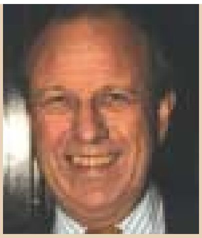
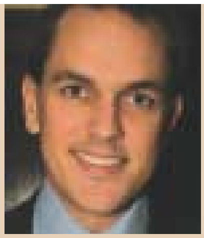
Transition management roundtable September 2005 London



Ken Ayers, Russell Investment Group, chair.

Natalie Pilcher, director of implementation services, Russell Investment Group.



Andrew Williams, Mercer Investment Consulting.

John Minderides, managing director, JPMorgan Securities.

No way to try before you buy

Transition management has evolved significantly since its emergence in the mid-90s. But pension managers still struggle to compare transition managers and it can be difficult to use past experience as a yardstick. **Global Investor** assembled a group of pension fund managers, transition managers and industry consultants to discuss these and other problems. This roundtable was chaired by **Ken Ayers** and edited by **Claire Milhench**.

KEN AYERS, RUSSELL: I would like to start with some background on transition management. When and why did it become an industry?

TERRY FAULKNER, REXAM: I didn't realise it was an industry actually, I thought it was just a fancy product that was being sold. And the reason I say that is we don't do transitions very often; we buy it as and when we need it. I'm not sure I see it as an industry.

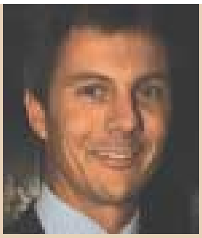
RITA POWELL, P&O GROUP PENSIONS: It started in the mid-90s when trustees started to move away from balanced management, new benchmarks were introduced, and more global custodians were appointed. That led to the need for an efficient way to move assets around and to change asset allocations.

JAMIE CASHMAN, MELLON: I would respectfully disagree with Terry. There is an industry, at least I hope that there is. Our heritage is that it evolved out of the quantitative approach you use in managing index funds, and we've basically taken that principle and applied it in a unique process of managing transitions.

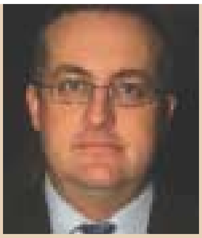
JOHN MINDERIDES, JPMORGAN: I wouldn't call it an industry, I'd say it's a sophisticated service product – 'industry' is a big word. It's really the advent of transaction cost analysis and the fact that people can measure costs and see that there are costs involved in these events. Before this, the now almost mandatory use of transition managers just wasn't there.

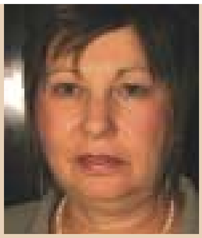
AYERS: So you're suggesting it is the ability to analyse that has led to transition management. My perception would've been that it was the other way around.

PETER WALKER, MERRILL LYNCH INVESTMENT MANAGERS: There's been a growing focus on the cost of change, as it's become easier to measure. Transition management has always existed in some way, it's just being dealt with much more efficiently now and there's a much greater focus on the potential cost of changes and the ways of minimising that. So to go back to the original point, it did start to formalise around the early 1990s, went through a quantum leap around about 95/96, and then another quantum leap around 98/99. That then attracted a whole range of new participants to the industry, and that in turn


Peter Walker, director, TRIM, Merrill Lynch IM.


Simon Hutchinson, vice president, strategist transition management, Northern Trust.


Martin Mannion, finance manager, GlaxoSmithKline Pension Plan.


Rita Powell, group head of pensions, P&O Pensions.


Terry Faulkner, group pensions and benefits manager, Rexam.


James Cashman, director, transition management services, Mellon Global Investments.

has broadened the scope of transition management, so there's a lot of different people approaching it from different perspectives now. That's turning it from a sophisticated product, as it's been described, into something approaching an industry.

FAULKNER: Just picking up on some of that, because transition management has been around for a long time - well before the 1990s, but we used to do it differently then. We used to get the new managers to take over the assets of the old manager and we would give them a month or so to jig around until they got to the portfolio they wanted, and we never used to manage them during that period. I can remember times when we would say, you take the assets on January and we'll start to measure you from March 1. We didn't actually bother about that period, until we realised the cost of that, which allowed some of the more specialist players to come into the market. That made us realise just how expensive transition could be, and then we started to realise we weren't doing it very well.

AYERS: And the crucial moment was probably the time at which people started using third parties to do this for them rather than either the outgoing or the incoming manager. What encouraged third parties to believe that they could provide a service?

NATALIE PILCHER, RUSSELL: The catalyst for Russell was the importance of the performance of our funds. When some of the large institutional investors saw what we were doing and recognised the potential impact of their own manager changes, that's when we started to see third parties wanted to be able to utilise the product.

MINDERIDES: We also need to look at how fund management has changed and also how the providers of such services have grown with that, as what was also going on during the 90s was big asset-gathering by DB schemes, dominated by equities at the time, and the growth of indexation, and the handling of large portfolios. That's when portfolio trading really began to expand. And a lot of transition managers are just extensions of portfolio trading. The technology that was developed around portfolio trading is what led to the ability to do transaction cost analysis, and it's only really in the late 90s where people began to get a real understanding of what the costs of trading were.

CASHMAN: And when you combine that with the collapse of the equity markets in 2000 and 2001, it's the perfect environment, for transition management, especially with the enhanced regulatory scrutiny coming out of that collapse. It's the type of environment that lends itself very well to the development of a business which focuses on managing costs and risks.

WALKER: We shouldn't lose sight of the fact that it's been very much client-driven. When I mentioned the industry going through quantum leaps in the 90s, those changes were driven by more sophisticated client demands. And it is still pretty much client-driven.

QUANTUM LEAPS

AYERS: I'd like to develop that aspect. Can each of you identify what you think has been the single major factor in the development of this business?

POWELL: Systems has got to be one of them. The fact that there are sophisticated systems means that such services can be delivered and measured after the event. But many schemes have closed and have become much more mature, which has led to trustees needing to implement different investment strategies - that's where the client need comes in. They need to be able to delegate implementation of their strategies and have the ability to measure whether it's been done efficiently or not. And probably what they should be able to do is factor in that cost of change as part of the decision to appoint a new manager or to put in place a new strategy.

FAULKNER: There's also the rise of independent third party performance measurers as well, the likes of WM and CAPS. Back in the old days trustees didn't have to report to members effectively very much, but once they had to start reporting what the return on the funds was, that's when this became pretty important too, particularly if you were changing portfolios. And when you had to report to members, it was important that you actually got good performance figures, because again in those days you were reporting against peer groups as well.

AYERS: So it was a governance issue and as people became more aware of the need for a hands-on approach to governance on the pension fund they also began to realise that this was a cost that they didn't know about.

ANDREW WILLIAMS, MERCER INVESTMENT CONSULTING: It was the WM Company I think that produced the oft quoted survey of the cost of changing a manager, and putting it at 2 or 3% back in the 90s. That really opened up people's eyes to the potential loss.

FAULKNER: Yes, and they were very powerful in those days as well, because they had big funds.

CLIENT NEEDS

AYERS: Let's move to what do we think the client requires, expects, wants to see from transition management. And here perhaps we ought to start with the pension funds' comments.

FAULKNER: The client is probably looking for three things, which is efficiency, cost effectiveness and confidentiality, so that nobody knows what we're doing, and so can't move against us. But it's very difficult when you're doing a comparison between three or four different transition managers, because it's not like buying bars of chocolate - it's all really quite difficult to try and measure.

POWELL: I agree with what Terry said, I do think that's what clients are looking for generally. And one of the key issues is good communication - understanding the transition process, including how the transition manager makes his margin and what it is. But the priorities may vary, depending on the circumstances, whether it's a merger, a de-merger, a buy-out, a change of strategy or just the appointment of a new manager.

AYERS: Would you seek competitive quotes for a transition?

POWELL: I tried to once. I got a headache.

AYERS: Right. Do you feel that there is sufficient uniformity of product to enable you to do that comparison?

POWELL: No, there wasn't, not at all.

FAULKNER: There shouldn't be, should there?

PILCHER: No, but there should be a uniformity of transparency, so you understand the nuts and bolts of what each of the products are offering, and how each of those providers are being remunerated.

MARTIN MANNION, GSK: To actually get a quote as you normally would for another service, you've got to hand too much data over. But there are confidentiality limits, so if you bear in mind the constraints of what you can tell people, the only quote you'd get is virtually meaningless after the event. What we've tried to do is say, 'This is the start point, this is the end point. Tell me the hard facts, rather than numbers, because numbers can be somewhat spurious.' That's the challenge here, to say, 'What is it that you do? What differentiates your process from the others?'.

AYERS: Do you find that you're able to identify that though, or is it vague and difficult to quantify?

MANNION: We've never gone down the route of getting hard numbers because of the constraints. You just get things about systems capability measurement, blah blah blah, which are all well and good, but they're soft facts. If it was a car, and you had something quantitative, something firm about it, you would pick it.


Ken Ayers chairing the roundtable.

MINDERIDES: How much of your decision process comes down to trust, as opposed to the more quantitative things?

MANNION: This is why the passive funds by default pick things up, and the insurance companies become transition managers. It's not trust, it's leverage.

SIMON HUTCHINSON, NORTHERN TRUST: Is it not the relationship between the client and the provider? Because quite a lot of the transition assignments we take on are for existing clients of our custody business, many of whom have worked with us over several years. But the more information clients are able to give us about their particular assignment, the more accurate our quotes can be. It's critical for providers to be able to explain how they arrived at the overall quoted cost because when they are supplied with limited data a number of assumptions may need to be made and then clearly explained. And different transition managers will make different assumptions.


Mannion: Confidentiality limits.

MANNION: To take the analogy of the car, it's like asking, 'How much is it?' and 'Can I see it?' and the answer is, 'No, but we can make some statements about the factory where it was made.'

HUTCHINSON: The cost issue is important and we aim to be as transparent as possible. Sometimes there needs to be a lot of hand-holding with clients – depending on the size of the scheme or the type of transition – to talk them through the costs both before and after the event and ensure they understand the entire process. Clients and prospects have approached us saying that they have been provided with a report but don't know what the numbers mean. This harks back to the relationship point. We want to make sure we leave our clients with a good impression, and a critical way of achieving this is through high levels of client service.

FAULKNER: Who do you actually consider to be your clients, by the way? Is it the trustees? Is it the pensions manager? The person you have a relationship with at the fund?

MINDERIDES: All of them. One thing we try to encourage is to get in front of the trustees or anybody else they want us to see after the event and take them through what happened. That gives you an added feeling of being part of the whole process, and it is good practice.

FAULKNER: Pension managers like working with people who make us look good in front of our trustees. So that's the key thing - what's the best thing a consultant can do to make sure that you're okay when you're presenting to your trustees?
So the relationship issue is actually pretty important. But next time you will probably still search around for a market quote, because of what is perceived as good governance. So having a good relationship gets you on the list, if you like, but it doesn't necessarily mean that you get the job next time.

AYERS: You mentioned getting a market quote but we have already agreed that there's no uniformity of service and there's no certainty about the costs that go into the

"There are three types of transition manager. There are those that do lots of crossings, those that take risk on their own balance sheet and those that are traders. And each one of those has a really different product. "

TERRY FAULKNER, GROUP PENSIONS AND BENEFITS MANAGER, REXAM.

process. So how can you place any sort of reliance on a quote, bearing in mind that maybe you don't even know what it includes.

COMPARE AND CONTRAST

HUTCHINSON: The quote should act as an accurate estimate as to what the final cost is likely to be. If a provider under-bids competitors just to win the client assignment – which happens – but then looks awful at the end of it because they've over-promised, then that's a big problem for clients and providers alike. And if you want to build that relationship going forward, you want to make sure that you're aligning those interests all the way along.

POWELL: I agree with the point that you can't rely on a quote, because you don't know what's going to happen, and I also think there's no consistency of measurement. It's not good enough to say that because we are measuring, that's got to be better than what used to happen 15 years ago. How do we know what it would've cost if we'd have done something different 15 years ago? It's got to be relative to something that's current. Maybe if you had a best and worst case scenario and asked where are you on the scale? If you sold everything and had to buy the whole new portfolio and paid the highest transaction cost, what would it be, compared to maximising crossing, taking no margins at all on the trades, and charging a fixed fee?

PILCHER: Typically, the final result needs to be compared to the pre-transition estimate, but this won't necessarily enable you to compare providers on a like-for-like basis during the hiring process. That's why we need an industry standard in place that will standardise what's being included in these quotes and also how the post-transition results are being calculated. Only then will investors be able to make an informed buying decision.

MINDERIDES: Can I ask a different question to challenge that? I agree that there is a problem with being able to compare, but I don't think it's unique to transition management, it applies to fund management in general; it's something which we all can add qualitative value to how to interpret some of the numbers being produced.

WALKER: It can be incredibly frustrating having to compare cost estimates, because everybody makes different assumptions, but it's still a very important part of the process of getting the transition manager commit to a number and talk about how they're going to achieve that for you. Then after the event the analysis has now got to the stage where the transition manager should be able to explain why there's any deviation from that estimate. In the past any difference might have been attributed to the way the market went, or something like that, but now that's not acceptable. The sophistication is there to explain why you did or didn't get a good transition outcome compared with the estimate. And to the extent that consultants in particular have very regular and ongoing relationships with transition managers, they're very well placed to see whether a transition manager is delivering against their estimates, or whether they're consistently under-estimating or over-estimating. So as frustrating as it is, sourcing a cost estimate is still a very important part of the process.

MINDERIDES: There's another issue here in that a lot of transitions are very operationally intense and less trading focused, so by focusing on fixing the costs and not worrying about the rest, you get the wrong balance. For instance, we did a transition for a client where it was very operationally intense. They wanted a performance fee and I was not keen on that for that particular transition, as so much of the resources needed to be focused on the operational side and we did not want to be distracted by solely concentrating on the trading side due to the performance fee. Whereas if it's a simple trade, a performance fee becomes much more sensible and transaction costs become the focus.

FAULKNER: When I was talking about quotes, I didn't just mean the money we're paying out, it's the whole process, if you like. And if I can be just a heretic one more time and say that there are three types of transition manager. There are those that do lots of crossings, those that take risk on their own balance sheet and those that are traders. And each one of those has a really different product to do the same thing. So it's often not about the money, because you never know what it's really going to cost. It's whether you feel comfortable and whether your portfolio suits any particular one of those three strategies.

To take the car analogy again, the fund manager is just running the car, and it needs to run smoothly all the time. But if you want a gearbox change, that's when you're looking for a transition manager, you're looking for somebody to do it properly, and you may never need it again. And I think trustees are being forced to move away from the relationship-type appoint-

"There's still a very qualitative element to the evaluation process and that's what makes this business very difficult to categorise."

JAMIE CASHMAN, DIRECTOR, TRANSITION MANAGEMENT SERVICES, MELLON GLOBAL INVESTMENTS.

ments to something that's much different nowadays.

CASHMAN: There's still a very qualitative element to the evaluation process and that's what makes this business very difficult to categorise.

You can't simply say, 'Well show me who's had the best implementation shortfall record over the last three years and I'll take the lowest number.' It's a business that just doesn't lend itself very well to that, and that can be frustrating for pension schemes, but there are very legitimate reasons why you do have differences in cost analyses. And so ultimately it boils down to that qualitative and comfort level.

HUTCHINSON: If you think about the actions being performed, there's a fund management aspect to the business, a trading aspect and an operational aspect, and all of these need to work all the way through. It's no good just being a great trader. It's about being able to deliver on all of these aspects.

MANNION: There's a great reticence for the industry to actually demonstrate its track record with hard data. I get letters occasionally and they'll quote three deals with a number, though it doesn't really tell you what the number is, what the deals were or what happened to the other seven deals. Most industries build a track record and try and win you over with their performance. We never really see that.

FAULKNER: Is that one of the reasons why we use consultants, because consultants have clients who do it every day?

AYERS: I was going to ask Andrew to come in here, because part of your function, Andrew, as I understand it, is to keep abreast of who's doing what in the market and advise your clients who to use for which transition. How do you do that?

WILLIAMS: It's true that qualitative aspects have the greatest influence on our ratings of transition managers. But it's a natural question for investors to ask, 'What's this transition going to cost me?' But it's not possible to estimate an accurate cost in advance. A cost estimate is something that we would include in a tender selection exercise for a transition management provider, but it wouldn't be 'These guys have given us the lowest cost estimates, use them'.

AYERS: But how would you identify the difference between a transition manager that you would recommend and one that you wouldn't recommend? What sort of factors come into that decision?

WILLIAMS: Experience is a big one. We would look at whether we have had clients who have used this transition manager in the past, whether their project management skills are good, and if they've done transitions with no serious operational errors. We would make an assessment on the quality of their systems and technology, and their liquidity – in other words, how well we think they are positioned to make this transaction, depending which markets and asset classes are involved.

MINDERIDES: One of the things we see the most from consultants is that they want some stability and longevity from the transition manager. They don't like it when a bank just decides to open up a new business and puts three people on a desk.

FAULKNER: But what if those three people were renowned in the industry and just set up themselves with no track record? There are fund managers setting up that rely on their track record at a previous company to sell their services.

WALKER: It takes quite a big commitment to be a successful transition manager and I would imagine there are very few teams, where you could lift three people out and put them somewhere else where they could perform just as well. The culture of transition management runs very deep as do the systems that support it, so any three people in our team who were lifted out and put somewhere else, without that support and culture, wouldn't be successful. They'd certainly have to go through a very long lead time to get to the required stage of competence.

FAULKNER: The barriers to entry are really quite big then.

CASHMAN: It's one thing to have a crossing network, it's one thing to have a programme trading desk. Where the transition management business has continued to develop is in having providers who are able to integrate all those aspects. That is, they have expertise in operational management, in managing portfolios, and access to all types of liquidity and that excludes one-dimensional providers, who only have a trading desk, or a crossing network.

AYERS: To what extent is liquidity an important factor?

"It's also vital to have a range of liquidity options. Anybody who has too much of a bias in one particular area is actually a riskier proposition."

PETER WALKER, DIRECTOR, TRIM, MERRILL LYNCH INVESTMENT MANAGERS.

POWELL: This is going to become a much more important factor, as trustees employ private equity managers, hedge funds, high yield, emerging market debt and high alpha bond managers. There will be liquidity problems in stocks in far-flung markets at times, where you're not necessarily going to be able to get everything within a week or a couple of weeks. So it's going to be more difficult for trustees to assess whether a transition manager is going to be able to add value with those types of strategic changes.

AYERS: What I meant was the ability to do an efficient job as a result of having access to liquidity.

MINDERIDES: That's the one element that is the biggest differentiator between the various business models, because everyone can access liquidity, but different providers would access liquidity in a different way, whether directly or through intermediaries. But it's very important to look at equities and bonds completely differently, as they are completely different markets. In bonds ultimately you are not dealing through an exchange, you're dealing with a counterparty who takes your position.

WALKER: It's also vital to have a range, or access to a range, of liquidity options. Anybody who has too much of a bias in one particular area is actually a riskier proposition, because if that liquidity is not there, or if it's not there on the right terms, then that makes it quite difficult for that transition manager to achieve a particular outcome. So it's very important to have some flexibility around how you deal. Market conditions vary, each transition's different, and it's important to not be captive to a particular source of liquidity.

AYERS: Coming back, Terry, you mentioned confidentiality. Obviously, if there is a lack of confidentiality, there's a risk of the price moving against you effectively. Is that the only factor or are there others?

FAULKNER: If somebody knew that we were selling stock, then that could turn out to our disadvantage if we haven't finished. We should never forget that the reason we're doing all this is to pay Mrs Jones in Barnsley her pension at the end of the day. If we don't get as good a price as we should do, then we're depleting the assets, which has a knock-on effect in some circumstances. Another thing around confidentiality is that the sell-side are pretty good at sniffing round what's going on, and any sniff means I get 30 e-mails or 30 telephone calls from somebody who's got this special product and is only too delighted to spend an hour with me to talk about it.

POWELL: It's probably for the clients to be very clear about what their objectives and priorities are, and that's quite difficult for trustees at the moment. I don't see it getting any easier really, the whole business is getting more complex. But Terry mentioned earlier that we used to just say 'Take that portfolio and you've got a month to sort it out,' and that's coming full circle. When you go into these new products with little boutique managers, you just can't get things or maybe you can get them but at the wrong price. It just seems to be a sensible thing to say, 'Okay, you can get 70% of your portfolio, for example, through a transition manager, and you've got a couple of weeks left to source the rest, and we start measuring from this date.' That means that the responsibility for performance and cost and efficiency is everybody's.

MANNION: This probably won't be a popular view with the sales side, but isn't a way to do it to say to your incoming manager during the negotiations: 'The clock runs from day one. You've either got the capability to do a transition management or you haven't. You're responsible for that transition. You take the assets, you deal with it and it comes through in your performance figures.'

MINDERIDES: That makes sense, if they can do their job, but a lot of fund managers can't, especially with their new focus on their own internal costs. For BGI or State Street, that's one thing, but for a medium-sized fund manager or a specialist manager that's producing some very unusual alpha, they can't fund a large trading desk. And our argument would be that a lot of the time they should actually outsource it. Trading is not a core function of a lot of fund management businesses any more.

AYERS: I want to deal with a question that arose earlier regarding consistency, or lack thereof, of calculating the cost of transition. Is this something that can be overcome, or is it going to be a problem? What scope is there for this industry to adopt a common methodology that enables some straight comparisons to be made?

PILCHER: I don't see why the industry couldn't adopt a standard. There's been a huge stride forwards in that in the last 24 months. A lot of people round this table

"The T-Standard is a measure of implementation shortfall... what it doesn't do is tell you whether the transition manager has done a good job or not. "

JOHN MINDERIDES, MANAGING DIRECTOR, JPMORGAN SECURITIES.

have been heavily involved in moving that forward and it's an absolute need-to-have.

CASHMAN: I'd echo Natalie's sentiments, there's no good reason not to, it's wholly achievable, but I don't know that it makes the client's role any easier.

AYERS: You don't think it solves any problems?

HUTCHINSON: The question will always come back to 'How do you get to that number?' The qualitative aspects of a transition remain, are important and need to be somehow incorporated into the measurement.

MINDERIDES: What we're talking about here is the T-Standard, which is a measure of implementation shortfall, and this is filling a performance hole for the pension manager trustee to say 'What does it cost you in this process?' And that's good and that can be standardised. What it doesn't do, though, is tell you whether the transition manager has done a good job or not.

HUTCHINSON: I think that's why there is confusion. Different transition managers have different ways of doing things, all of which might impact the eventual cost. If a client asks, 'What's your history on implementation shortfall?' I can give them an answer but I'll also explain that all assignments are different and that this particular client's assignment may be completely different to the ones that I've measured previously. Yes, costs are a huge consideration, but clients need to also be thinking about other benefits of using a transition manager, such as risk management, fiduciary responsibilities and resource. Clients need to be able to trust and rely on their provider 100% to look after all of the aspects of the transition.

PILCHER: But surely the question that should be asked is, 'What's your track record on delivering performance versus the T-Standard, versus your pre-trade estimate?' And that differentiator will give you a good idea.

AYERS: Is there a general feeling around the table that the establishment of a method of calculating implementation shortfall is viable?

FAULKNER: As long as it's the equivalent of GIPS compliant, so we're not picking and choosing, but I think that's going to help us quite considerably. At the moment there's very little for us to go on as a benchmark, and you don't always go for the top performer, but you need something.

POWELL: But the other thing is, what do you do about it if performance against the T-Standard has not been good? So you've found out it cost more than it was going to. So what? You might not need to transition again for four years, by which time the whole market's changed, so what's the point? It's interesting, but not terribly useful after the event.

AYERS: But is that right? Are you saying that you can't use any of that experience that you developed to help you choose your next transition manager?

POWELL: Well you might use it to help eliminate them next time.

MINDERIDES: If we do a transition and quoted it was going to be 20 basis points and it ended up being 50, Andrew is not going to select us next time for another mandate, not just with yourselves but with another pension plan. We can't afford to take those risks and not deliver, because we don't live on the last trade.

WILLIAMS: The key in assessing a transition manager's performance is analysing their pre-trade cost estimate, what they told you it would cost you once they had the final portfolios against what they delivered. And obviously if they say they're going to deliver you 20 basis points of cost and they deliver you 50, there'll be a red flag from the consultants in selecting them in future.

AYERS: That is interesting, Rita is giving the impression that it's sort of water under the bridge and the post mortem doesn't produce anything of very much consequence, because you might not need another transition manager for a long time.

POWELL: That can be the case, it depends on how active your scheme is and whether you're changing strategy over a three-year period, for example, or whether it's just a one-off demerger or nw manager appointment. Trustees may look at a one-off transition in a post-event measurement report and decide that the whole process was dire, and they won't do that again. But four years on, the whole market's changed again and that experience is no longer relevant. It's not an ongoing quarterly measurement fund management situation, where you can say, 'This quarter was bad, but next time we will make it up,' it's a one-off, and you've got to get it right.

WALKER: And that's also frustrating for the transition manager, to know, 'Well if I do or don't do a good job, then I don't get another chance for three or four years.' However, you must also recognise that the transition manager is under incredible pressure to do a good job, because it's vital for the ongoing success of their business.

POWELL: But the trustees might go further and say, 'Well our process for making that decision to introduce change was flawed,' not just whether the transition manager has done well, badly or indifferent. But, 'Had we understood all of the issues better, we might have done something differently.'

FAULKNER: One thing I've never done as a pensions manager is to chat to other pension managers about transition management. Do you know of anybody that's had a bad transition?

POWELL: I've never asked anybody. Would they know if they had?

NEW DEVELOPMENTS

AYERS: That's a very good question. One of the questions that I left to the end was, 'In an ideal world, what additional developments would you like to see in a transition management environment?'

MANNION: Capability to service DC transitions, particularly out of bundled products, and insurance products. We've done it, we've gone 17 products out, we've gone from daily swing priced products, retail products, building societies, etc, but we've had to project manage that ourselves, and it's difficult.

In fact, if you're moving DC funds around now you'll want to go in specie and it's a very, very hard thing to do, because you have to align the member records, you have to publish prices, you have to do it in real time, and have no slippage on the values.

CASHMAN: The industry is there to a certain degree to help facilitate DC transitions, and I suspect that it will only become more involved in them, just given the nature of how pension funds are structured. From our end, what we envision is that transition managers will become even further integrated in the process. I think people recognise the advantages of using a transition manager for that point where the rubber meets the road, but, given the way that transition managers are structured and the flexibility in the business model, it lends itself very well to partnering with consulting firms and with other pension schemes to take this upstream and downstream, and be a provider that can help shape some of the decisions, just as Rita's indicating, and whether it even makes sense to be making these types of changes. If it's going to cost me 3% to make the change, is that a return that I'm ever going to see? Should I reconsider making that manager change or that asset allocation change?

"Typically the final result needs to be compared to the pre-transition estimate but this won't necessarily enable you to compare providers on a like-for-like basis during the hiring process."

NATALIE PILCHER, DIRECTOR OF IMPLEMENTATION SERVICES, RUSSELL INVESTMENT GROUP.

POWELL: Yes, I echo that - the ability to factor in the cost of the transition for a strategic change or a management change. And to be fair, I think that's where the consultants can help us as well, but also I would like to see more clarity of communication about the whole process, and understanding for the trustees as to what the whole transition management business is about. And something which makes it clear that the transition manager's interests are aligned with those of the trustees.

MINDERIDES: A quick answer is fewer providers. But the long answer is really being appointed agent of the pension managers or the trustees for ongoing advice and analysis. We've seen that increasingly, because we want to help them be able to make the better decisions, and if you're in communication with them already the confidentiality issue is not a problem, so you can actually give much more back.

WILLIAMS: Perhaps the wider use of independent third party transition cost measures, because at the moment the transition manager tells you what their pre-trade estimate, ie their benchmark, is and they also tell you what the result was, and if we're used to third party transition costs, we're used to third party performance measurements. We have that in equity and bond investment management, why not in transition management?

FAULKNER: I'd certainly be happy if we could see the transition industry challenging consultants on some of these things. But if there was some way you could talk to trustees without actually trying to sell a product, just trying to educate them up to a particular level, that would be good. And secondly, we've talked about the benchmark and measuring, I think that would be really useful.

HUTCHINSON: The growth in technology and communication will allow a lot of these other things to be understood better in terms of attributing cost. Developments in these areas will help to highlight the value of using a transition manager and may be the spur to transition management becoming a fully-fledged industry.

WALKER: Transition management needs to keep going where its clients want to go, and one of the challenges for the future is the extent that clients are moving into alternative investments.

These can be expensive markets to deal, and transition management is all about reducing the cost of making changes. As an industry therefore we need to develop the skills to take clients from their existing portfolios into those slightly more esoteric types of investments. Clients want to take their money somewhere else at the moment, and transition management hasn't necessarily got the skills to take them there just now.