Russell Investments

Russell Investments transitions $3.5 billion of assets for major super fund

When a government super fund wanted to significantly change its total portfolio exposure, it chose Russell Investments' implementation services team to manage the transition. This risky and highly complicated process had multiple moving parts, including terminating five existing mandates to four new managers. Our team executed this complex transition efficiently, while protecting investment performance and without freezing any assets. This successful transition has saved the fund significant transaction costs and reduced its exposure to unnecessary risk.

Situation

To reduce the risks of volatility and market uncertainty to member benefits, a large government super fund decided to make significant exposure changes to $3.5 billion in fixed income assets. The fund was seeking to increase its global exposure, reduce credit exposure and increase exposure to secure trades.

However, the transition would be extremely complex, involving one of the largest fixed income trades ever undertaken in Australia. The strategic asset allocation changes affected two separate portfolios – a global exposure and defensive alternative exposure – and included terminating five existing mandates to four new managers. Other complicating factors included the fund's:

- Daily unit pricing requirement – which meant assets could not be frozen during the transition.
- An existing FX overlay held by legacy managers – which had to be maintained throughout the transition.

Solution

The fund selected Russell Investments' implementation services team to manage the transition based on its experience in other large transitions – and its approach of treating each transition as an investment management exercise. The team seeks to minimise the time-weighted performance impact of a transition – not just its transaction costs.

Our implementation services team worked closely with both the fund and the target managers, reviewing the existing portfolios and the design of the new portfolios to find opportunities for in-kind trading. This enabled the fund to maintain $987 million of assets through in specie trading, substantially reducing the overall transition costs.

Through out this process, our team coordinated the negotiation and use of common security requests by the new investment managers to equitably allocate securities and minimise substitutions where possible. To further reduce trading costs and eliminate risks, Russell Investments recommended transferring $423 million of securities and cash between the two portfolios.

During the month-long transition between the legacy fund and new manager, the team managed the portfolios' exposure to currency risk by implementing an FX overlay. This included managing currency exposure to 15 different currencies in both developed and emerging markets.

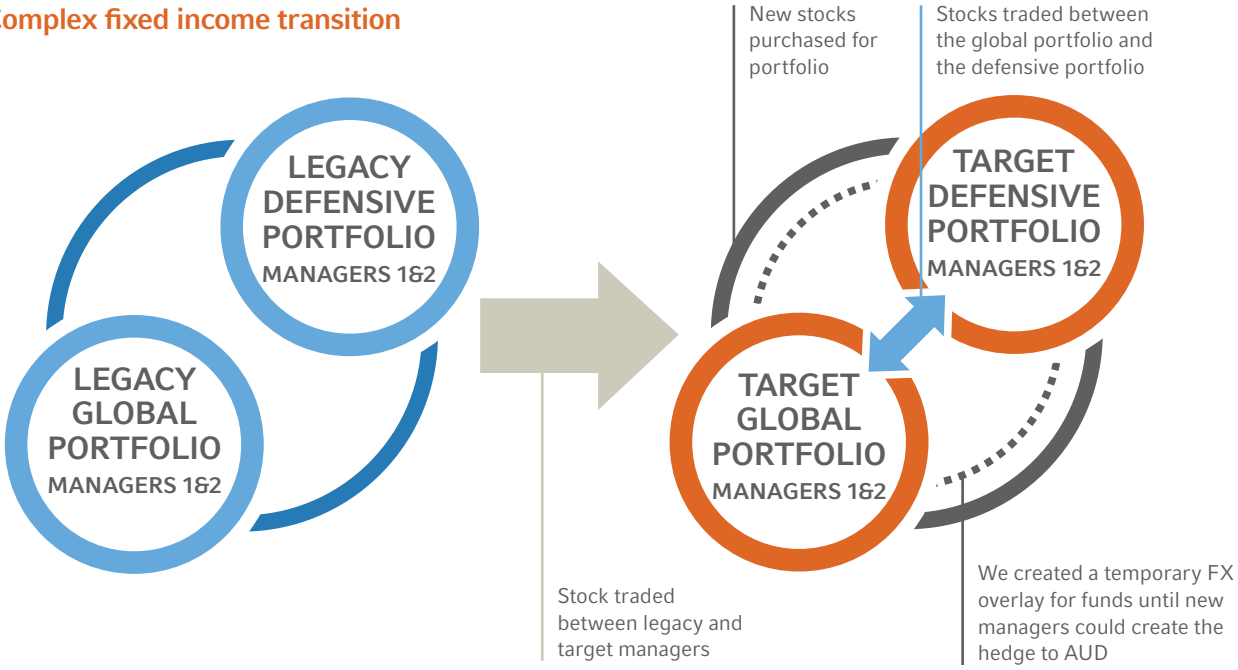
Results

The portfolios were successfully transitioned to the fund's new strategic approach, saving significant transaction costs and reducing exposure to risk. This was achieved while maintaining full exposure to the market, including a hedge to the Australian dollar.

To sustain investment performance and reduce transaction costs, the team was able to source >95% of the model portfolios, requiring minimal substitution. As a result, the Fund experienced less than half a basis point implementation shortfall and the transition was managed in line with the original estimate.

Any element of a portfolio in transition that's inadequately managed can lead to unexpected risks. Our goal is to maximise the value of assets by reducing risk and controlling both explicit and implicit costs.

Complex fixed income transition



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