Transition Trauma!
How to Avoid Losing Up to 1% of Your Corpus!

Virtually every large Outsourced CIO boasts a "dedicated onboarding" team. You will hear pleasant words like "seamless" and "facilitate" and "full transition takes 5 to 10 days." This all sounds so reassuring. As a Fiduciary, you can simply not rely on those "happy noises."

Perhaps it is the number of moving parts, the reliance on a skeletal checklist, or the failure to perform a simple "walk through" exercise that is the biggest culprit. When legal, operational or IT roadblocks are not uncovered until the transition is underway, the likely result is economic damage to your investment corpus.

A sample portfolio to transition might be:

40% public equity securities
20% fixed income securities
15% Hedge Funds
10% Private Equity
5% Real Estate
10% Cash

The simplistic view is hold onto to the cash, sell the liquid securities, and do the best you can with the alternatives holdings. That approach glosses over some critical decision points:

1) Proper sequencing of asset sales by asset class, date, and time.
2) Not coordinating the timing of sales/buys to be synced to intraday/market close.
3) Not factoring in the different settlement dates that vary by instrument and fund, e.g. mutual funds v. ETF's v. security assets.
4) Whether borrowing to facilitate the purchase of replacement assets is allowable.
5) Whether futures/ETF's could maintain needed market exposure and minimize the impact of settlement mismatches.
6) Failure to minimize "time out of market" if that is your goal.
7) No agreed timetable to perform a reconciliation or what constitutes "full" reconciliation.
8) Decision to change asset allocations amidst the transition process itself.
9) No clear game plan as to "care and feeding" of legacy assets.

Public Equities might be individual securities or held within mutual funds or ETF (Exchange Traded Funds.) Each asset has its own settlement date as well as exit process. This means sales timing issues and settlement issues. Public Equities may be sold intra-day (or MOC-market on close, or VWAP-volume weighted average price.) Mutual funds pricing is at end of day, ETF's can be intraday or MOC and when you receive sales proceeds varies by instrument.

Hedge Funds are often liquidated only on a quarterly basis and there are typically holdbacks. There may be investor-level or fund-level gates as well.

Private Equity has almost no liquidity and you may need to sell on a discounted basis in the secondary market if you cannot wait the additional year(s) likely to full redemption. Legacy assets require dedicated management and oversight.

When you change custodians, your existing custodian likely must follow up with phone calls backs to authorized signatories. The signatories (Trustees) have busy lives and this further restricts your flexibility to sell and buy at the best times to ensure a smooth transition. Beware the vague or incomplete timetables or assurances that “we’ve been doing this a long time.” You should require a daily update as to sales/proceeds and when/where these proceeds will be sent.

As part of our Outsourced CIO search services, we are also available to oversee the transition process to ensure that your institution does not have gaps or additional market exposure during the Outsourced CIO transition.

Want to learn more?

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