

TRANSITION MANAGEMENT

BRIDGING THE GAP BETWEEN LEGACY AND TARGET PORTFOLIOS

FILIP SKALA, CFA

Managing Director,
Head of Transition Management

WHAT IS TRANSITION MANAGEMENT?

Transition Management (TM) fills a gap when plans are undergoing a change.

- TM is a process of managing changes to a fund's portfolio of assets
- Often viewed as a short-term investment assignment
- TM aims to reduce costs and mitigate risks associated with changes to investment exposures
- Transition managers are usually third-party providers linked to investment banks, custodians or asset managers



WHAT BRINGS ABOUT A TRANSITION?

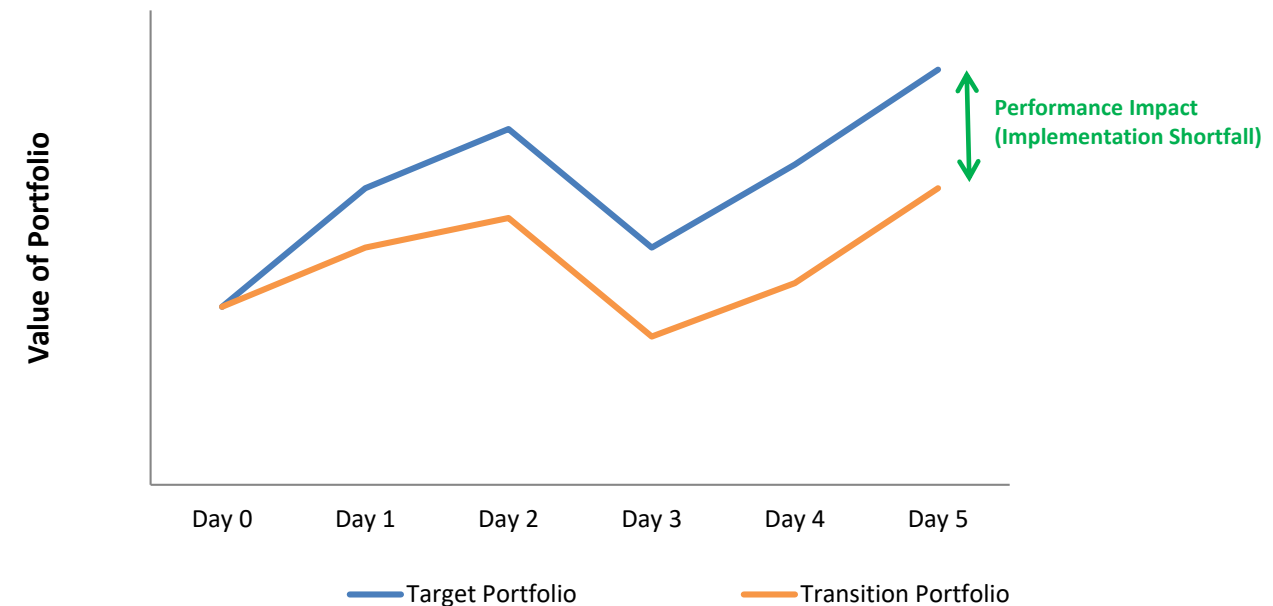
The Winds of Change.....

- Common circumstances that trigger TM:
 - Replacing an Asset Manager
 - Asset Allocation Changes or Rebalancing
 - Fund Mergers
 - Asset/Liability Matching
 - Redeeming Assets
 - Investing Contributions or Other Cash Flows

WHY USE A TRANSITION MANAGER?

Transition Managers Strive to Minimize the Performance Impact to the Portfolio

- Minimize Costs
 - Transition Managers minimize portfolio turnover
 - Utilize sophisticated trading strategies
- Mitigate Risks
 - Transitioning assets takes time
 - Risk of performance deviation between the target and transition portfolios



WHY USE A TRANSITION MANAGER? (CONT'D)

Transition Managers Utilize Their Project Management Skills

- Transfer of Risk
 - Trading and operational issues become the responsibility of the Transition Manager
- Lower Workload for Staff
 - Transition Manager works with all stakeholders as an extension of plan staff
- Elimination of Performance Gaps
 - Transition Manager assumes responsibility for performance
- Detailed reporting
 - Pre, intra and post-trade reporting

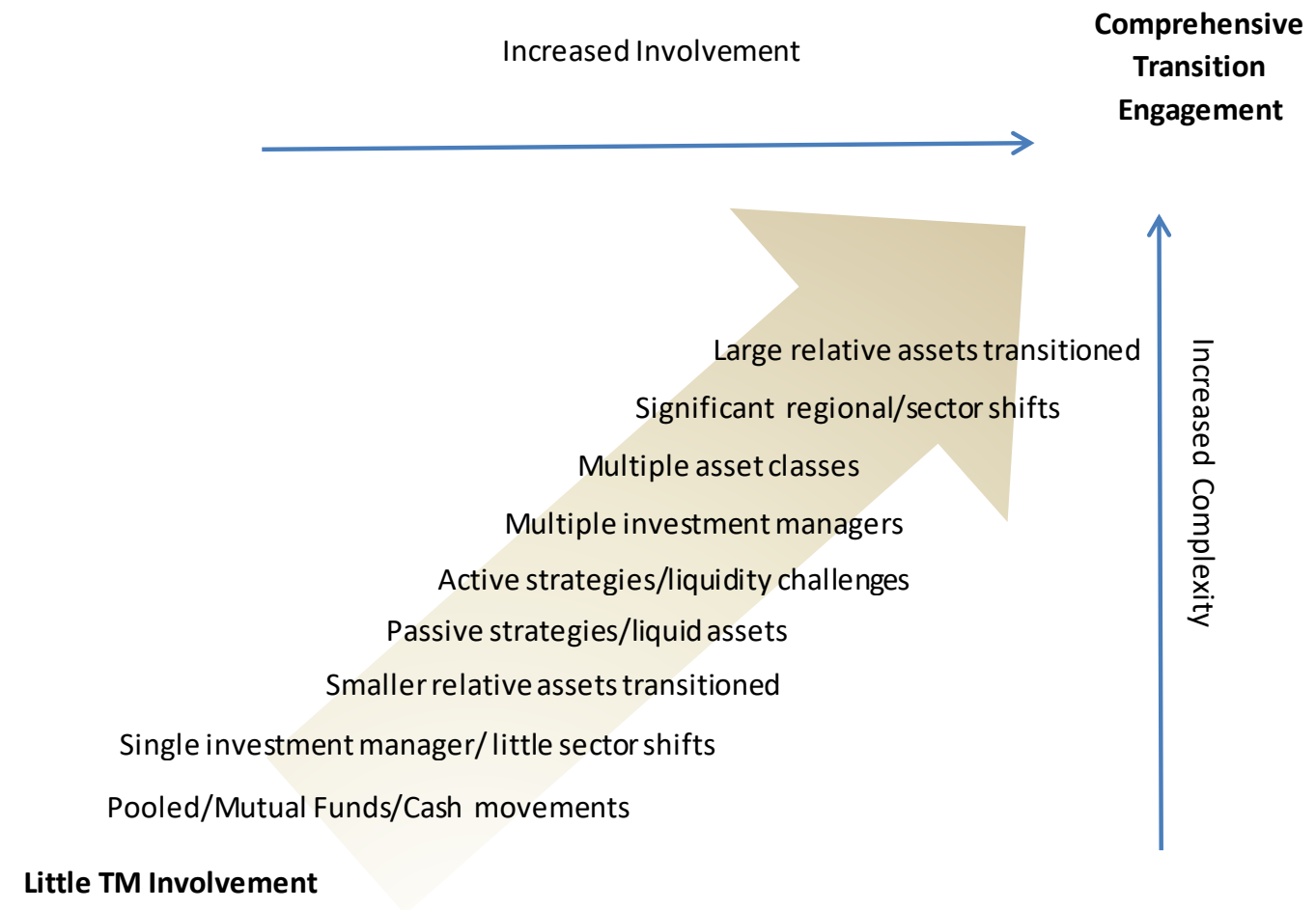


"I color coded. The red ones are his, and the green ones are mine."

SHOULD TRANSITION MANAGERS BE USED IN EVERY CASE

From the Simple to Complex

- Consider TM for each situation
- Simple fund changes – less TM involvement
 - Pooled funds/cash movement
- Complex fund changes – TM value increases
 - Separately managed accounts
 - Exposure shifts are significant
 - Multiple investment managers
 - Multiple asset classes
 - Specialist asset classes
 - High relative value of assets transitioned



SHOULD OUR OLD OR NEW MANAGERS TRANSITION THE ASSETS

Everyone Should Focus on What They Do Best

Factors	Fund Manager	Transition Manager
Core Competency	Stock selection and portfolio modelling Focus is on managing assets	Efficient portfolio implementation services Focus is on managing risk
Execution	Individual security trading strategy Reliance on third parties across all asset classes	Consolidated multi-portfolio trading strategy across assets and foreign exchange Centralized execution implementation across all asset classes
Timing	Uncoordinated individual trading timeframes can increase potential timing delays exposing client to unnecessary opportunity cost	Coordinated optimized execution timeframe to minimize opportunity cost and market impact across all portfolios
Reporting	Implementation cost and portfolio performance co-mingled Non-transition specific cost analysis and reporting of implementation	Separate and distinct implementation cost and portfolio performance Specific and complete cost analysis supported by detailed pre/post-trade reporting
Measurement	Accountable for alpha generation	Accountable for risk and cost management throughout the transition

TRANSITION COSTS

Focus on Fees and Transparency

- There are two types of costs in transitioning assets:
 - Explicit Costs
 - Implicit Costs
- Explicit Costs:
 - Commission
 - Taxes and Exchange Fees
 - Custody Fees/Pooled Fund Fees/Management Fees
- Implicit Costs:
 - Bid/Offer Spread
 - Market Impact
 - Opportunity Cost
 - Foreign Exchange Cost



TRANSITION RISKS

Clear Communication is Key to Managing Risks

- There are two types of risks in transitioning assets:
 - Financial risks
 - Operational risks
- Financial Risks:
 - Exposure risk or tracking error
 - Trading risk
 - Information leakage
- Operational Risks:
 - Settlement risk
 - Order generation risk
 - Overdraft risk
 - Corporate action risk



MINIMIZING COSTS

Transition Managers Reach Into Their Tool Kit

- Minimizing Explicit Costs
 - Maximizing in-kinds/minimizing turnover
 - Taking an in-kind slice of a fund
- Minimizing Implicit Costs
 - Using a variety of trading venues
 - Crossing
 - ❖ Internal
 - ❖ External
 - Breaking up trades

MINIMIZING RISKS

Transition Managers Reach Into Their Tool Kit

■ Minimizing Financial Risks

- Thoughtful transition strategy
- Use of derivatives or ETF's
- Use of currency forwards
- Detailed risk analysis

■ Minimizing Operational Risks

- Robust TM system
- Dedicated resources and infrastructure
- Multi-asset class expertise
- Clear communication and procedures

Implementation strategy identifies the sectors and securities which have the largest marginal contribution to risk and from this, optimized trading baskets are created to minimize overall risk and other trading costs such as impact and spread.

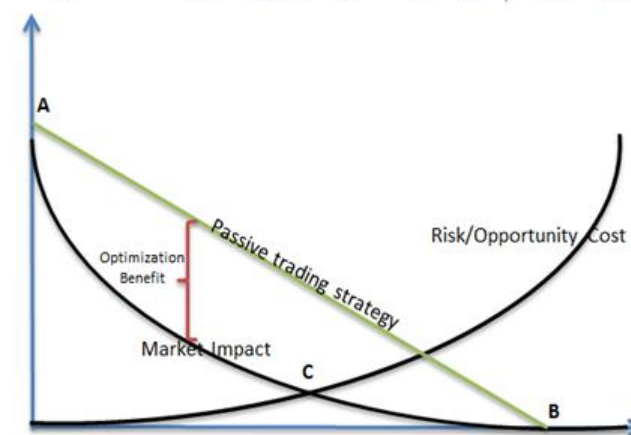
Sector Date:

Sector	Legacy					Target				
	% Weight	Value (USD)	# Lines	Mkt Impact BPS	Average % ADV	% Weight	Value (USD)	# Lines	Mkt Impact BPS	Average % ADV
Consumer Discretionary	6.5%	29,323,826	51	35.3	7.0%	4.4%	19,290,981	9	50.6	6.5%
Consumer Staples	1.7%	7,812,378	17	1.8	0.6%	2.2%	9,724,884	5	-	0.0%
Energy	1.4%	6,287,831	16	58.2	2.0%	2.0%	9,020,006	7	98.1	2.7%
Financials	5.0%	22,766,868	38	33.9	2.0%	10.7%	47,533,187	40	1.6	0.5%
Health Care	5.1%	22,922,981	34	17.6	10.6%	5.8%	25,792,867	11	-	0.0%
Industrials	8.8%	39,728,533	75	52.4	19.6%	5.3%	23,612,169	11	10.3	0.1%
Information Technology	3.9%	17,727,168	35	32.2	1.9%	7.8%	34,476,395	17	1.6	0.0%
Materials	4.2%	18,826,311	39	22.3	10.6%	1.7%	7,485,638	4	-	0.0%
Not Classified	59.0%	266,073,559	104	-	0.0%	56.4%	249,642,381	239	-	0.0%
Real Estate	2.4%	10,721,809	25	22.3	1.1%	0.1%	537,333	2	-	0.0%
Telecommunication Services	1.0%	4,687,314	5	24.0	3.4%	1.8%	7,840,269	8	2.8	0.0%
Utilities	1.0%	4,358,011	6	1.3	0.0%	1.7%	7,329,699	6	151.6	9.5%
Total	100%	451,236,590	445	34.5	8.9%	100%	442,285,811	359	19.6	1.4%

Risk Assessment

> Factors to be assessed which contribute to the risk of a transition event between legacy and target portfolios include:

- * Cash Exposure
- * Regional Shifts
- * Industry Sector Shifts
- * Security specific risk
- * Volatility and timing of transition
- * Settlements and funding



Implementation Strategies

>A - Principal trade

- * High Cost
- * No Opportunity Cost

>B - Passive trade

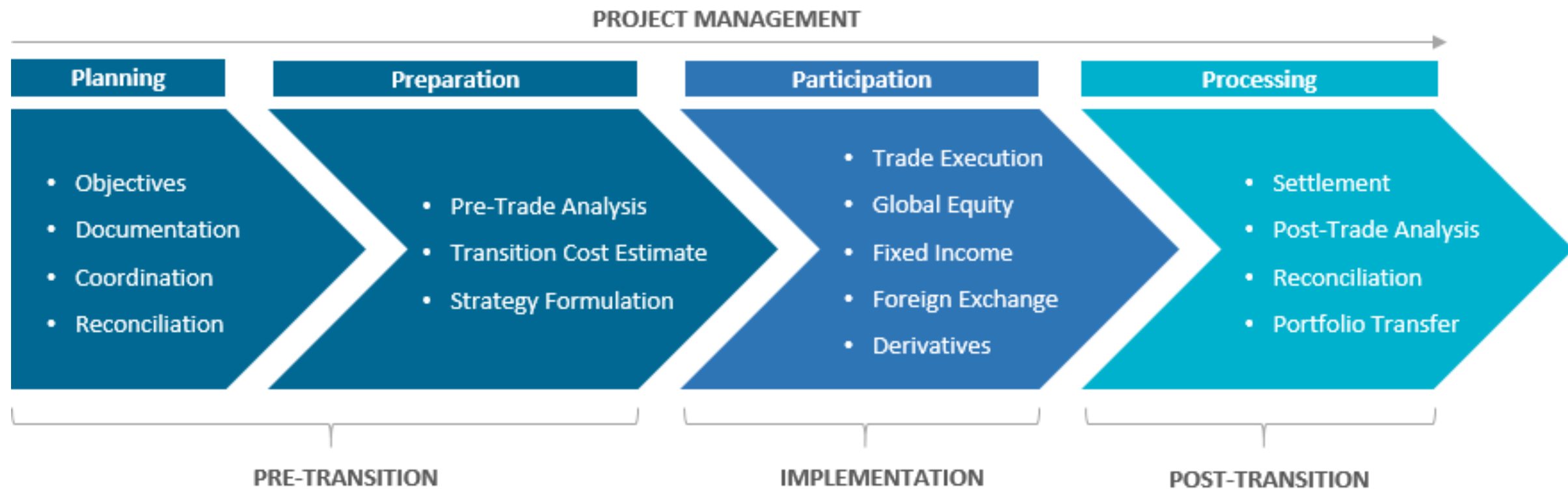
- * Low market impact cost
- * High opportunity cost

>C - Optimized trade

- * Accepts degree of market impact in order to reduce risk
- * Optimized Implementation Shortfall

THE PROCESS – THE FOUR PS

Seamless execution through the lifecycle of the transition includes project management expertise, trading precision and in-depth performance reporting.



CHOOSING THE RIGHT TRANSITION MANAGER

- ✓ Don't focus on commissions alone
- ✓ Understand the provider's business model and revenue sources
- ✓ Extensive project and risk management capabilities
- ✓ Access to natural liquidity and advanced in-house trading technology
- ✓ Sophisticated infrastructure to manage large complex restructurings
- ✓ Multi-asset class execution capabilities including global equities, equity derivatives, ETFs, fixed income, currency, convertibles and preferreds
- ✓ Client service capabilities
- ✓ Understand how trades are priced – Agency versus Principal
- ✓ Demand T-Standard for post-trade measurement

REPORTING – SAMPLE T-STANDARD

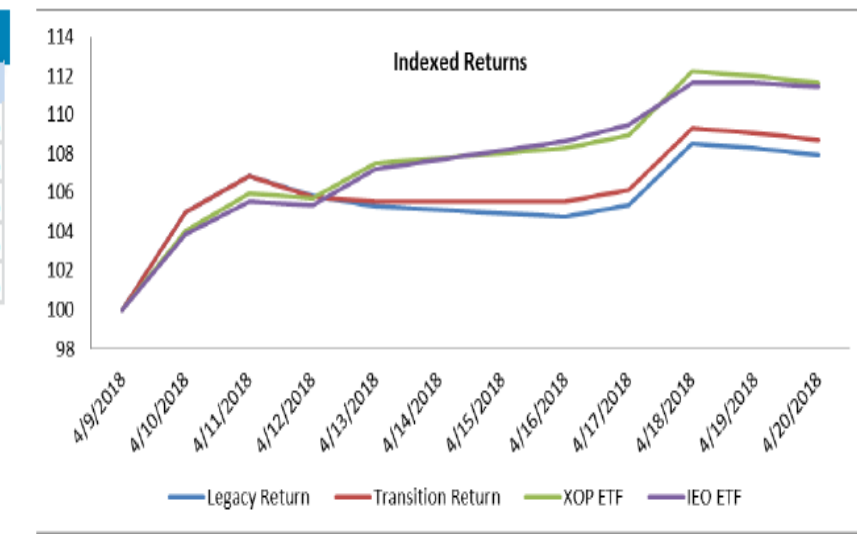
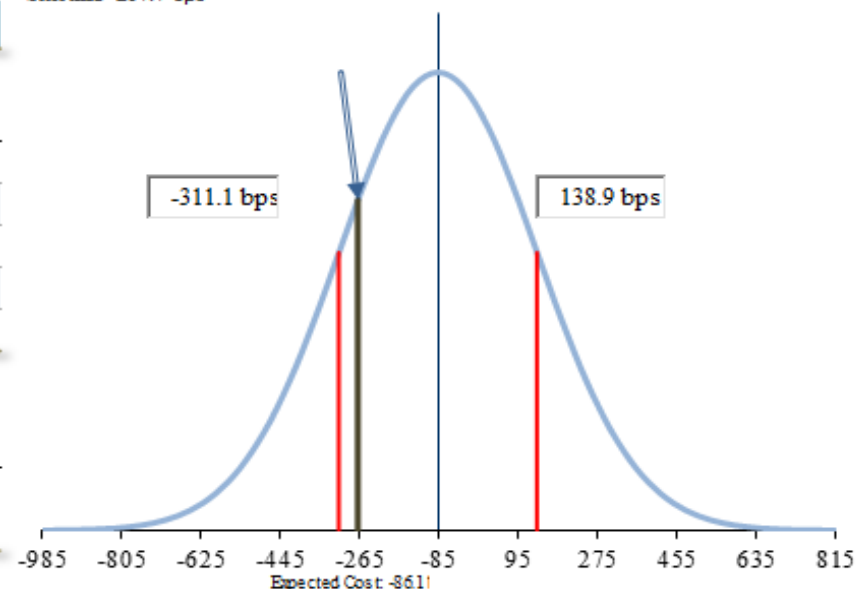
Implementation Shortfall vs. Pre-Trade Estimates

Trading Cost Category	Pretrade Estimates		Actual		Variance	
	Value (USD)	BPS	Value (USD)	BPS	Value (USD)	BPS
Commission Equity ¹	97,121	(12.0)	96,753	(11.9)	(368)	0.0
Commission Fixed income ²	-	-	-	-	-	-
Taxes and Fees	1,218	(0.2)	1,300	(0.2)	82	(0.0)
Bid Ask Spread	72,062	(8.9)	72,365	(8.9)	303	(0.0)
Market Impact	525,237	(64.8)	546,251	(67.4)	21,014	(2.6)
Total Costs	695,638	(85.78)	716,669	(88.4)	21,031	(2.6)
Opportunity Cost	Value (USD)	BPS	Value (USD)	BPS	Value (USD)	BPS
Overnight (T-1 Close to T Open)	(1,824,570)	(225.0)	(1,457,590)	(179.7)	370,565	45.7
Intraday Movement			3,585	0.4		
Total Implementation Shortfall		(85.78)	2,170,675	(267.68)	(1,475,036)	(181.9)

Portfolio	4/9/2018	4/10/2018	4/11/2018	4/12/2018	4/13/2018	4/16/2018	4/17/2018	4/18/2018	4/19/2018	4/20/2018	Total
Legacy Return	0%	4.99%	1.78%	-0.98%	-0.47%	-0.51%	0.57%	3.00%	-0.21%	-0.35%	7.82%
Transition Return	0%	4.99%	1.78%	-1.01%	-0.20%	-0.01%	0.56%	2.95%	-0.21%	-0.31%	8.55%
Target Return	0%	4.08%	1.79%	-0.19%	1.66%	0.71%	0.63%	3.01%	-0.20%	-0.31%	11.18%
Impl Shortfall	0%	0.92%	-0.01%	-0.82%	-1.86%	-0.72%	-0.07%	-0.06%	0.00%	0.00%	-2.63%
IEO ETF	0%	3.86%	1.61%	-0.15%	1.72%	1.35%	0.79%	1.93%	0.03%	-0.16%	10.98%

For Informational/Illustrative Purposes Only

Shortfall -267.7 bps



THANK YOU

Q&A

212.738.6030 | btigtm@btig.com | www.btig.com/products-services/institutional-sales-trading/transition-management/

DISCLOSURES

This presentation was prepared for BTIG, LLC institutional clients and prospective institutional clients. This presentation is not the product of the BTIG Research Department, and is not intended as a research report. Information contained herein from third party sources is believed to be reliable, however, BTIG, LLC has not independently verified the accuracy of such information and does not make any representations as to the accuracy or completeness of any third party information. This presentation is being provided for informational purposes only. Nothing contained herein should be regarded as a solicitation or recommendation to purchase, sell or trade any particular security, investment opportunity or to engage in any particular trading strategy.

BTIG Australia Limited ACN 128 554 601, member of ASIC and ASX. BTIG Hong Kong Limited, an Exchange Participant of SEHK and licensed and regulated by the SFC. BTIG Ltd, member of the LSE, authorized and regulated by the FCA. BTIG Singapore Pte Ltd, registered and licensed with MAS. All non-U.S. BTIG entities referenced in this document are separate but affiliated entities of BTIG, LLC. Unless governing law permits otherwise, you must contact a BTIG entity in your home jurisdiction if you want to use our services in effecting a transaction.

Unless otherwise indicated herein, the information, statistics and data used in this presentation is current as of March 14, 2018. The content of this presentation is subject to change without notice and BTIG, LLC has no obligation to provide any updates or changes.

Trading desk commentary (“analytics”) is prepared solely for BTIG, LLC institutional clients. It is prepared by a member of the Fixed Income Trading Desk and is not a research report or recommendation and is not a research department product. It is prepared by trading employees that support the trading desk in the facilitation of customer transactions and that may trade as principal in, or that may have positions in the securities mentioned and any analysis should not be viewed as an impartial analysis of the securities or issuers mentioned.

BTIG, LLC does and may seek to do business, including investment banking and/or other capital markets business, with companies which are the subject of Corporate Access services.

¹Source BTIG, LLC and independent consultant survey, 2016

FOREX DISCLAIMER

This message has been prepared by personnel of one or more affiliates of the BTIG franchise ("BTIG"). It is not a research report and is not intended as such. This material is for distribution only to Eligible Contract Participants as defined in the Commodities Exchange Act 1(a)12 and not retail investors.

Non-Reliance and Risk Disclosure: Risk factors involved in foreign exchange transactions include but are not limited to: exchange rate risk which can be volatile, interest rates risk which change abruptly and without notice, and factors unique to each country's macroeconomic circumstance such as employment rates, political stability, monetary and fiscal policy which can include currency devaluation. We are not soliciting any action based on this material. It is for the general information of our clients. It does not constitute a recommendation or take into account the particular investment objectives, financial conditions, or needs of individual clients. Before acting on this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. We do not provide tax, accounting, or legal advice to our clients, and all investors are advised to consult with their tax, accounting, or legal advisers regarding any potential investment. This material is for distribution to Eligible Contract Participants as defined in the Commodities Exchange Act 1(a)12 and not retail investors. Foreign-currency transactions are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment. The material is based on information that we consider reliable, but we do not represent that it is accurate, complete and/or up to date, and it should not be relied on as such. Further information can be found at <https://www.ca01.btig.com/disclaimer.aspx>.

OPTIONS DISCLAIMER

Options involve risk and are not suitable for all investors. There is no guarantee that the strategies promoted will accomplish the stated objectives. Options trading is considered speculative and it is possible to lose a portion of, all of your initial investment, or funds in excess of the principal invested. Prior to buying or selling an option, clients must read a copy of Characteristics and Risks of Standardized Options (ODD) <http://www.theocc.com/about/publications/character-risks.jsp>. Copies of the ODD are also available from BTIG, LLC, available at operations@BTIG.com. Because of the importance of tax considerations to all options transactions, investors considering options should consult with a tax advisor as to how taxes affect the outcome of contemplated options transactions.

COMMODITIES DISCLAIMER

The risk of loss in trading futures and options on futures is substantial. An investor could potentially lose all or more than their initial investment. The high degree of leverage associated with futures and options on futures can work against you and can result in substantial losses. You should carefully evaluate whether futures and options on futures can work against you and can result in substantial losses. You should carefully evaluate whether futures and options on futures are suitable for you in light of your own financial condition.