

## Transitioning Assets in a New Age

### CURRENT BEST PRACTICES

The relationship between asset owners and transition managers has shifted from an event driven relationship to that of a consultancy/ partnership. Originally transition managers were differentiated depending on the type of organization they belonged to (i.e. custodians, asset managers, broker-dealers or investment banks). Recently, the differentiation has been a function of access to investment technologies, trading capabilities and trading model (agency vs. principal), and the capability of the transition manager to act as a fiduciary.

Asset owners, plan sponsors, sovereign wealth funds (SWFs) and the rest of the transition management clients are moving towards the creation of transition management panels. These panels consist of a number of pre-approved transition managers; each with a distinctive set of skills, instead of clients depending on their custodian or investment manager(s) to handle the restructuring process.

### Plan Sponsors (including Sovereign Wealth Funds)

Historically, plan sponsors have been the largest group of users of transition management. During the last few years, pensions have started investing in new asset classes and markets which have lead to higher growth in their transition management needs.

Defined benefit plans are liability driven, which makes investment performance of utmost importance and highlights the risk of transitioning portfolios between managers. This is critical during new funding or the increasing of the funding of an existing manager. A bad transition could wipe out what is worth years of a managers' performance. Furthermore, the current underfunded status of a large number of such plans place tremendous pressure on the sponsors to avoid and manage risks so as to prevent increasing the gap between the plan's assets and liabilities.

Defined contribution plans also aim to beat a specific benchmark and if transitions are not handled properly it could take years of over performance to make up for the resulting shortfall.

Sovereign wealth funds, individually and as a group, are amongst the biggest transition management clients. As they often have multi-asset, multi-region mandates and hold their assets with multiple custodians, the project management and risk management skills and capabilities of a transition manager are instrumental to ensure that the operational and execution risks are controlled. The above average size of a typical sovereign wealth fund transition event translates into a large absolute opportunity cost if the transition is not managed properly.

### Multi-Manager Programs

Asset managers offering multi-manager programs generally differentiate themselves by offering programs that are customized to their client base. To achieve this, these programs are diversified across multiple managers, asset classes and styles. The multi- manager is entrusted with choosing individual managers with superior performance through a process of researching, selecting and monitoring these individual managers in the programs offered.

By adding a transition manager to the mix, the multi- manager can further distinguish his offering by minimizing the risk and further reducing the cost of building up or transitioning the portfolios between the different managers in the program. This is a major factor due to the inherent operational and investment complexities in managing cash flows between funds with different NAV, reporting, settlement, subscription and redemption dates.

## Asset Managers Using TM to Board a New Mandate

All asset managers have a fiduciary duty towards their clients. We live in a world where performance attribution is in the lime light. Clients have been focusing on the unbundling of fees to understand exactly how much they are paying for the services received, which assists them in valuing the importance of such services to their business model.

By linking up with a transition manager, the investment manager can further emphasize his fiduciary duty towards his clients. A transition manager will ensure that the end client receives best execution, the transition is conducted in a cost and risk controlled environment, and unnecessary trading is eliminated. These savings directly trickle back into the client's portfolio, which assists the manager in achieving or beating the expectations set.

An example would be comparing the scenarios of the liquidation or the reduction of a portfolio. Using a transition manager would incur discounted execution commissions coupled with project and risk management services. While if the asset manager used his prime brokers, he would need to pay bundled (higher) commission rates, in return for research and services that will no longer benefit the client and without any project or risk management, exposing the client's portfolio to huge and unnecessary risks. Different transition managers follow different models and use different tools to facilitate their job, however, the goal of all transition managers is the same - controlling costs and risks and expediting the transition event. ■

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