Transition Management

Investors make portfolio reallocation decisions to enhance the value of their investments and meet cash flow requirements. If these changes are not carefully managed, frictional costs can rapidly erode the projected benefits of the target investment allocation.

Without efficient project management and planning, investors can be exposed to operational and reputational risks, spikes in volatility and frictional trading costs that drag on performance. A specialist transition manager can assist in preserving the value of a portfolio during a period of change through management of these operational and investment risks.

Product Overview

Appointing a transition manager enables investors to bring in an expert whose sole focus is to reallocate assets in the most efficient manner.

With nearly 30 years of portfolio transition experience, we have a unique perspective of potential transition risks and an established process for managing them.

We believe that careful planning and alignment of key stakeholders is foundational to a successful transition outcome. During the pre-transition period, risks are evaluated holistically, often across multiple portfolios and managers, using technology and the knowledge of our expert professionals. This understanding of risk is then transformed into an actionable transition strategy.

During and after the transition trading period, we provide reporting and communication, with full transparency into both process and outcomes.
Risk management
Using risk management platforms and processes specifically designed for transition management for more than three decades, investors are assured that “battle-tested” strategies are being deployed. We deliver expert command of the transition before, during and after the event. This includes detailed strategy research to determine optimal implementation options, including timing, to best reduce overall risk and cost.

Operations
Taking a comprehensive and transparent approach to operational risk management provides our investors an assurance that skilled experts are handling all the moving parts in a transition event. A core function of our transition manager is to coordinate actions with the client, investment managers, custodians, traders and other parties to facilitate a smooth transition event.

Reporting
Transparency is a key principle of transition management — the objective is to leverage experience and technology to link pre-trade expectations with outcomes amongst uncertain market conditions. Pre-trade analysis presents expected and variable costs while projecting strategies to manage the event. Both during and after the trade, our reports detail current progress, the expected and the unexpected outcomes.

Costs
A well-equipped transition manager can materially reduce costs associated with a portfolio undergoing change. This could be done by giving investors access to enhanced liquidity (e.g., internal crossing), diverse access to counterparties and a competitive commission structure that can often be lower than those achieved by asset managers.

Research
We leverage our research franchise in our transition management offering. We employ experts in market microstructure, portfolio risk, and economic theory and practice in support of our businesses and customers. Our Transition Management team applies this research, including the systematic understanding of market timing, liquidity and volatility in designing strategies tailored to each client’s circumstance.

Liquidity
We deliver diverse access to liquidity across asset classes in both developed and emerging markets. We have access to more than 100 external brokers and counterparties in addition to internal crossing and netting opportunities.*

Global Multi-Asset Trading Capabilities
As a global bank, we offer unrivalled trading capabilities and access to liquidity. Our trading desks operate 24 hours a day, six days a week, covering international markets with platforms that are purpose-built for transition management. Our agency-only trading model is aligned with our clients, offering full transparency and best execution.

Experience
Our global team has extensive experience in planning, managing and trading transition events. We have a three-decade history of consistently delivering value for institutional clients across a wide range of market conditions. Our specialist team has encountered most transition scenarios, combining its skills and experience to work through each individual case.

* as of January 2020
Case Study

Over the past decade, we have completed more than 5,000 transitions under a wide range of market conditions across asset classes for a global client base. Each transition adds to a deep understanding of transition risk and the experience needed to successfully manage prospective events.

Here is one such example:

Challenge
A pension plan with a multi-billion US dollar, multi-asset portfolio invested across pooled funds and separately managed accounts, planned to move to a target discretionary Outsourced Chief Investment Officer (OCIO) structure. Recognizing the operational and investment complexity of this event, we were appointed as transition manager given a proven track record in complex, multi-asset transitions and exposure management capabilities, and our short-term portfolio management service for portfolios in transition.

Solution
During the planning phase, we collaborated with the OCIO provider to develop optimized interim accounts to be managed by us so that we could maintain market exposure prior to the eventual funding of the target OCIO line-up.

For the equity allocations, we reviewed legacy portfolios and optimized an interim portfolio, maximizing security retention while minimizing expected tracking error. This optimization considered a range of factor risks (country, currency, sector, etc.) and resulted in both cost and risk savings.

Similarly, with the fixed income portfolios, we optimized interim portfolios, maximizing the retention of legacy securities and utilized treasury futures to manage duration exposure.

We pooled our experience, global reach and product depth to curate and deploy creative strategies to help our customers reduce costs and maintain market exposure. The reporting that accompanied the event gave stakeholders a clear lens into the transition event and its moving parts.

To learn more about Transition Management, e-mail: TMGlobalSales@statestreet.com
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State Street Corporation
One Lincoln Street, Boston, MA 02111

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