Talking Transitions *with* Penserra

SERIES 2 | ARTICLE XIII

Avoiding Surprises

Taking Notice of Trends in Transition Management

As competitive and regulatory forces continue to shape the transition management industry, certain trends have recently emerged allowing assets owners to stay ahead of a rapidly evolving landscape. These developments have not only been seen as viable but effective ways to strengthen a plan's risk management and governance practices. Equally important, they have helped prevent asset owners from being blindsided when it comes time to schedule transition events.

▶ Renewed Focus on a Transition Panel

Asset owners have begun to establish multiple relationships with a diverse group of transition providers, each with different skill sets. While the concept itself is nothing new, it may indicate a shift in how transition providers are now being viewed in light of a number of unexpected player changes in recent years. As opposed to working with a single transition provider, employing a panel or roster of 3 to 4 providers can offer asset owners an immediate baseline for comparison shopping. They have the ability to seek competitive pricing, perform an 'apples to apples' project comparison, assess trading/risk management strategy options and differentiate the services of providers for a given event. For asset owners, this vetting process can be very helpful as it reduces costs, provides a reasonableness check for cost and risk estimates, and fulfills their fiduciary obligations.

A panel/roster can also benefit asset owners who:

- Quickly need to terminate a relationship with a transition provider. Having a vetted panel of transition managers allows for timely access to cost and risk management expertise when unexpected factors drive the need to change managers or asset allocations.
- Use a 'mix and match' approach by building on the providers' different strengths for specific events to have a better overall execution and service quality.

Gathering information from several providers through a competitive bidding process allows asset owners to make a well-informed decision and then comfortably address questions such as "what was the winning estimated cost?", "how did it fare versus the other submitted estimates?" and "did the actual implementation shortfall come in line with expectations?" in front of their board or committee.

▶ Increased Use of Third Party Providers

In 2013 and 2014, when two of the nation's largest custodial banks decided to abruptly pull out of the transition management space, the transition needs of many asset owners were opened to review. While custodial banks had been the 'go-to' transition providers to their custody clients for years, asset owners soon realized by partnering up with non-affiliated transition managers that the level of coordination and oversight of administrative tasks, operational steps, project planning, and reporting could still remain the same. The once key competitive selling point for custodial banks was no longer unique as non-affiliates proved to be as knowledgeable about custody processes as the custodial banks themselves.

Nowadays, in order to keep the business of asset owners, custodial banks (and, for that matter, fund managers) may resort to offering price bundling packages in exchange for awarding a transition mandate. This may be appealing at face value, but asset owners are aware that these incentives can be marginal compared to the overall cost of a transition trade. In today's world, with much scrutiny over fiduciary issues and potential conflicts, it makes sense for asset owners to separate their transition activity from their existing custodial and fund manager relationships.

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▶ Valuing the Input of Consultants

As an extension to their own staff, asset owners have been looking to their investment consultants to leverage their resources and expertise to help form their transition management panels/rosters. These consultants, who have traditionally valued the use of transition management as a means to manage a plan's risk, are able to recommend a set of transition providers tailored to meet the needs of asset owners, needs that may include asset class expertise, minority participation, or global trading capacity. Furthermore, with their extensive relationships ranging from banks to boutiques, consultants have the ability to monitor the 'pulse of the industry' and recommend changes when necessary.

▶ Conclusion

While putting multiple third party relationships in place can be a time-consuming endeavor---having to screen out initial candidates, perform the required due diligences and negotiate contracts---the benefits of avoiding a disruption to the plan's investment process, promoting competition for sake of cost savings, and ensuring good business practices far outweigh the inconveniences.

Turn to Penserra to deliver the investment, trading, and operational expertise you require for a seamless transition.

Contact Us
Penserra Transition Management
(855) 736-7377 | transitions@penserra.com