

The Penserra Approach to Transition Management

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What is Transition Management?

A piece of the puzzle...

CLIENT

INITIAL MANAGER

TRANSITION MANAGER

NEW MANAGER

Index Fund

**Long/Short
Fund**

Large Cash

- Identify Overlap
- Strategy
- Implementation
- Feedback

130/30 Fund

Legacy Portfolio

Transition Portfolio

Target Portfolio





Why is Transition Management Important?

Increased volatility...

VIX – CBOE Volatility Index





Why Transition Management is Important?

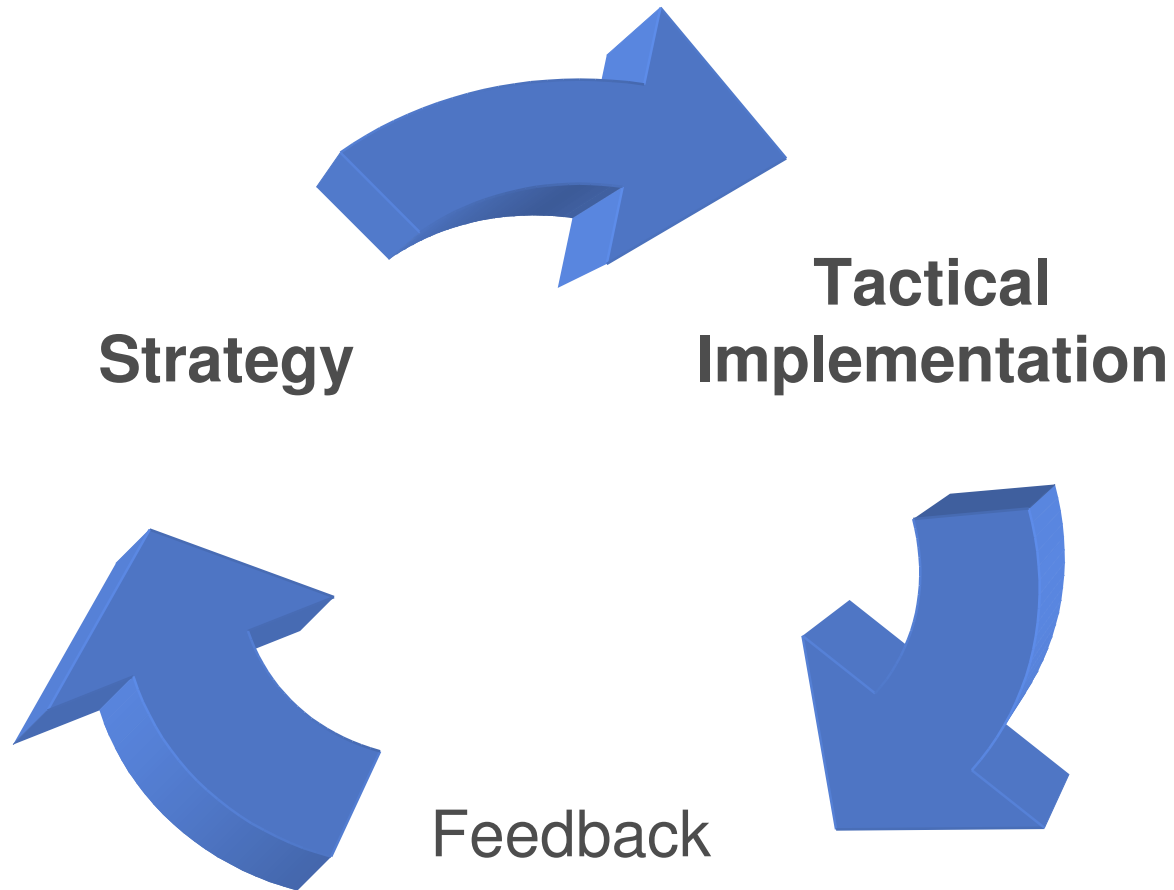
Value and Expertise in a bubble...

- Save Money. Transition Management can help reduce transaction cost which can otherwise be very expensive if left unmanaged.
- Expertise. Transition Management helps mitigate risk associated with operational oversight and trade implementation for these complex events.
- Transparency. Good Transition Management isolates all the costs associated with the event (best practices: T-Standard).
- Separation of Duties. A Transition Management frees up time for the new portfolio manager to focus on their own areas of expertise.



Transition Management Cycle

1, 2, 3...





The Penserra Approach

Thorough Planning...

Strategic Consideration

- Legacy Portfolio (starting point)
- Target Portfolio (benchmark)
- Transaction cost model
- Risk Factor exposures
- Alpha signal
- Order Aggressiveness (λ)
- Crossing expectations
- Use of derivatives
- Trading Horizon (days/hours)

Tactical Consideration

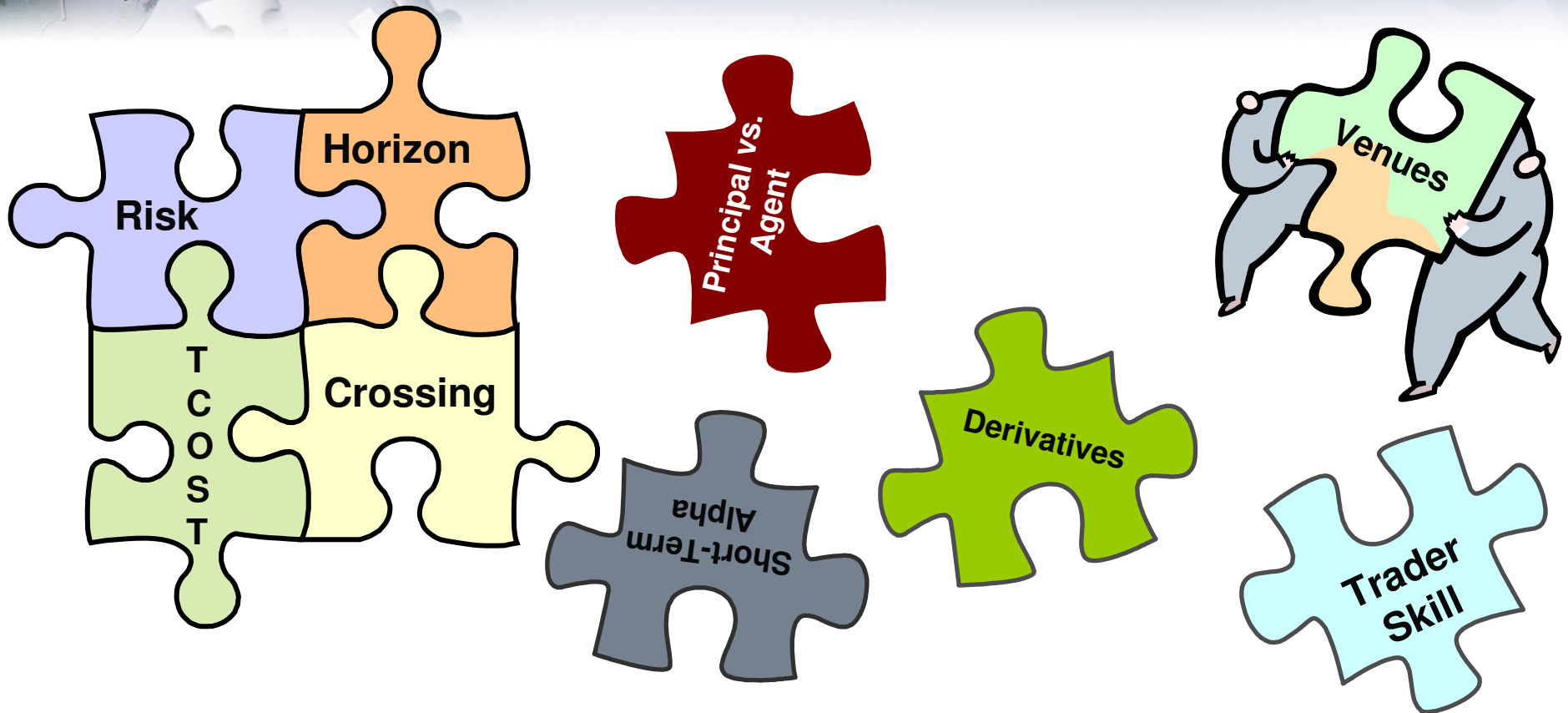
- Trading Strategy (how to trade complex and simple order/ principal vs. agent)
- Venue/destination universe (where to trade)
- Algorithm management (which to use and when)
- Attention to alpha decay
- Skill (trading experience)

Output

- A strong game plan
- Optimal portfolios to hold for each period in the trading horizon
- What to buy and sell for each period in the horizon
- Pre-trade forecast for entire transition period
- Always be prepared to switch gears.

Strategy and Tactical Implementation

All the pieces...

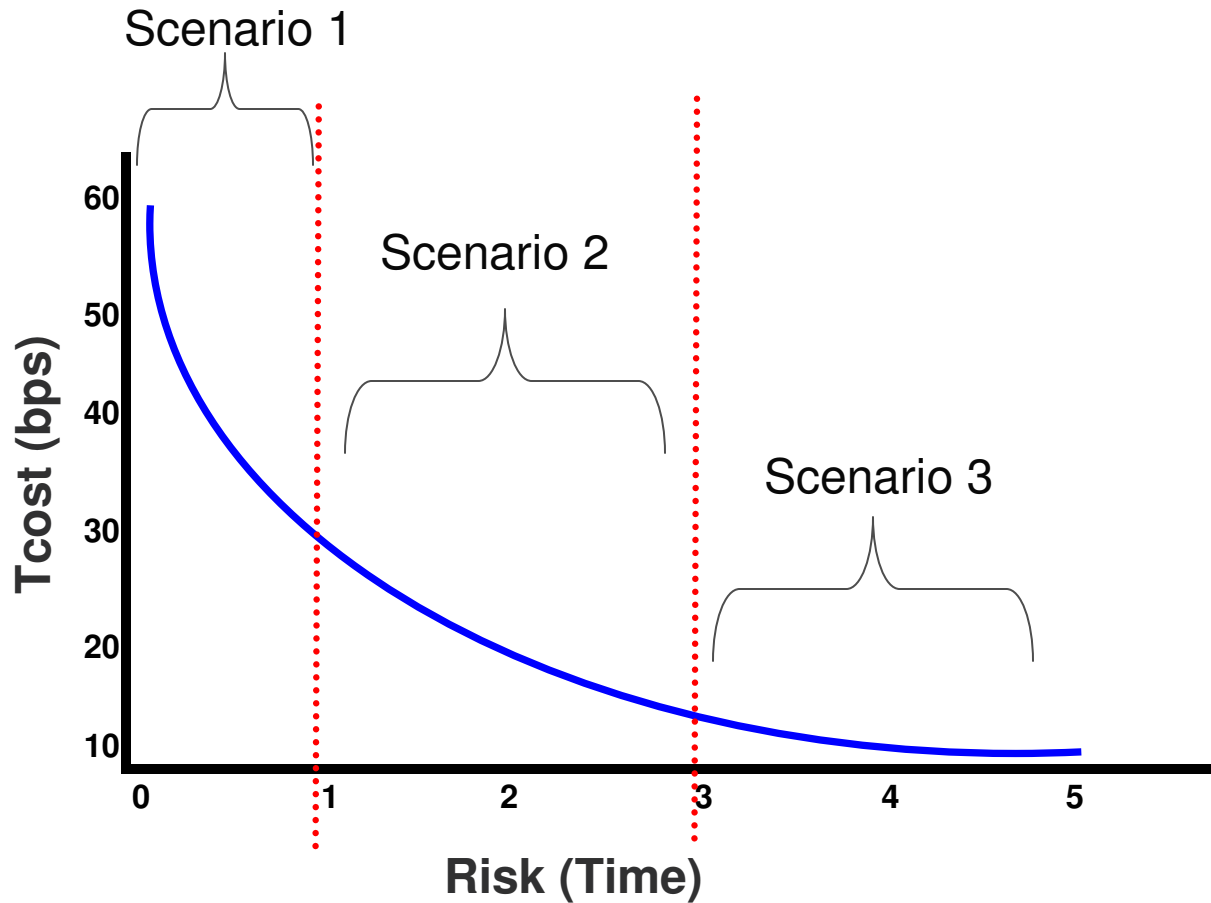


Maximize Trade Utility*

* $Utility = \alpha_{st} - \lambda_S \cdot \psi_{st}^2 - MI$ (Grinold and Kahn, 2000)

Strategy and Tactical Implementation

Order Aggressiveness...



Scenario 1
Triage
Minimize Risk Immediately

Scenario 2
Balanced Approach
Minimize
Implementation Shortfall

Scenario 3
Accept Risk
Minimize TCost

Notes: Examples of Transition Events. Just a few...

- **Portfolio Liquidation**

example: inherit a concentrated portfolio of stock to be sold for cash

- **Interim Portfolio Management Solutions**

example: original asset manager has been terminated, but replacement asset manager has yet to be hired

- **Strategic Asset Allocation**

example: increase fixed income portfolio exposure and reduce global equity portfolio

- **Manager Allocation Shift within Asset Class**

example: reducing an S&P 500 index portfolio manager and hiring a 130/30 portfolio manager