Talking Transitions *with* Penserra

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Managing Mutual Funds in a Transition

When it comes to dealing with mutual fund investments in a transition setting, it can be particularly daunting.

Mutual fund companies have strict redemption/funding dates or are unable to redeem/fund in securities. This additional layer of complexity requires time to identify, map and coordinate the various fund flows and potential exposure issues. While a client, consultant or custodian may indeed have the resources to perform these tasks themselves, they are unlikely to have the experience or be specifically designed to handle the many moving parts involved. As a core function of their business, a transition manager is capable of overseeing such a project within budget and on time while ensuring the goals of the client are met. Here is a brief look at a couple of areas that should be considered when addressing mutual fund activities.

Planning/Communication

Fully understanding the operational logistics of a transition event allows a transition manager to lay out a detailed timeline with deliverables. Knowing the participants, their roles, their requirements and tying them all together offers a clear and concise game plan as well as detect/escalate any operational or investment risk(s). It's critical to understand the following idiosyncrasies of mutual fund companies:

Redemption of Mutual Funds

- Their notification deadline to place redemption orders.
- Actual amount of proceeds.
- Timing of when proceeds are available.

Funding of Mutual Funds

- Their notification deadline to place (initial and subsequent) contribution orders.
- Timing of when funding is needed.

In addition to knowing the mutual fund requirements, a transition manager must work in tandem with the party responsible for placing the mutual fund orders on the client's behalf. While in most cases this is handled either by the custodian or trustee, first time orders with target mutual funds can be placed by the client with a letter or fund form. Again, these details would be confirmed and mapped out by a transition manager during the planning phase.

Acting as a single point of contact, a transition manager can play a role of both a project manager AND risk manager during the course of an event.

Potential Exposure Issues

There may be instances where a client is seeking to move their investments (precise amounts not known until after redemption date) from numerous existing mutual funds to an entirely new roster of mutual funds. If it is determined that these transactions can only be done in cash, then estimated cash amounts would be placed to the target mutual funds based on how much cash is expected to be raised from each of the redeeming mutual funds. This would potentially leave a portion of the client's investment out of the market. Once the actual proceeds from the redeeming mutual funds are known, subsequent cash contribution orders would be placed with the respective target mutual funds to 'true-up' the investments.

If the aggregate subsequent (or un-invested) cash above is deemed significant, a transition manager can offer temporary exposure solutions through the use of futures or ETFs until those funds are invested with the target mutual funds.

Acting as a single point of contact, a transition manager can play a role of both a project manager AND risk manager during the course of an event. They not only relieve the client from the burden of planning, operational follow-through and execution of movements, but also carefully manage the associated risks. In effect, they're able to wear multiple hats for the sake of an orderly transition.

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