Talking Transitions *with* Penserra

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Transition Management for Asset Managers

Having a transition process in place can give investment managers a new approach and potential competitive advantage when competing to win business from pension plans, public funds, foundations and endowments.

Background

Advances in transition management have been driven by increases in computing capacity that have opened the door for tools that more accurately measure transaction costs and real-time residual risk. Historically, and for obvious reasons, it has been primarily the owners of assets that have cared most about trading costs and exposure risk when moving assets.

Asset managers are often not called upon to manage exposure risk as assets are added to their portfolios. For many, the 'performance clock' does not start until new funds are fully invested in the target portfolio. While clean from a reporting perspective, this approach fails to completely align the interests of the asset manager with those of a client looking to minimize the cost of re-structuring their holdings. Buy side trading desks can also be more regularly focused on trade strategies designed for NAV (Net Asset Value) or MOC (Market On Close) related benchmarks and risk management tools like dollar neutral and residual risk-optimized trading strategies are less a part of their daily process. If asset managers with transition management tools can be brought into the discussions regarding how and when legacy assets are traded as part of a transition event, there is room for both asset owners and asset managers to benefit.

▶ Advantage of Utilizing a Transition Manager

A transition provider can offer asset managers a range of solutions that promise the ability to address significant concerns for asset owners. To build lasting relationships with these clients, asset managers can and should improve their competitive advantage by working together with asset owners to control costs, manage risk, and demonstrate good governance not just from the point where money comes in the door, but from the moment a client commits to a business relationship.

By working with a specialist, an asset manager can offer the ability to evaluate a potential client's current holdings; provide a timeline to identify all steps required by the client and their custodian to move assets; a project plan that provides detail to the timeline including contacts, key deliverables, and responsible parties; an identification of any securities already held by the client that the asset manager would like to continue to hold; estimates of the cost to sell the residual securities; estimates of the cost to purchase the asset manager's target portfolio; an evaluation of the active market risk between what the client currently holds and what the asset manager would like to hold instead; full transparency as to the explicit and implicit costs of transitioning assets; and an overall strategy to move from current holdings to target holdings in an effective and cost efficient manner.

A comprehensive on-boarding process can position asset managers as more of a partner to their asset owner clients, expanding the scope of interaction and in turn, providing a business development competitive advantage.

This service can often be provided with no incremental fee beyond the commission rates the asset owner would normally pay. A comprehensive on-boarding process allows asset managers to appear client-centric to their asset owner clients, expanding the scope of interaction and in turn, providing a business development competitive advantage.

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