov says: "We're seeing more questions not just around our transition management service, but also about our compliance with the corporate social responsibility principles as a firm. Cyber security and business continuity are other important topics." This shift reflects the changing business environment, he adds, in which clients are only engaging firms that have a robust approach to emerging risks, such as cyber security, and that take into account broader societal considerations, such as inclusion and diversity, and environmental policies.

As transitions become more complex, the transition management-specific information prospective clients and consultants seek has become increasingly detailed, with more in-depth RFPs drawing out both quantitative and qualitative information from providers. "It's good to have that granularity because it means you go beyond the cost of the transition," says Callan's Abesamis.

This qualitative information, backed up by quantitative data, can provide context and assist clients in understanding what lies behind different cost estimates. "It's important to get to the bottom of the proposed strategy, it's a good basis for comparing transition managers," says Tim Gula, an associate in Goldman Sachs' portfolio transition solutions team. "If one manager is intending to execute a more aggressive approach and another a more passive approach, this can sometimes explain the difference in the cost estimate and should be considered instead of comparing two numbers in isolation."

Yet, as always, it is vital that any selection process is accompanied by comprehensive due diligence. BlackRock's Gilbert says: "Clients' understanding of transition management has definitely increased over the years which in part explains the granularity of questions we see. We view this as highly positive. However, whilst RFPs and pre-trade reports are very helpful in understanding a transition manager's capabilities, on-site visits remain the best way to truly understand what a manager can offer. Only by undertaking a formal due diligence meeting and site visit can you truly understand the systems they are using and the people who will be involved in the activity."

Selection support and guidance

Consultants can play an important role throughout the selection process, supporting clients with limited bandwidth or knowledge of the transition management landscape. PTL's Butcher says: "Generally speaking, you won't find a board of trustees who are adequately resourced to ask the right questions or do the due diligence, so I would expect a consultant to help guide the trustees through the initial decision-making process, help them search for the right transition manager for them, and then carry out the routine due diligence to make sure they are a fit and proper firm to do the transition."

The information provided by transition managers to clients can be complex and not uniformly presented, points out MJ Hudson Allenbridge's Webster. "Adding to this the fact that transition events are infrequent, leaves clients in the virtually impossible position of being expected to make the right decision based on information which most admit they simply don't fully understand," he explains. "The granularity of data can also be extreme, to the point that the important expenses and risks are lost in a blizzard of reporting. From our experience, we see clients now requesting a 'translation' of the information they receive from transition managers. As an independent adviser, we simply take this information and distil this into its relevant components, against which we can then show evidence of performance and accordingly formally advise on next steps."

Ultimately, transition manager selection is a crucial step in enabling an asset owner to achieve their transition objectives and thus it is a process that should not be overlooked or underestimated. As Mercer's Williams notes: "From a client's perspective, they might see the transition as 'we're terminating two managers and hiring three managers' but there's an awful lot more that goes on under the bonnet than that." ■

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Top tips for trustees undertaking transitions

Richard Butcher, managing director at PTL, a provider of independent trustee and governance services to corporate pension schemes and non-pensions trusts, delivers a rundown of the key considerations for trustees to bear in mind when it comes to transitions.

Okay, you've made the big decision. It's been tough. It's been demanding. But you've made it. Whether you're moving your assets because you've fallen out with or lost faith in your current asset manager or because your asset allocation needs have changed you now have the final hurdle to clear: the transition.

First rule:
Don't lose sight of the transition. It's easy to think you've done the heavy lifting with the decisions you've already made – and you have. But unless you get the plumbing right, the sink will make a mess. The transition process is a chance to lose a lot of value, so pay it some attention.

Second rule:
Think about what you want. This is always the logical place to begin a process. If you spend more time defining the project, the answers often become apparent. Planning saves money and reduces risk.

> **"If you spend more time defining the project, the answers often become apparent. Planning saves money and reduces risk."**

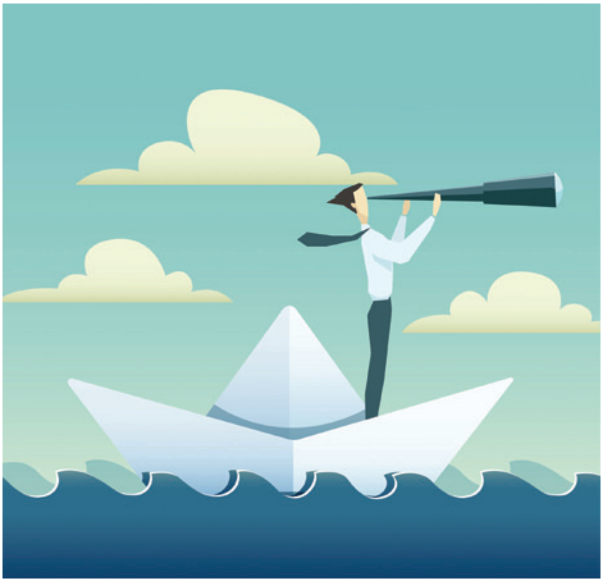
Third rule:
Your consultant will, invariably, offer to do the transition management for you. That can be fine and they might well do a good job, but they are not the only game in town. Look at others. It may or may not be more expensive but (a) it keeps your consultants on their toes (no bad thing generally – but specifically useful here to make sure you pay a fair price) and (b) you may find a different transition manager more suited to your needs.

Fourth rule:
Set out and agree with them what you expect them to achieve and for how much. This document (and it should be a document) should embody some of the outputs from the second rule.

Fifth rule:
Embrace cost. Transitions always cost, directly in fees or indirectly in out of market exposure or dealing costs. The trick is to optimise the costs. ■

Transitioning in times of distress

Cherry Reynard looks at the approaches transition managers take to navigate unexpected market volatility.



In 2018 and to date in 2019, markets have had an 'end of cycle' feel. That has meant more volatility, variable liquidity and a certain skittishness when responding to market announcements. This unpredictability presents some challenges for transition managers.

It is not volatility of itself that constitutes complexity. Most transition managers will be prepared for volatility created by known events, such as central bank meetings, key economic announcements or company earnings announcements. This would even apply to events such as Brexit, where the risks are well-understood.

Rosanna Menta-Willis, director, investments at Willis Towers Watson, says: "Larger and more established transition providers have their finger on the pulse. Every transition plan will build in a market calendar noting any significant events that can impact the transition, which are factored in when deciding when to trade. Where volatility is expected or heightened, the transition managers will need to be even more thoughtful about the transition strategy they employ and will rely on a variety of risk tools and resources to do so."

In a normal environment, the complexity comes from multi-layered transitions, rather than the make-up of the assets themselves. Chris Adolph, director, Implementation Services, EMEA at Russell Investments, says: "For example, with a defined contribution transition there may be many funds, black-out periods and multiple stakeholders. It can be just as much about the type and complexity of the event rather than the type of asset per se."

That said, some assets are inherently more difficult to trade, he says. Standard developed equities and government bonds are generally straightforward and liquid, while emerging markets, frontier markets or credit and high yield can be less liquid and more complex.

While the ideal trading environment is low volatility and high volumes, Tim Gula, a member of the portfolio transition solutions team at Goldman Sachs, says this is rare. Most transition managers will be "looking at relevant market holidays, economic announcements, earnings releases and index rebalancing dates. The estimated impact from unexpected activity should be hedged early on either with use of ETDs (exchange traded derivatives) or optimised basket trading."

The problem comes when there is significant market volatility that is unexpected - from a news event for example or merger and acquisition activity. That is much more challenging to navigate. Unfortunately, today's febrile environment is creating a lot of this type of volatility.

Not only will this throw out bid offer spreads and create difficulty moving from portfolio A to portfolio B, it can throw out carefully calculated cost estimates. Adolph says that although volatility can sometimes have a positive impact in terms of increased liquidity: "It can also lead to spikes in the tracking error between the legacy and target portfolios and historic annualised tracking errors (on which the transition range is often based), can count for little when a transition may be completed in just a few days."

He adds: "Costs may end up being materially higher than estimated. We can model normal liquidity and volatility by looking historically, but when liquidity dries up or volatility spikes, it can be a real challenge." Transition managers' objective is to minimise realised execution cost and a large component of this can be opportunity cost. The opportunity cost can

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rise significantly at points of unexpected volatility.

The traditional way to manage this is to use index derivatives to hedge the market. Gula says: "Transition providers can minimise opportunity cost by neutralising the exposure between legacy (sells) and target (buys), achieved either through the use of exchange traded derivatives or optimised trading schedules that consider correlation between individual orders and positions."

In doing this, the skill of the traders and the technology they have available to them becomes paramount. "Data driven portfolio execution algorithms are complementing traders' skills for an efficient management of risks in the transition. Having the right technology is key to adjusting the execution to changing market conditions, for example intraday volume profile," says Cyril Vidal, head of the portfolio transition solutions team at Goldman Sachs.

Adolph says they work hard to ensure that they are not 'visible' in the market - important at times of market dislocation. This means spreading trading across

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multiple venues. On the fixed income side, he says, they may get quotes from over 60 dealers and trade with as many as 40 or 50 different dealers and venues.

However, trading skill may not be enough in some circumstances. Equally, hedging can be expensive and may not always work. Some argue that using index hedging to try to address some idiosyncratic risk can be ineffective. Futures or options may address part of the problem, but may also introduce other imbalances into a portfolio. As such, the benefits may be minimal. Some are willing to simply tell their clients it does not make sense. Individual names will perform differently from the index. As such, a hedge could be a hindrance rather than a benefit.

Keeping communication lines open

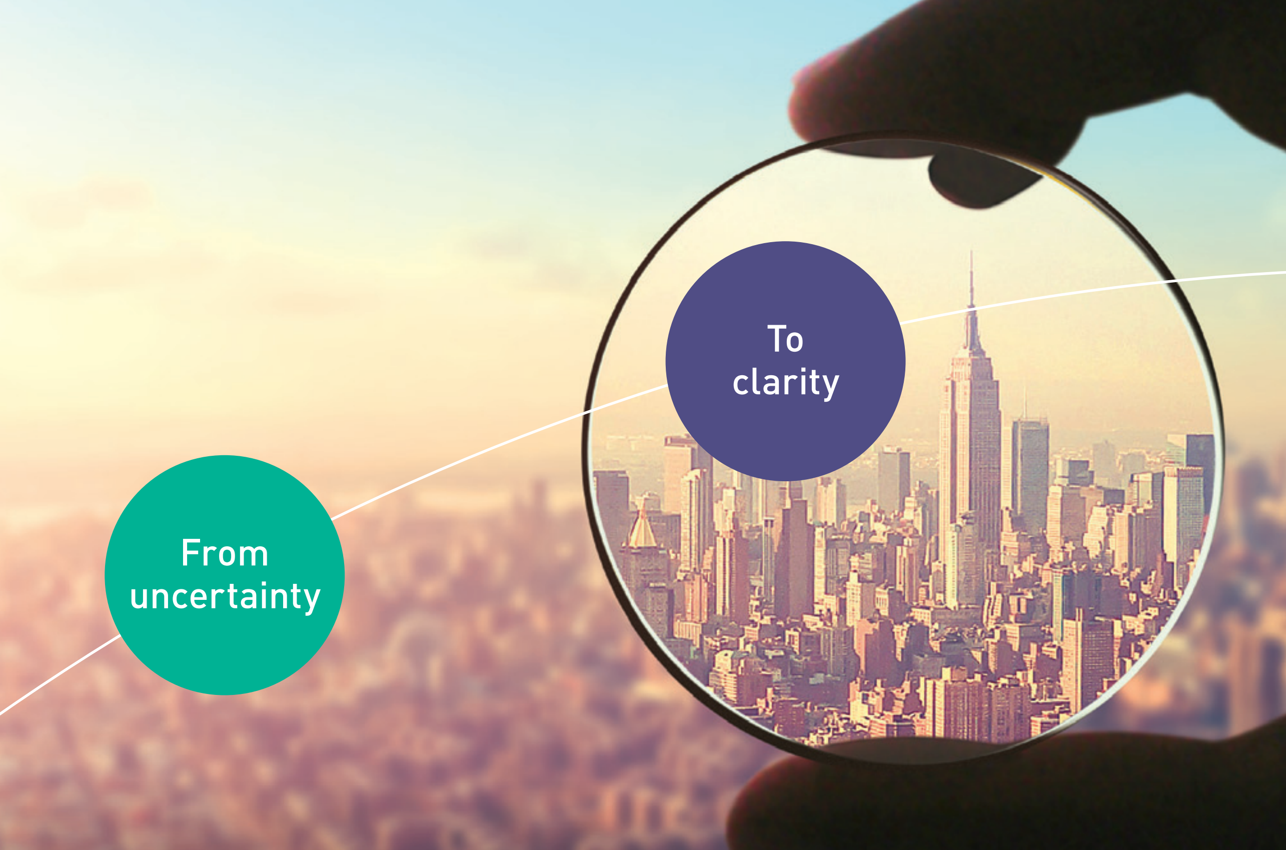
Occasionally doing nothing will be a better option. Artour Samsonov, head of transition management EMEA at Citi, says: "The key word is patience. Sometimes the best approach is not to react immediately to what's going on in the market, which can be down one day and up another. Holding off - and being much more analytical and opportunistic - could be a better approach. If it's a really bad day in the market and we believe it results in a better outcome for the client, we may halt trading. However, it is important to communicate with the client and explain your approach. Understandably, the clients get nervous when the markets are volatile."

Menta-Willis agrees that good transition managers will ask themselves whether they should keep trading. "It's not very common, but we have had specific situations where transition managers will re-evaluate what they're trading and change gears a bit. That can mean coordinating with the target managers, client and/or advisor to ensure alignment of goals and objectives."

Client communication is likely to be very important. How much will depend on the client, says Samsonov: "We won't just carry on trading regardless of market conditions. Most clients want us to call if something comes up and to take an active role in the transition strategy dialogue. It is important to take the time to understand your client as part of the planning process."

Menta-Willis adds: "We have some clients that are very detail oriented, while others want to delegate all decision-making and project planning to the transition provider. It is always best practice for the transition manager to consult on changes to the transition strategy and to keep the lines of communication open. While it varies by provider, most of the transition managers have daily updates, showing how much of the transition event has been completed, details on performance of the trade and costs, market commentary and anything outstanding or noteworthy."

While transition managers can prepare for volatility around trading announcements or political events, they cannot circumvent the risks associated with unexpected market volatility entirely. Sometimes, the best action will be no action, but keeping client communication channels open is vital. ■


From uncertainty
To clarity

Tracking trends in Australian transitions

Australia's superannuation sector is coming up against a raft of regulatory changes, giving rise to increased M&A activity, and influencing funds' transition requirements. **Louise Fordham** reports.

The Australian pension fund market, or superannuation as it is referred to locally, is one of the largest in the world. Quarterly figures from the Australian Prudential Regulation Authority (APRA) indicate that superannuation assets totalled almost AUS$2.8 trillion at the end of March 2019 and the volume of assets under management is expected to continue to grow at a significant rate. According to an April 2019 report by KPMG, *Super Insights 2019,* the superannuation asset pool is projected to reach AUS$5.4 trillion by 2029.

Yet change is afoot as funds adjust to an evolving regulatory environment that looks set to refocus investment strategies and reshape the structure of the industry, which is in turn impacting transitions in the region and the support demanded of transition managers and consultants.

The overarching objective of recent legislative changes and reviews is to improve member outcomes while strengthening the superannuation and wider financial services sector, but they can pose a challenge for funds, such as increased reporting and cost pressures.

Regulatory developments include the Protecting Your Super Package (PYSP), effective from July 2019, which prohibits exit fees, places a 3% cap on administration and investment fees for accounts below AUS$6,000, and sees inactive funds under this limit transferred to the Australian

Tax Office; APRA's members outcomes assessment, due to come into force in January 2020, which seeks to sharpen the focus on quality outcomes for members through performance benchmarking and evaluation; the Productivity Commission's final report, *Superannuation: Assessing Efficiency and Competitiveness,* released in January 2019, which details a number of recommendations to strengthen the superannuation system; and the February 2019 release of the *Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry,* which sets out a total of 76 recommendations; the Banking Executive Accountability Regime (BEAR), which places greater accountability on senior leaders, is also due to be extended to APRA-regulated entities such as superannuation funds. These more recent measures add to existing regulation such as the Australian Securities and Investments Commission's (ASIC) Regulatory Guide 97 (RG97), which came into effect in 2017.

John Venardos, managing director, head of implementation services – Asia Pacific at Russell Investments, says: "ASIC's RG97 impacts which operating and transaction costs need to be reported and is in the process of being reviewed. The regulation is heightening awareness and generating focus on the frictional costs that are incurred when implementing investment ideas."

Together, these measures are not only intensifying the need for greater operational and cost efficiencies, investment performance, and enhanced transparency and governance protocols, but also contributing to increasing merger and acquisition activity. "Funds need to demonstrate they are good value for money which involves delivering consistently good investment returns while minimising costs. Large funds have the advantage of economies of scale over smaller funds when it comes to finding operational and cost efficiencies. To date this has resulted in some smaller funds merging or being acquired by larger funds. This is likely to continue and will drive transition events as funds restructure their investment holdings," explains Damian Hoult, chief executive officer at Basis Global Analytics (BGA).

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Consolidation can enable funds to achieve efficiencies of scale and provide the opportunity to review investment strategies and investment manager selections. Transitions surrounding superannuation M&A activity often require transition managers to draw on all the services in their toolkit, deploy expertise across multiple asset classes, and work under tight time constraints. James Woodward, head of Portfolio Solutions for Asia-Pacific at State Street Global Markets, says: "We tend to find there is quite a significant project management component to these types of restructures. They are quite complex events - there are multiple stakeholders, and there is obviously a significant focus from the funds' boards on these types of events."

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Shifting investment strategies

In addition to potential consolidation, regulatory changes are also one of the factors influencing strategic investment trends among superannuation funds, such as the shift toward passive investments - a shift which has also been evidenced more broadly in global markets. Mathew Cook, transition manager at Northern Trust, says: "One of the main trends in the last few years has been a result of the MySuper reforms that have been implemented. These have meant the Australian super industry has been tasked with offering a low cost and simple superannuation product for their clients. This has seen many of the funds moving from more active portfolios to more low-cost index passive funds."

As the size – if not the number – of supers in Australia grows, funds are increasing their focus on global investments. According to APRA statistics, Australian listed equities accounted for 22.1% of superannuation funds' asset allocation at the end of 1Q19, international listed equities accounted for 24.4%, and fixed income accounted for 21.2%.

"There has been more interest and appetite for non-domestic equity exposure and fixed income. Traditionally, the Australian pension market has been primarily focused on domestic equities but because of the massive growth in the super fund industry it is starting to face some liquidity constraints where it's outstripping market cap growth," says Stuart Anderson, client strategy – Australia, director, transition management at BlackRock. "There is a capacity issue that superfunds are having to deal with. On top of that there's the search for yield in a low return environment, so investors are having to look further afield and restructuring their investments accordingly."

As a result, funds investing outside of the local equity market will be looking to engage transition managers with the skills and scale necessary to manage global trading requirements across both equities and fixed income when undertaking portfolio or manager changes.

Transitions involving domestic managers, particularly mid- and small-cap Australian stocks, can present their own challenges. Sandeep Gurkhi, director, transition and portfolio solutions at Citi Global Markets, says: "Because the size of the Australian equity market is relatively small compared to the size of the super fund industry, whenever you are dealing with a domestic transition, the liquidity profile is a lot more challenging compared to global equities transitions."

With larger funds also come larger and more complex transitions. This has also been accompanied by greater volatility and illiquidity, notes Gurkhi. "The way we would approach a transition five years ago is very different to the way we approach it now," he says. "Most of our transitions have become high touch, so we're spending a lot more time thinking about the strategy and the way you execute instead of just putting trades into an algorithm."

Market-specific challenges

While the processes involved in a transition in Australia do not differ from those conducted elsewhere, there are some particularities to take into consideration.

"The structures of a superannuation fund are similar to those of DC plans in the US, which present their own unique operational challenges," explains Russell Investments' Venardos. "Expertise in working with clients, asset managers and funds, custodians, and consultants is a necessity in navigating these challenges. Understanding the true operating cost of a planned implementation is critical – incorporating operational/custody/redemption costs and frictional trading/transaction costs."

The time difference with other financial market hubs is also a factor. BlackRock's Anderson says: "It's essential if you are trading non-domestic assets that the time difference to Europe and the US is well managed. Transition orders are often packaged together to manage an overall exposure and if there is a misalignment of those matching trades due to lack of market presence or miscommunication between the trading desks then that can have a significant impact on the performance of the transition."

He adds: "There's also justifiably a strong client demand in Australia for an onshore presence and face-to-face contact in order to have local accountability and regional expertise, so transition managers have to have local coverage combined with global exposure management."

While limiting explicit and implicit costs is a key consideration in all transitions, and fees can belie the much more wide-ranging value transition managers can provide to clients, regulatory developments such as RG97 mean there is a more acute focus on fees and cost among Australian funds.

"The Financial Services Royal Commission shone a light on many deficiencies across the finance industry, especially those directly impacting the public. Fund fees and costs are in the spotlight, so it follows that costs associated with transitioning assets need to be measured, reported and justified. Funds

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and transition managers are engaging third-party analytics firms like BGA to provide objective, conflict-free transaction cost reporting for transition events on a more regular basis. Given the current regulatory climate and focus on cost transparency, this trend is likely to gain momentum," explains Basis Global Analytics' Hoult.

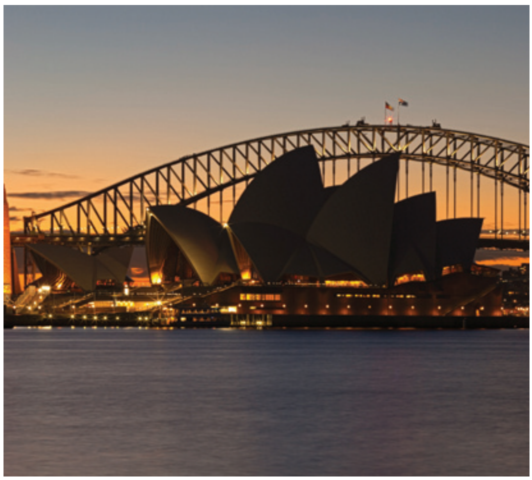
In-house considerations

Australian superannuation funds, in general, are considered to have a particularly high level of understanding of the nuances involved in transition management. As clients' knowledge of the area becomes more sophisticated, transition managers such as Citi's Gurkhi have seen the conversation shift towards client experience. He says: "They realise that what's important is the use of a service provider that they can trust, that the provider has effectively communicated trading strategy to the client, and that the provider has a plan for different market conditions."

Meanwhile, some of the larger funds are bringing their trading desks in house, and a few are said to have internalised the transition management function. Northern Trust's Cook says: "The shift to in-house trading desks has seen some supers internalise their transition management trades but this remains limited to a small number of funds. This has typically been for the less risky transitions such as one manager to one manager Aussie equity mandates, with the need to utilise transition managers for the more complex and risk-centric transitions, such as emerging market equity and fixed income where any errors can be costly. By hiring a transition manager the supers can take measures to mitigate the internal risk of errors."

State Street's Woodward notes that if an asset owner is considering performing a transition in house, it is important to take into account both the explicit and implicit costs of doing so. These can range from investment in technology, systems and staff, commissions on trades, through to the additional resource burden placed on support and oversight functions such as legal, compliance, risk, and operations. "It comes down to risk, finding liquidity, how operationally complex the transition is, and whether they have the skillset internally," he adds. "Asset owners have to weigh up all the risks and costs and resources required, and then make an informed decision." ■

> **"The Financial Services Royal Commission shone a light on many deficiencies across the finance industry, especially those directly impacting the public. Fund fees and costs are in the spotlight, so it follows that costs associated with transitioning assets need to be measured, reported and justified."**
>
> **- Damian Hoult,** chief executive officer at Basis Global Analytics.



What's shaping Australia's superannuation landscape?

Eva Scheerlinck, chief executive officer at the Australian Institute of Superannuation Trustees (AIST), provides a perspective on the issues currently impacting the country's superannuation industry.

The Australian superannuation landscape is in a period of reflection and transition following the Royal Commission into Financial Services that uncovered serious systemic misconduct in banking, insurance, financial advice and bank-owned pension funds around the country.

The resulting loss of consumer trust and confidence has forced both the government and regulators to develop new laws and regulations to ensure consumer interests are better protected. With a governance model that puts members first, the $1.4 trillion not-for-profit pension sector emerged relatively unscathed from the Royal Commission.

As the Commission hearings revealed case after case of bank-owned funds prioritising the pursuit of shareholder profits ahead of their customers' best interests, consumers took flight and billions of dollars poured into the not-for-profit funds.

In the wake of the Royal Commission, Australia's twin financial regulators had adopted new strategies around enforcement and prudential supervision. As part of a new "why not litigate" approach, the Australian Investments and Securities Commission has significantly increased and accelerated court-based enforcement matters.

Harsher civil penalties and criminal sanctions have also been introduced.

Beyond the Royal Commission, the superannuation sector is currently dealing with an ongoing debate about the adequacy of Australia's compulsory superannuation system.

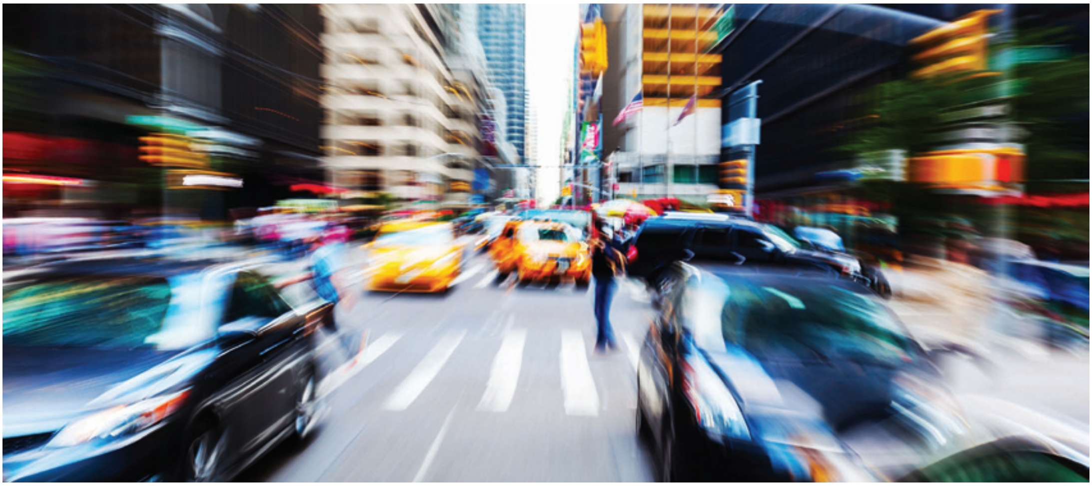
Currently, all employers are required to contribute 9.5% of employee wages into a pension fund. While this rate has been legislated to gradually increase to 12% by 2025, a small, but vocal, minority of mostly conservative politicians, oppose this.

AIST has stepped up its advocacy on this issue. Australia's superannuation system is increasingly delivering better outcomes for retirees from all walks of life. But more needs to be done to ensure that the system is fair to all and that everyone – regardless of their gender or income level – can maintain their living standards in retirement.

With Australia's age pension one of the lowest in the OECD, our population living longer, and the broken work patterns of women, freezing the compulsory rate at 9.5% will mean many Australians will retire in poverty.

Australia's super system is globally acknowledged as one of the best in the world. We aim to ensure it gets better. ■

The developments driving US transition events



Ceri Jones delivers an update on developing transition trends in the US across pension funds, asset managers, and life and mutual fund companies.

Transitions in the US this year continue to be driven by long-term risk mitigation as pension funds move to liability driven investment (LDI) structures or to outsource investment responsibility. With increased focus on performance, there are continued efforts to manage costs down, in manager selection and asset allocation decisions, and in the use of transition management (TM) itself.

There has been an increase in OCIO (Outsourced Chief Investment Officer). "Initially this was something that targeted smaller clients who did not have sufficient resources to build out internal staff," says Rajeev Ghia, Americas head of transition client strategy at BlackRock. "It was typically targeting clients under $1 billion but bigger clients from $2 billion up to as much as $15 billion are now doing it. It is not really about governance or regulatory pressures but back down to what is most cost effective and whether they want to build out the internal staff."

Many of this year's largest transitions have involved a shift away from US-specific components, towards combining international equity mandates with US equity mandates under a global portfolio, and there has also been greater activity in emerging markets, and particularly China A shares.

"Most events are still driven by clients making shifts primarily from active to active managers, with only about 20% of transitions in Q1 moved into passive," adds Ben Jenkins, global head, transition management at Northern Trust.

Pension plans continue to shift from equities to fixed income, typically for LDI matching purposes, with pension funds buying 20+ strips and other long duration assets.

Many defined contribution (DC) schemes are looking to limit fund choice for members to seven-to-eight core options, including target date funds, in place of the 50 or 60 investment choices typically offered in the past. Demand for TMs has also been boosted by changes to existing target date managers for cost or performance reasons, compounded by an unusually high number of corporate mergers.

Asset managers and life and mutual fund companies have also stepped up their use of TMs, often to reduce the cost of implementing changes in sub-advised funds on multi-manager platforms. "A global equity mandate may have three or four underlying funds so the operational considerations can be challenging," says Kevin Byrne, senior vice president at Macquarie Group. "Reporting requirements can be more bespoke; and there may be opportunities not to transact, because the first consideration is, how do we get from one legal entity to another without incurring additional costs."

The complex multi-asset class nature of these events requires project management skill, combined with portfolio management and trading capabilities in all asset classes.

"Similar to the DC segment, these clients need support around the project management component of on-boarding and off-boarding assets and are looking for a transparent and risk-reduced manner in which to do this," says Jenkins. "Like the asset owner community, asset managers are facing increased cost pressures and are looking at methods to effectively and efficiently outsource aspects of their process which are more episodic and more heavily cost-based, including TM activity and even elements of the front office."

"Like the asset owner community, asset managers are facing increased cost pressures and are looking at methods to effectively and efficiently outsource aspects of their process which are more episodic and more heavily cost-based, including TM activity and even elements of the front office."

- Ben Jenkins, global head, transition management at Northern Trust.

While the priority for all clients is to achieve an optimal outcome, the resources available to plan sponsors are particularly stretched, owing to their additional legal obligations, and more complex investment portfolios.

"This is an era of 'do more with less' and plan sponsors are under pressure to produce results with fewer and fewer resources," says Travis Bagley, director, transition management Americas at Russell Investments.

Fair and equitable treatment for all pension scheme members is a pressure point for plan sponsors, particularly as in most DC events, only a certain set of participants actually require the restructure. Creating a transition structure that isolates transaction costs to the participants causing the change is a key consideration in developing a transition strategy.

Commingled funds and DC account structures can present particular challenges. "These commingled products may hold securities that can be transferred in-kind to the target manager resulting in lower

"Plan sponsors and investment consultants are engaging transition managers to consult on strategies aimed at minimising the overall cost and risk of a pension buy-out."

- Steve Fenty, managing director, transition management, US at State Street.

transaction costs for the participants," says Bagley. "The underlying portfolios in the commingled products involved should be analysed to access the best implementation strategy; in-kind securities or cash and potentially derivatives. With the application of in-kind transactions, the custodian must have accounts available to hold securities, not just pooled funds. This all becomes part of the planning process to ensure that all needed capabilities are available at the time of implementation."

Exchange Traded Funds (ETFs) are widely used to gain interim exposure because of their specific, targeted returns, and tight pricing, so where there is an exposure mismatch or liquidity constraints an ETF can reduce the risk cost effectively. In addition, tactical exposure to an asset class, such as corporate fixed income exposures, may not be so efficient via futures. ETFs can also be used to circumvent particular problems such as while awaiting a custodial account for a country such as India, which could take six months or more to complete, notes BlackRock's Ghia.

However, Bagley suggests that in a scenario where a client needs to terminate a mandate but maintain market exposure until a new mandate can be funded, interim portfolio management can minimise total costs relative to ETFs, futures or swaps, allowing the sponsor to focus on higher value-add functions and ultimately deliver better outcomes for members.

"An interim portfolio manager will simply take over management of the existing mandate, optimise it to a tracking-error level with a benchmark index and maintain that tracking error for months or even years with minimal trading and at a very low management fee," he says. "This interim management strategy can avoid the higher management fees of staying with the unwanted legacy manager and the cost of the alternative strategy."

Against the backdrop of improving funding status, pension buy-outs have become more prevalent in recent years, nearly always involving just a portion of the defined benefit (DB) plan. Most plans that seek a risk transfer have already de-risked their plans, holding a large percentage of long-duration bonds which can be transferred in-kind to the insurer.

"The main drivers include rising PBGC premiums, administrative costs, investment management fees, and funded status risk/volatility," says Steve Fenty, managing director, transition management, US at State Street. "For larger transactions, insurance companies have moved toward accepting assets in-kind (AIKs) as ongoing securities in their portfolio instead of 100% cash. AIKs are attractive as they reduce cash drag and transaction costs incurred by insurers, who will often offer a discounted buy-out price.

"Plan sponsors and investment consultants are engaging transition managers to consult on strategies aimed at minimising the overall cost and risk of a pension buy-out. For example, building out a liability-matched fixed income portfolio in advance of a pension buy-out can serve the dual purpose of managing risk leading up to the transfer and reducing the insurance premium." ■

Making best use of technology and performance analytics

How are transition managers utilising technology to support clients pre- and post-trade? **Ceri Jones** takes a closer look at advances in tech and data analytics.

The mantra for technological improvement in transition management (TM) has always been the integration of all aspects of the project from start to finish, including risk analysis, project management, execution and settlements. TM technology has evolved tremendously such that multi-asset transitions can be managed on one all-encompassing platform, improving efficiencies, as opposed to moving between applications, for example when managing equities and fixed income in the same transition.

Transition managers now see the challenge as very much how to make the best use of all the data available, with interesting developments both pre- and post-trade. For example, before the transition, stock level data can be provided for announcements such as earnings, while information can also be provided on macro issues such as interest rate events.

Information at the pre-trade phase can

> **Several TMs have developed analytics showing how much trading they can do immediately, which requires knowledge of the inventory of counterparties.**
>
> **- Graham Dixon,** director of transitions at Inalytics.

“We find clients want a more complete view of performance and understanding of realised cost, and have found providing intra-day performance and commentary is one way of satisfying this.”

- Tim Gula, associate, portfolio transition solutions at Goldman Sachs.

also give a TM a competitive edge if insights can be fed into the proposals regarding costs. “Several TMs have developed analytics showing how much trading they can do immediately, which requires knowledge of the inventory of counterparties,” says Graham Dixon, director of transitions at Inalytics. “Those TMs that can do this are putting lower cost and risk estimates in front of clients and winning business as a consequence. This use of technology has become particularly important in fixed income. Brokers are not putting capital at risk in the way they used to but asset owners are devoting more of their funds to the asset class.”

Trading efficiency has also been improved by the use of optimised trading schedules that take account of individual stock correlations and marginal contributions to risk.

The proliferation of new equity trading venues has driven the development of trading execution systems that source venues to find liquidity via smart order routing, and then monitor execution quality.

“We believe the focus of technology improvements will be on trade executions to achieve the best execution objective on behalf of clients,” says Mario Choueiri, head, transition management at Pavilion Global Markets. “With respect to the fixed income market, recent advances in technology have allowed for greater transparency in a market that has traditionally been considered opaque, as well as easier access to increasingly scarcer liquidity due to the regulatory capital changes.”

High frequency trading (HFT) is part of the execution landscape, with any order predictability resulting from smart order routing likely to be exploited to the detriment of client orders. Many brokers and TM providers either operate their own venue or have a financial stake in certain dark pools that may be dominated by HFT, and these providers need to demonstrate that preferential routing of orders to these venues benefit the client, rather than being motivated by other financial considerations.

“This has led to greater focus on venue analysis, as well as customisation of algos to mitigate against the influence of predatory HFT activity, to bridge the liquidity gap caused by market fragmentation, as well as to help manage risk,” says Choueiri. “Clients will demand transparency across the entire trading process to better understand the liquidity sourcing preferences and get a clearer idea of what is happening under the hood.”

Venue analysis tools will help determine if a venue is being unduly preferenced or causing too much information leakage. Customisation of algos via venue selection and even real-time venue monitoring is the next stage. For example, some firms allow for customisation of algos on the fly to direct orders to achieve best execution and avoid information leakage. Technology must also be flexible enough to handle the increasing granularity of the data, from milli- to micro-second, or even finer, executions.

Tech can provide a competitive advantage most obviously where a transition is large, complex or multi-asset, taking weeks or months to complete.

“On some dimensions you can put a piece of paper between the providers but when

assessing the technology at their disposal the differences are tangible," says Dixon. "Often a technology solution is the key differentiating factor, for example, where a client has to keep their systems and information up to date throughout the restructuring. If the transition manager can connect their pipes to the client's pipes so that everyone is up to date and seeing the same information, or to put it another way they can flush data out of the client's system and immediately replace it from their own system, this gives that transition manager a significant advantage. Often the asset manager model has an advantage in this respect because they have valuation and risk platforms that minimise what the client needs to do. Only two or three transition managers offer this."

"Often there will be multiple stakeholders and partners in the same assignment so there is a huge advantage if your tech platform can do a lot of the heavy lifting," explains Andy Gilbert, EMEA head of transition client strategy at BlackRock. "Your tech platform needs to be able to handle volume, different derivatives, trade execution reports. The biggest difference is the scale of potential fund ranges and multiple managers, compared with five years ago."

After the event, clients like to identify what went right and what went against them. "Tick level data allows the transition manager to bring out what component of that cost was and was not related to their skill," says David Goodman, managing director, portfolio solutions at Macquarie Group. "Sophisticated transition clients can and do ask for all underlying original tick data and not a restated, re-compiled set of data from third-party brokers. Clients also ask that a TM's management and compliance should attest that the data is accurate and the capacity in which the executing broker acted for each fill in the transition."

Implementation shortfall (IS) remains the benchmark of choice, although clients often like to also use a relevant index. The big selling point of IS has always been that by setting the benchmark at the previous night's close, it is not open to any form of gaming.

"With the increasing share of liquidity in the closing auction versus continuous trading, the relative benefits of using IS could be called into question," says Cyril Vidal, head of portfolio transition solutions at Goldman Sachs. "While it's difficult to match the level of transparency of an IS thanks to having an independent benchmark, advanced performance analytics and scenario analysis can provide more comfort to clients choosing target on close strategies instead and achieving overall lower implementation costs."

"Implementation shortfall is not a perfect benchmark as it captures overnight risk which is considered outside of the control of the TM if they are not able to hedge with ETDs (exchange traded derivatives)," says Tim Gula, associate, portfolio transition solutions at Goldman Sachs. "We find clients want a more complete view of performance and understanding of realised cost, and have found providing intra-day performance and commentary is one way of satisfying this." ■

> **"Often there will be multiple stakeholders and partners in the same assignment so there is a huge advantage if your tech platform can do a lot of the heavy lifting."**

- Andy Gilbert, EMEA head of transition client strategy at BlackRock.

LGPS pooling: Progress and learnings

Charlotte Moore reports on the progress of local government pension scheme (LGPS) pooling in the UK and some of the transition management lessons learnt from the events undertaken thus far.

The formation of eight pools from 89 local authority funds has been the most complex transition process undertaken by any UK pension scheme. Sixteen months after the deadline for pooling passed, the process is well underway and some key lessons have been learnt.

While the approach to transitioning assets has varied considerably across the pools, there are some broad trends.

Sam Gervaise-Jones, head of client consulting for the UK and Ireland at bfinance, says: "Pools have selected new managers for passive equities, as well as core global and UK equity holdings, and some other public market asset mandates." Not all transitions, however, have yet been completed.

Undertaking such a complex operation has not been without its challenges. Gervaise-Jones says: "While the process is going well, it is taking longer than anticipated with almost all pools behind their original schedules."

Transitioning assets into a pool is a complex relationship management exercise.

"The big journey for us over the last 18 months has been to understand when it is important to have a particular strategy in a portfolio and when there is room for compromise without sacrificing long-term goals."

- Rachel Elwell, chief executive officer at the Border-to-Coast Pensions Partnership.

Rachel Elwell, chief executive officer at the Border-to-Coast pool, says: "Implementing pooling, rather than planning it, means understanding the practical implications."

This includes assessing the compromises the partner funds are willing to make in their asset allocations.

Local authorities have a statutory duty to set asset allocation to deliver the returns required to pay pensions while protecting local taxpayers and employers from high pension costs. Elwell says: "Pooling needs to facilitate rather hamper this."

Finding the best way to pool assets means focusing more on ensuring a partner fund can achieve the risk-adjusted returns to meet their long-term targets and less on implementation issues such as individual manager selection.

Elwell says: "The big journey for us over the last 18 months has been to understand when it is important to have a particular strategy in a portfolio and when there is room for compromise without sacrificing long-term goals."

It helps for a pool to set out its plans for a particular asset class. Elwell says: "We're applying what we learnt from the public equity transitions to fixed income."

The pool is first identifying what partner funds need from the asset class and then moving onto designing the individual sub-funds. Elwell says: "This allows the partner funds to see the overall strategy."

It is not just the pools which have had to learn how to work with numerous partner funds, so have the transition managers.

Multiple stakeholders mean the expense of the transition had to be split. David Goodman, managing director, portfolio solutions at Macquarie Group, says: "The biggest challenge is to understand the pools' cost sharing principles."

Cost sharing is complex because there can be considerable variation. Elwell says: "If a partner fund has a mandate which is very similar to the target mandate in the pool, transition costs will be lower." But another partner fund with a different strategy would have a higher cost of transition.

As all partner funds should benefit from the scale of being in the pool, for example by lower management fees in the future, the Border-to-Coast partner funds agreed to share the costs of transition.

Elwell says: "It's fairest to share the costs of the transition in proportion to the partner funds' transitioning assets." For example, if a fund contributes £10 million to a £100 million allocation, it will pay 10% of the costs.

Once this had been understood, however, it is possible to draw up an efficient low-cost implementation of an investment strategy. Goodman says: "This has to include enough transparency and attribution to demonstrate the cost sharing principles had been met."

The way transition managers have been used has varied across different investment strategies.

The precedent for transitioning passive equities was set before pooling become compulsory. In 2015, a group of local authorities, which were the precursor to LGPS Central, decided to pool their passive equity portfolios. Gervaise-Jones says: "Not only did these funds manage to negotiate a lower fee but the manager who won the mandate agreed to pay the cost of transition."

This was an important development because it highlighted the magnitude of the costs involved in such a process. Gervaise-Jones says: "It also underscored the need for transition management given the complexity of this process." This model of the recipient manager absorbing the costs of transitioning passive equity portfolios has now been replicated by other pools, notes Gervaise-Jones.

Despite the popularity of this model, the transition manager can have a role to play.

Goodman says: "Transferring the funds from multiple partners requires a high degree of co-ordination to ensure all the assets arrive at the right time and in the right form."

While the underlying assets might not change because the same indices are being replicated, where and how those assets are held will change. Goodman says: "Both operational and market exposure risk need to be managed during this process."

With the transition of the passive equities complete, pools have then turned their attention to global active equity. Transferring these assets is more challenging than for passive equity.

"Transferring the funds from multiple partners requires a high degree of co-ordination to ensure all the assets arrive at the right time and in the right form."

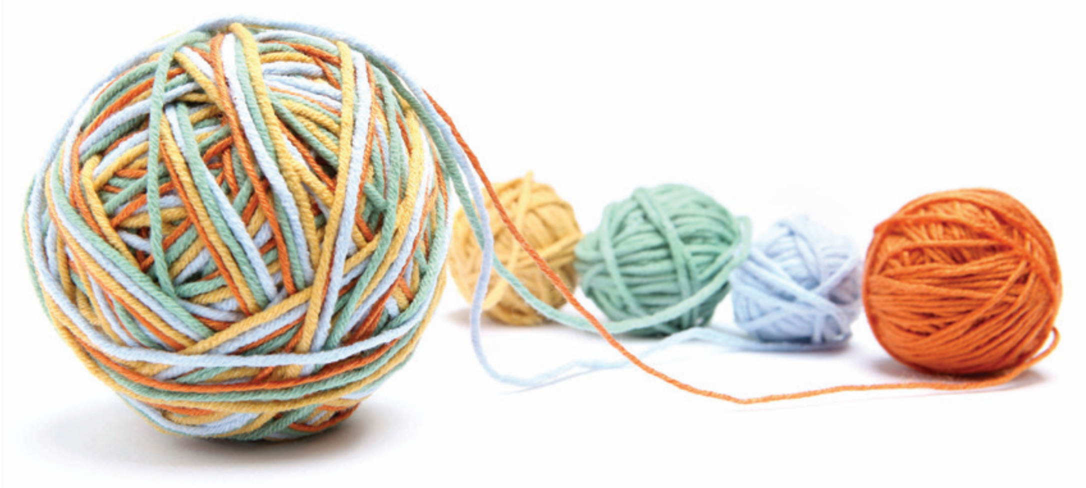
- David Goodman, managing director, portfolio solutions at Macquarie Group.

As equities are highly liquid, trading these assets is relatively straightforward.

Goodman says: "The complexity comes from taking assets from, for example, multiple partner funds each of which has multiple global equity allocations into the new managers held by the pool."

Border-to-Coast's global equity portfolio transition later this year is a good illustration of this challenge. Elwell says: "Among the eight partner funds invested in global equity alpha, there are currently 17 mandates with 16 different global equity managers."

This can be further complicated by the structures currently used by the partner funds – whether it is a segregated account or held in a co-mingled pot.



> **Pools have selected new managers for passive equities, as well as core global and UK equity holdings, and some other public market asset mandates.**

- Sam Gervaise-Jones, head of client consulting for the UK and Ireland at bfinance.

Elwell says: "If the assets are held in segregated mandates, it's relatively straightforward." But it is more complex when partner funds hold assets in pooled vehicles as it can take time for the manager to release those assets.

Rather than selling out of the assets held in the fund, it is usually more efficient to ask the pooled manager to transfer a proportion of the equities instead, adds Elwell.

Goodman says: "The pool needs to determine how these assets can be moved, how costs should be recognised and attributed. And they need to [know] if there are any tax implications which need to be respected."

The complexity of an LGPS pooling exercise means 70% to 80% of the work and the risk comes in the pre-transition phase.

A transition manager can help to reduce the cost and risk of this exercise, but they have to be at the top of their game with this level of complexity. Elwell says: "A pool needs to work with a firm which really knows what it is doing."

Transferring fixed income assets can also be a complex exercise. Goodman says: "The operational complexities are similar but not identical to equity transition."

Compared with an equity investment, it is likely there will be a higher proportion of cash and futures involved in the transfer of fixed income.

While fixed income are less fungible than equities because each holding is in an individual bond issue, this does not create as much complexity as might be expected.

Goodman says: "Bond portfolios are managed using an economic risk profile. That means different bonds can play a role in that portfolio as long as the overall risk characteristics of the portfolio can be maintained."

Difficulties do, however, arise with older bond issues in the legacy fund which have limited liquidity. Goodman says: "There can be a rump of stale assets which are hard to sell."

As the pools move through the transition of liquid assets, such as equities and fixed income, they will turn their attention to the alternative assets. The role for a transition manager is less obvious for this asset class. Their illiquid nature makes them much harder to move.

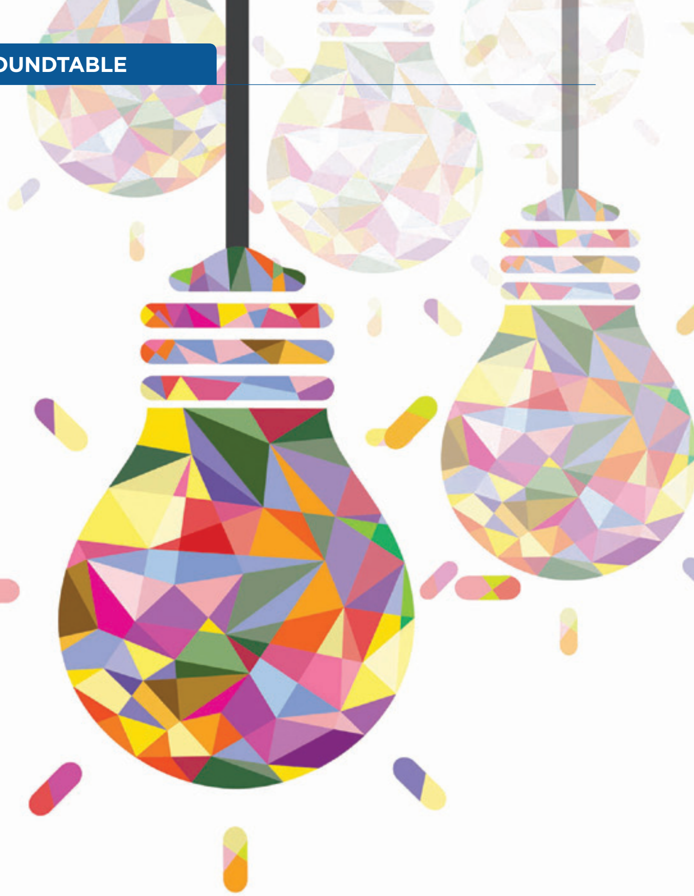
Goodman says: "While some assets can be transferred, it requires long lead times and has a high administrative burden." Establishing a fair and efficient pricing process is also complex.

An easier path is for pools to establish new alternative fund vehicles in the pool which can absorb profits from legacy funds as they mature as well as new cash allocations.

For example, LGPS Central established a private equity vehicle in 2018. A commitment of £250 million was raised from the partner funds for funds and co-investment opportunities.

This could, however, create challenges for the partner funds. With most of the liquid assets transferred to the pool, the funds will be left with the most complex assets on their books.

Goodman says: "They will need to ensure they have the appropriate internal resources to supervise and monitor those investments." ■



Industry roundtable

Leading transition managers and consultants came together in London in July 2019 to discuss the major themes shaping the industry, from ESG and emerging technologies through to liquidity constraints and the evolution of transparency.

Transition management takeaways for tomorrow and beyond

CHAIR: The finance and investment sector has recently taken a number of steps to enhance transparency, from MiFID II to the Cost Transparency Initiative (CTI) for pension schemes; how far has the transition management industry come in terms of transparency and how has that positioned the industry to evolve?

CRAIG BLACKBOURN: The implementation of MiFID II in January 2018 really put the wholesale market under greater scrutiny in terms of providing greater transparency to clients. Personally, I think the transition industry was already the vast majority of the way there on the back of the transition management thematic review the FCA conducted in 2014. Through the comprehensive reporting suites offered, the transition management industry was already providing clients with the level of granularity in terms of reporting and the transparency now required of the wider wholesale market under MiFID II.

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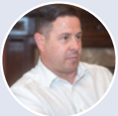
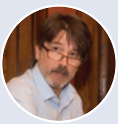







Pictured from top to bottom:

Chris Adolph,
director, Implementation Services, EMEA at Russell Investments.

Craig Blackbourn,
senior vice president, head of transition management EMEA, capital markets at Northern Trust.

Graham Dixon,
director, transitions at Inalytics.

Andy Gilbert,
EMEA head of transition client strategy at BlackRock.

David Goodman,
managing director, portfolio solutions at Macquarie Group.

Daniel Morgan,
senior managing director, head of agency trading and transition management, Americas at State Street.

Artour Samsonov,
head of transition management EMEA at Citi.

Cyril Vidal,
head of portfolio transition solutions at Goldman Sachs International.

Steve Webster,
senior adviser at MJ Hudson Allenbridge.

Chair: Louise Fordham,
special reports editor at Global Investor.

CYRIL VIDAL: Transition managers were ahead of the game in terms of providing transparency on cost. For me, transparency goes a bit further than cost and remuneration. It goes towards providing analytical tools to clients to help them to evaluate risks and see how they can execute their rebalancing in the most efficient way.

STEVE WEBSTER: The CTI is a real sea change as to how clients are able to access information about expense and I think it has really helped to open the door on the sorts of things that transition managers have been looking at for years. The CTI talks about the costs of a mandate, but it's important that we don't lose track of what the expense is between terminating one mandate and getting to the other. If the CTI can actually provide that, this will be an excellent move forward. If it can't, then maybe asset owners should remain wary of the slippage they are paying.

ARTOUR SAMSONOV: When I think of transparency I think of it not only as data analytics but also as an alignment with clients' interests. What the regulation and the focus on transparency are trying to address is: where are your interests versus your client's interests, and are you aligning with those interests? I am pleased to see that MiFID II is aligning the financial industry's obligations concretely through legislation along with those of the client. That's an incredible step forward in support of the transition management industry because when we act as a transition manager for the client we act as an agent on their behalf.

ANDY GILBERT: MiFID II has also created an environment where the suitability of

"It is important to realise that clients don't do this every day, so we need to deliver explanations that are easily consumed and allow for a fair comparison between providers."

- Daniel Morgan, senior managing director, head of agency trading and transition management, Americas at State Street.

what you are proposing is also something that needs to be considered. That extends to balancing the benefits of a strategy with the risks that may go with that strategy. The transition management industry has been at the forefront of this debate and MiFID II enshrines it in regulation, which is a good thing.

GRAHAM DIXON: Perhaps an interesting question to consider is why did the transition management industry offer this level of transparency before others? I think it's because we all settled on implementation shortfall as being the appropriate benchmark for performance measurement. The best thing about this benchmark is that it cannot be influenced by the transition manager; every cost that we run up, whether it's an explicit cost or an implicit cost, is captured in that metric. Transition managers provide attribution analysis of the implementation shortfall so clients can understand what factors drove the outcome.

CHRIS ADOLPH: As liquidity has become more challenging, strategies have evolved and increasingly with more liquidity being available on the close you do see more instances of clients being advised market on close (MOC) trades. There are very good reasons for this, but it does lead potentially to a lack of transparency, as by definition if you participate in something you will influence it. Furthermore, if the motivation is just to show a reduced market impact cost (thus a lower cost relative to other providers), that would not be comparable to another provider using an implementation shortfall (IS) methodology. One of the reasons the transition management industry came together was to enable comparison between providers. How clients compare us was a key part of that. If we go back to a situation where it's difficult to compare because everyone is adopting different strategies, that doesn't help clients, unless a T Standard IS analysis is also always provided.

DANIEL MORGAN: It is important to realise that clients don't do this every day, so we need to deliver explanations that are easily consumed and allow for a fair comparison between providers. That means clear explanations and transparency around the pros and cons of each strategy.

DAVID GOODMAN: The provision of independent third-party reports on transitions, sharing of underlying fill data with clients and/or their consultants and robust supervision and validation by firm compliance of client reporting, in particular the transition management firm's total remuneration (and all sources of remuneration), are all base level requirements for appropriate transparency for a transition event.

CHAIR: How is technology currently being employed to provide operational efficiencies and mitigate risk? And how do you expect the role of technology in transition management to develop over the next 10 years?

MORGAN: Technology is currently one of the biggest expenses in this space, and that is going to continue. I anticipate advances in reconciliation technology as well as the way we gather information from clients. We currently get information from clients in a relatively low-tech way via spreadsheets, which is a very operationally-intense workflow. I see advances in the ability for clients to communicate with us electronically so that there is not an opportunity for an operational mistake on the front end.

ADOLPH: If we are talking in terms of where we spend our budgets, if it's on systems then it is on data and data management. But it's not just about the front end and execution systems, which are always going to advance. Where things have improved a lot, and where I think a lot of resources are going, is on the operational side. How can we make that process easier and more transparent? Operations is vitally important, for us and for our relationships with our clients, and it is the operational side that will make a big leap.

WEBSTER: The temptation is to talk about all the 'sophisticated' value add, but getting the basics right has got to be key. There has to be a certain amount of budget that's still spent on ensuring that the basics are done well and in a uniform way in every single transition event. Even today we don't see these basics being managed at the same level, so let's hope technology will play a part in raising standards.

VIDAL: Technology and data come together and, so far, we've been using a lot of data for measuring liquidity. Where the shift is happening is that we also now use data for risk management. Most transitions are a two-sided event where you want to go from one portfolio to another incurring the least amount of tracking error and you need to take into account the correlation between the assets you're trading for achieving an optimal outcome. The transition manager usually looks at the overall performance of one portfolio versus another and not the performance of the individual assets.

GILBERT: Ultimately, technology is an enabler. Transitions are on the whole becoming more complex, they have more nuances, and technology can help us overcome some of those challenges and create the right outcome for a client. But while the technology you have may be fit for purpose today, you have to be able to evolve it for tomorrow. For example, as alternative asset classes are becoming

"Technology and data come together and, so far, we've been using a lot of data for measuring liquidity. Where the shift is happening is that we also now use data for risk management."

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

part of portfolio construction, how does technology think about that? How do risk management tools think about private equity? These are things that may not be there immediately, but I am sure you are going to see that coming through.

DIXON: Technology is the most important thing that we look at in due diligence and it is one of the dimensions where you can really differentiate between providers. Some of the projects that we get involved in are really complex, for example, 350 separate funds that you have to consider as a whole, produce cost estimates for, and report on. Having an infrastructure that can handle projects of that size is really important.

SAMSONOV: Transition managers have developed dedicated transition management systems over many years in the industry and have cutting-edge tools to provide services to clients. Therefore, we not only bring transition management expertise but also the technology along with it, and the commitment to continue to develop this technology.

GOODMAN: Transition platforms at leading providers have evolved into real-time STP platforms that allow transition managers to continually have access to accurate data on all aspects of a transition's status. This promotes both better risk control and enhances operational efficiencies. Going forward we would expect to see transition managers increase their investments in trading and risk management technologies, potentially, for certain types of transitions, solutions analogous to DMA execution platforms for investors.

CHAIR: How is the transition management industry navigating liquidity constraints and volatility?

ADOLPH: As volatility is changing, liquidity is changing. Understanding how a transition manager is accessing that liquidity is key for clients. It is becoming more and more challenging and that points towards the need to be able to access multiple different sources of liquidity. In terms of keeping costs down, being able to access liquidity at the right times, on the right venues and at the right cost is fundamental.

“In terms of keeping costs down, being able to access liquidity at the right times, on the right venues and at the right cost is fundamental.”

- Chris Adolph, director, Implementation Services, EMEA at Russell Investments.

DIXON: This is not a new problem; it's something that transition managers always address in their planning. Volatility, in itself, is not a problem, although it can be a leading indicator of illiquidity. To deal with volatility during a transition, the transition manager uses careful risk management to make sure that, if the right course of action is to step away from dealing, the client has the correct market exposure. Illiquidity is the real enemy of a transition, and the only answer to that is patience.

WEBSTER: We can access more prices in more securities in more places than ever before but, as we've recently seen, if that suddenly stops or markets become restricted, then access to liquidity becomes a key differentiator between transition managers. If there are market dislocations then I think we will see differences between the sorts of services and the value add that transition managers provide in these markets.

VIDAL: Liquidity is not a one-dimensional problem; you have to take into account various factors and turn these into simple liquidity metrics. A key skill of transition managers is to be able to summarise all the information available and simply answer the question: ‘What is the liquidity of my portfolio?’ Fixed income has traditionally been more challenging given the lack of information available. The good news is that 18 months after the introduction of MiFID II, we now have an improved historical data set, both in quantity and quality, we can establish an aggregated view of the volumes and more reliable indicators of liquidity.

GILBERT: What might be perceived as a liquid market or a liquid set of assets today can change overnight. When we think about access to liquidity - different venues, different counterparts - we need to continually assess them because a great source of liquidity today evolves and changes. A continual eye on the gauge when it comes to both volatility and liquidity is an absolute must.

SAMSONOV: More recently we have seen volatility primarily being driven by the news headlines. As a transition manager, you have to stay patient through volatility events and manage clients' expectations through the turbulence. You have to be a guiding light through those volatile events, instil confidence and trust, and at the same time have the capabilities to manage the transition strategy dynamically. For example, take advantage of opportunities when liquidity is available, and have the discipline to hold back when market conditions are unfavourable during the trading day.

BLACKBOURN: As transition managers, we have access to market-leading modelling tools and technology which truly help us evaluate and quantify risk. Volatility is frequently coming from the macroeconomic environment, and as transition managers, clients are looking to us to look holistically at the bigger picture. When you're looking at timing, it's about understanding all the data points around the time when the client is looking to transact, for example, are there Central Bank announcements, corporate earnings or GDP data which could easily contribute to volatility within an event? It's the role of transition managers to be able to consume all of the critical information and present this back to the client, allowing for an informed decision to be taken.

MORGAN: The transition process starts off months, sometimes even years before the actual event occurs. Many times, the client is flexible in terms of timing, and to the extent that we can provide information that allows them to transact in a quieter market environment, I think that's certainly a benefit for them. When it comes to managing expectations, we have a responsibility to make sure that the client understands that we may need to apply the brakes for all or a portion of the transition due to a particular situation and because of liquidity constraints in the market.

GOODMAN: Transition managers need to ensure that they move ever closer to the point of execution in their decision making. Transition managers should not be overly rigid or wedded to one approach to execution and be capable of accessing

"More recently we have seen volatility primarily being driven by the news headlines. As a transition manager, you have to stay patient through volatility events and manage clients' expectations through the turbulence."

- Artour Samsonov, head of transition management EMEA at Citi.

venues and client types that can provide liquidity in good form for a transition. Volatility can have a number of effects on a transition, it can drive increased opportunity and trading costs, it can also encourage some liquidity into the market that can be accessed to help complete the transition. Transition managers need to plan their execution strategies such that they are resilient to intra-day volatility, managing progress on their trading in a risk-aware manner.

CHAIR: As ESG (environmental, social, governance) continues to rise up the agenda for a number of asset managers/owners, how can transition managers best support clients transitioning to ESG-led investment strategies?

GILBERT: Clients need to consider what ESG means for them first because ESG is not one size fits all. It may be that you want to have a low carbon bias, it might be that you're looking at pure sustainability, it might be a ban on certain weapons manufacturers. As a client, you need to think about how ESG manifests itself in your portfolio construction. Are you going to use an MSCI Index that is ESG compliant? Are you going to use a regular index and put your own screens on top of that? What kind of products are out there?

Where transition management can help is to provide that assessment of what the cost and risk profiles are for those different scenarios. If you think about different indices, such as going from MSCI World to an MSCI ESG focus, there is around 53% retention index to index. If you take the same legacy index and go to MSCI Low Carbon, it's 83% retention. So, different interpretations of ESG have got very different impacts on the cost, the risk, the trading, and therefore the transition. Helping clients understand what that looks like and what that means is where the transition management industry can really benefit clients.

WEBSTER: The danger is it becomes a crowded trade in ESG names, and that means transition managers are all chasing exactly the same illiquid name in order to rebalance the same ideas across E, S or G. That could effectively increase the cost of making those changes, and would a client have necessarily wanted to make those type of changes if they'd know of the additional expense that would have been incurred in moving to that type of index? Transition managers can help with that strategic thinking about this kind of implementation.

BLACKBOURN: ESG is an investment style, and as transition managers, we are acting in a non-discretionary capacity - it's about managing execution cost and risk whilst observing the client's ESG restrictions. The client has already employed managers to apply their discretion to the ESG tilt of their portfolio. We've been answering clients' questions around not just ESG, but also sharia-compliant approaches to transition management.

MORGAN: I think many of our respective customers are drawing on other parts of our firms to help them formulate data points that come up with these ESG policies. Many of us have the opportunity to partner with other sides of our firms to offer a combined solution, from advice on setting policy to different forms of implementation.

SAMSONOV: As financial institutions we sit at the crossroads of multiple clients and we get the benefit of multiple perspectives and feedback, whereas clients may not always have an all-market view. For us, it's a matter of having access to that information, absorbing it and thinking about the best ways to apply it. As an example, today I learnt that MSCI ESG futures are soon to be launched. Maybe not every client is aware of that, so it is up to us to inform them and to use all the tools that are available to add value to their investment process.

CHAIR: What does increased consolidation, such as asset manager M&A activity and LGPS pooling, mean for the transition management industry in the long term? Will this result in changes to transition managers' value propositions and focus areas?

GOODMAN: Both events you have highlighted are very much front loaded in terms of activity; trade planning, structuring, advisory and other pre-trade activities are quite complex in these assignments and areas where transition managers can add significantly to the value. However, as the goals of these events are often either to simplify investment structures or to increase organisational scale or both, the organisation(s) on the other side of the transitions are likely to have different needs of their transition managers that could increase their focus more on sophisticated trading and risk management solutions.

BLACKBOURN: The types of clients transition managers were traditionally servicing included corporate pension funds, public pension funds, sovereign wealth funds (SWFs) and government agencies. However, over recent years we have seen consolidation among the public schemes, not to mention greater use of fiduciary platforms and outsourced chief investment officer (OCIO) offerings. As such we're dealing less and less with the underlying investors themselves and we're dealing more with entities that are becoming almost asset manager like. We're seeing far more use of transition managers by asset managers, and that's not just through the consolidation; I believe the asset management community as a whole has realised when they look at large value/large volume trading activity across their portfolios, and trying to save cost is of

"Consolidation activity means larger, longer duration, and more complex transitions. Taking the LGPS pooling initiative as an example, the transition manager has not only the LGPS Group as a client but also each Partner Fund with their own requirements."

- Graham Dixon, director, transitions at Inalytics.

paramount importance, the use of transition management services can be a true value add.

DIXON: Consolidation activity means larger, longer duration, and more complex transitions. Taking the LGPS pooling initiative as an example, the transition manager has not only the LGPS Group as a client but also each Partner Fund with their own requirements. So, they could be acting for eight or nine clients, and then there's the platform provider who is very important in this as well, and you've probably got a transition adviser that also needs information. In practical terms, this means the transition manager has to have much greater project management resources than for a typical transition. For really complex assignments, you can be in the planning phase for six months because a lot of things need to be completed before you can start moving the assets.

GILBERT: When there is an extended planning period of that kind, the transition manager is probably going to devote quite a lot of resource on managing those stakeholders, whether they're the individual pool or the underlying stakeholders, and that is quite a different skillset. It's not all about the trade, there is also a deep project management requirement.

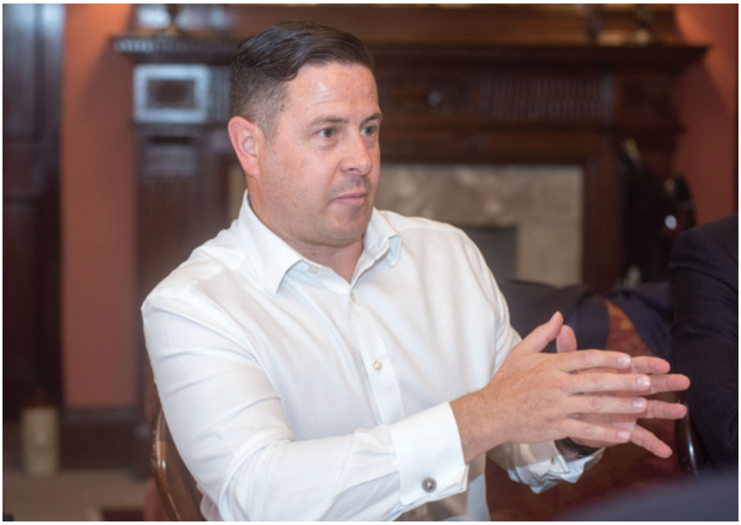
VIDAL: At one end of the spectrum you have clients who have grown so much that they have sufficient scale for developing in-house transition management capabilities. That's an interesting dynamic for our industry and an opportunity for the broker model given these clients will continue to require our execution capabilities.

SAMSONOV: Different types of transition managers will benefit through different phases of client growth. Longer term, I expect these pooled entities to become fully-fledged asset managers and to interact with banks directly, without the use of intermediaries. It is down to transition managers, with all of our different business models, to guide clients through their evolution process, contribute through their different phases, and find ways to evolve with them. We do have value to add now and we will have value to add in the future, it's just that the capacity in which we do that will change.

WEBSTER: There are unique skillsets that transition managers bring to a consolidation or reorganisation, whether it's a pension pool or an asset manager. Many of these events require some form of independence because of the nature of the clients involved, and the need to ensure they are being treated fairly. Typically, transition advice is not only important because of the lack of specialist resource or knowledge, but also because of the lack of independence in balancing client and manager interests.

MORGAN: Active asset managers are cutting their fees, they're looking to take on less risk, they're looking to outsource anything that's non-core. Implementation in many forms is non-core to these asset managers, it doesn't produce alpha. Meanwhile, transition managers have spent years and significant investment on constructing multiple sources of liquidity and various technology stacks which can be utilised by different parts of the asset management community effectively.

CHAIR: Is the market ripe for disruption? Where could innovation and the evolution of services deliver the greatest benefits to clients?



"Continuing to stay at the cutting edge and investing in technology as transition specialists is of paramount importance for our industry."

- Craig Blackbourn, senior vice president, head of transition management EMEA, capital markets at Northern Trust.

VIDAL: Disruption in some other industries is synonymous with the idea of being replaced by technology. Some aspects of transition management can be made more efficient through technology, such as pre-trade analysis, executions, post-trade analysis, and that can free up time and resources. However, what is at the core of transition management is experience and project management and that cannot be replaced by technology.

DIXON: Transition management has been around for 25-30 years and during that period rather than disruption, we have seen gradual innovation and improvement. Can we replace transition managers with robots? I don't see that because transition management, particularly for the largest exercises, is a craft and the expertise resides in a small group of highly expert and experienced individuals. Having said that, where major breakthroughs and developments in execution are made, you can bet your bottom dollar that transition managers will be the early adopters.

SAMSONOV: Disruption is probably not the right word to use in the transition management context. We are in the business of risk management, and disruption requires some degree of risk taking. Therefore, the biggest changes for our industry are coming from the clients themselves who are pushing the industry to change, while our responsibility is to address their needs.

BLACKBOURN: If you look at the financial institutions which we all represent, there's no doubt technology is a key part of everything that we do. There is going to be further disruption, whether that's around blockchain, liquidity, clearing agents... I think we're in a fortunate position where we as individuals can add something a little bit different because the very nature of what our clients are doing is so unique from event to event. Continuing to stay at the cutting edge and investing in technology as transition specialists is of paramount importance for our industry.

CHAIR: Looking forward, what do you consider to be the greatest opportunities and challenges for the industry?

GOODMAN: Continuing to move forward into implementation and portfolio construction advisory and trading services will not only be an opportunity but a necessary requirement for transition managers to stay relevant to their customers.

ADOLPH: We're seeing the contraction of the DB (defined benefit) market. As the DC (defined contribution) market starts maturing more, and as platforms change, there is an opportunity there. Those types of transition are not as easy to manage as, say, for your typical DB scheme. You have to re-think how you are approaching it. We typically approach any event based on risk mitigation and managing costs, but those might not be preeminent in DC, where operational and minimising black-out periods might be more important considerations. While you are still adding value and managing those costs, you are facilitating change in a slightly different way.

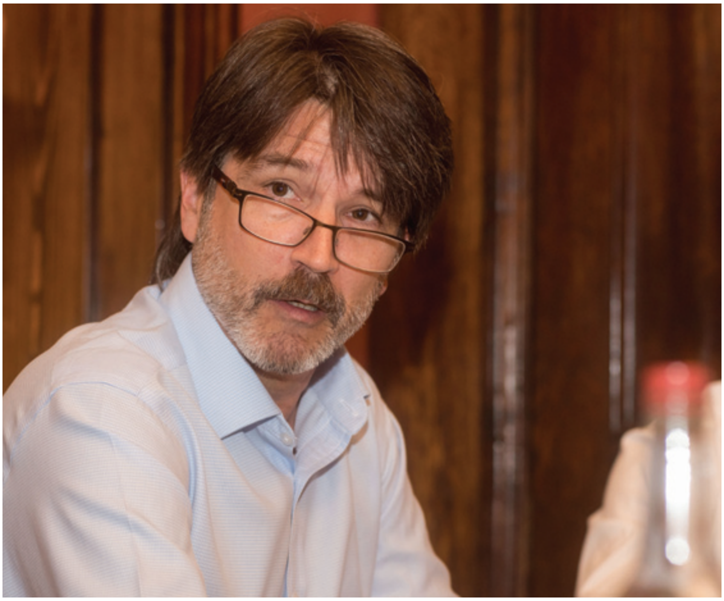
DIXON: Normally in a transition project, if you want to go faster or you want to go slower or you want to change the strategy, then you go to the transition manager and it happens, whereas in a DC transition the platform provider is king. Once the transition starts, the train leaves the station and it's not going to stop. This means you have got to have a really good plan, and that plan has to be robust and it has to contain all the contingencies and mitigations.

MORGAN: We see opportunities in the DC space expanding. I would describe a DC transition event as an 'all hands on deck' exercise, and not just because you have additional parties in the mix. There are quite a few additional complexities that you just don't see in a DB transition. You cannot mitigate that risk with technology; it's all about the people, so it comes back to the strength and depth of teams to deal with a large-scale DC event.

CHAIR: If there was one issue you would like asset owners, asset managers and other industry stakeholders to be aware of or better understand about transition management, what would it be?

BLACKBOURN: My message to investors would be: you have taken a decision to make a change to your investment portfolio and there are an infinite number of ways in which you can get from your start point to your end point. Some are still of the view that they would rather their legacy manager or their target manager manage that change, and some clients do not want to see the explicit costs involved with making those changes. I would urge them to go back and think about that. The whole point of using the transition manager is to help put a better-defined cost basis and governance process around making the change; and specialist transition managers are well-placed to help clients manage those changes.

VIDAL: Whenever they have to choose a transition provider for a specific event, I would advise clients to go for a realistic cost estimate supported by data. Clients could be tempted by the lowest overall cost estimate, which would not necessarily result in the optimal outcome. Ask for the quantitative analysis that supports the cost estimate.



"The gaps (or transition) between mandates can make a significant difference in long-term performance. Ignoring proper planning, management and measurement of transition is an acceptance of unmanaged risk and cost."

- **Steve Webster,** senior adviser at MJ Hudson Allenbridge.

WEBSTER: If you want to understand long-term performance, make sure you count the gaps. The gaps (or transition) between mandates can make a significant difference in long-term performance. Ignoring proper planning, management and measurement of transition is an acceptance of unmanaged risk and cost.

SAMSONOV: As an industry we are here to help. Ultimately, when a transition management client comes to us, they are receiving professional help and there is value in that. Although it does cost something it is money well spent because in most instances savings from a transition being managed to a high standard will be greater than the cost of our service.

GILBERT: If you are planning a change, don't leave it until the last minute to think about how you are going to do it. Early engagement is important because you can then start to understand how your transition manager can help you. This may well be in the risk management, in the trading capabilities or in some heavy project management lifting, but there could also be some other things a transition manager can assist you with that you may not have even thought about, such as managing assets on an interim basis, for example.

DIXON: Implementation shortfall is brilliant but it is focused on the transition managers so we can monitor and evaluate what they do, it's not particularly helpful to clients. Usually their questions are: 'Did I make the right decision to move?' or 'How long is it going to take to pay back the transition cost with the additional performance that I'll get for making the changes?' Implementation shortfall is not useful for answering those questions. So, my plea is for a better understanding of implementation shortfall; what it tells you and what it doesn't tell you.

"If you are planning a change, don't leave it until the last minute to think about how you are going to do it. Early engagement is important because you can then start to understand how your transition manager can help you."

- Andy Gilbert, EMEA head of transition client strategy at BlackRock.

ADOLPH: We are not trying to introduce complexity or manufacture costs. Our role is to try and help clients with transitions and to provide clarity where there's obscurity. We are there to offer a service that tries to reduce complexity and minimise those costs, working in their best interests, not against them.

GOODMAN: A substantial amount of discussion time with respect to transition management usually centres on trading and risk management processes and technologies during the "live" stage of a transition. More time should be given over to understanding the value add that an experienced transition manager can add during the planning and design phase of the transition where decisions can be made that can greatly affect the potential outcome of the change event.

MORGAN: We all put an immense amount of resources forward in order to help maximise fund value and protect the returns for asset owners and asset managers. We make the investment into our businesses for one reason: to protect clients and their shareholders. There are many implementation options available, and they may be available even for the simplest transaction. However, I believe it's incumbent upon our customers to challenge all of us to develop and present different strategies that will help accomplish various goals. ■

"More time should be given over to understanding the value add that an experienced transition manager can add during the planning and design phase of the transition where decisions can be made that can greatly affect the potential outcome of the change event."

- David Goodman, managing director, portfolio solutions at Macquarie Group.

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BGA is an independent consultancy that provides proprietary analytics services to the investment industry globally.

BGA Transaction Cost Analysis (TCA) measures the impact of trading costs on transition and portfolio performance. To provide context around quality of outcomes, trades are assigned a Transaction Difficulty Ranking (TDR), based on BGA's normalized transaction database, and the relative performance of trade lists and portfolios are measured prior to, during and post execution to identify information leakage and measure reversion.

BGA Manager Performance Analysis (MPA) provides asset owners with data points that enable more constructive dialogue with managers, evidence-based manager decisions, and supplement manager due diligence. MPA evaluates each managers' transaction costs, decision success, alpha generation, strategy capacity and simulates redemption costs.

BGA Break-Even Information Ratio (BEIR) compares the performance impact (fees and transaction costs) of each strategy to the benchmark risk of each strategy. The ratio of performance impact to tracking error is the BEIR, which is the hurdle the manager must achieve to simply meet the benchmark return.

BGA's proprietary analytics platform and audited database is complemented by its team, each with over 20 years market experience, who provide objective critiques of cost and performance outcomes.

BlackRock

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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 50+ transition professionals are located in London, 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 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.

Citi Transition Management (CitiTM)

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Citi Transition Management (CitiTM) delivers innovative portfolio solutions to asset owners and asset managers. We are a global team with offices in New York, London and Sydney, and work across almost every asset class.

We benefit from being a part of one of the largest banks in the world with an unparalleled access to global liquidity. Our project management expertise comes from being a leading provider in the transition management industry for over 20 years.

The truly unique element of our service is our partnership approach to working with clients. Regardless of the surprises that market conditions bring, clients can rely on us for expert portfolio restructure help.

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 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 across 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.

Inalytics Transition Management Consultancy Services

INALYTICS

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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.

Macquarie

MACQUARIE

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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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MJ Hudson Allenbridge 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 £7trn of group-wide assets under advisement. 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.

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 leading global multi-asset manager that delivers investment portfolios that combine advice, investments and implementation. The firm stands with institutional investors, financial advisers and individuals working with their advisors - using its core capabilities that extend across capital market insights, manager research, asset allocation, portfolio implementation and factor exposures - to help each achieve their desired investment outcomes.

Transition management has been a core capability for over 30 years, working with over 1,800 clients, independent distribution partners and individual investors globally. Russell Investments managed 235 transition events representing over £85 billion during 2018 through its implementation services business, helping clients manage their risks and investment performance when restructuring their portfolios or asset classes.

The client-centric fiduciary model has been key to the 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 an experienced global team of dedicated specialists, helps to ensure we are a trustworthy partner.

Customised portfolio services: Transition management, outsourced trading, currency management and overlay services.

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Global Locations: Boston, London, Singapore, Sydney, Tokyo

State Street is one of the largest global custodians, servicing more than 32,754 billion in assets as of June 30, 2019. State Street Global Markets delivers innovative, value-added solutions to meet clients' financing, liquidity, and asset intelligence needs. The Portfolio Solutions group supports investors in delivering multi-asset outsourced execution and risk management services, deploying an experienced global workforce and best-of-breed infrastructure. With growing trends of cost pressure, outsourced trading and risk management solutions offer opportunities for operational and cost efficiencies for institutional investors. State Street's front office execution solutions sit at the front of State Street's front-to-back platform offering, Alpha SM. Alpha gives clients access to the complete investment lifecycle with the power of choice. By streamlining and improving their day-to-day operations through a single open platform, clients are free to focus on innovation and growth.

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

FOR PROFESSIONAL CLIENTS AND QUALIFIED INVESTORS ONLY

It's about you, not us

GLOBAL INVESTOR GROUP
AWARDS 2019
Transition manager of the year
BlackRock

We would like to thank our clients for their ongoing trust, support and partnership.

Thank you.

BlackRock, a leading provider of transition management services since 1993

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