

Implementation services



A dedicated implementation partner

Client case study



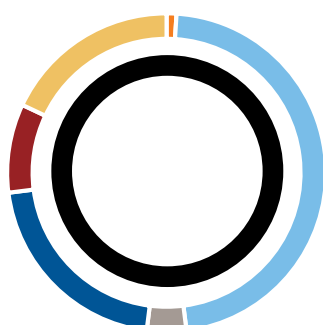
Executive summary

Russell Investments have been an implementation partner for the Nationwide Pension Fund (“Nationwide”) for almost a decade, starting our relationship in 2008. Our mandate covers a range of implementation solutions including transition management, interim exposure management, currency hedging, collateral management, as well as tailored risk management solutions. We firmly believe the successful relationship derives from the flexibility of our implementation platform and strong client communication—working alongside their investment consultant and acting as a specialist extension of Nationwide investment team. The arrangement allows Nationwide to focus on important investment decisions—rather than on onerous day-to-day tasks. This case study provides an overview of some of the implementation activity where we have added value.

The organisation

Nationwide Pension Fund, a closed defined benefit scheme with circa £5bn in assets under management, provides pensions for the employees of the Nationwide Building Society—one of the United Kingdom’s largest building societies. The award-winning pensions team uses variety of growth and matching assets to meet their investment objectives ranging from listed equity and private markets to core and alternative matching assets. The diagram below provides an overview of the scheme’s asset allocation as of October 2016:

Exhibit 1: Nationwide Pension Fund: Asset allocation



- 1% Cash
- 47% Core Matching
- 4% Alternative Matching
- 21% Equities
- 9% Credit
- 18% Private Markets

“We view Russell Investments as a key implementation partner and a natural extension of our in-house team.”

**Mark Hedges, CEO
Nationwide Pension Fund**

Source: Nationwide Pension Scheme. 31 October 2016.

A comprehensive challenge and an implementation solution

Nationwide have relied on Russell Investments to implement across a variety of aspects of their portfolio with the ultimate aim to reduce performance slippage and efficiently meet their investment objectives. These functions are all serviced from the same tightly integrated implementation team ensuring consistency and a single point of contact for the client and their consultant. The table on page three provides a snapshot of just some of the different investment challenges Russell investments has helped Nationwide manage since the start of the relationship in 2008.

Example: Managing periods of change within the scheme's allocation

A specific example of a complex plan-level change occurred over the course of late-2013 to mid-2014. Nationwide looked to de-risk from developed and emerging market equities to a portfolio of core matching government bonds; consolidate a suite of developed equity managers to a single manager; as well as change their emerging market manager line-up.

Immediate de-risking across the entire portfolio upon trustee decisions

Nationwide were able to reduce their developed equity exposure immediately by having Russell Investments short a developed equity allocation using futures until the manager disinvestment was complete over a month later. At the same time, the trustees were able to plug the exposure gap between the timing of the de-risking decision and the funding of the physical bond manager having Russell Investments add long futures positions to access UK gilt market exposure. This was necessary because being in cash for even short time periods could have negatively impacted the scheme's performance due to cash drag.

"Russell Investments ensures all our implementation needs are met by working closely with the team on a day to day basis."

Mark Hedges, CEO Nationwide Pension Fund

The event was managed using a single point of contact while using Russell Investments' transition management, currency hedging and exposure management specialists – ensuring that any out of market risk was kept to a minimum. Specifically, this allowed Nationwide to act on their decision quickly reducing timing risk and decreasing the impact of cash dragging down performance of the fund.

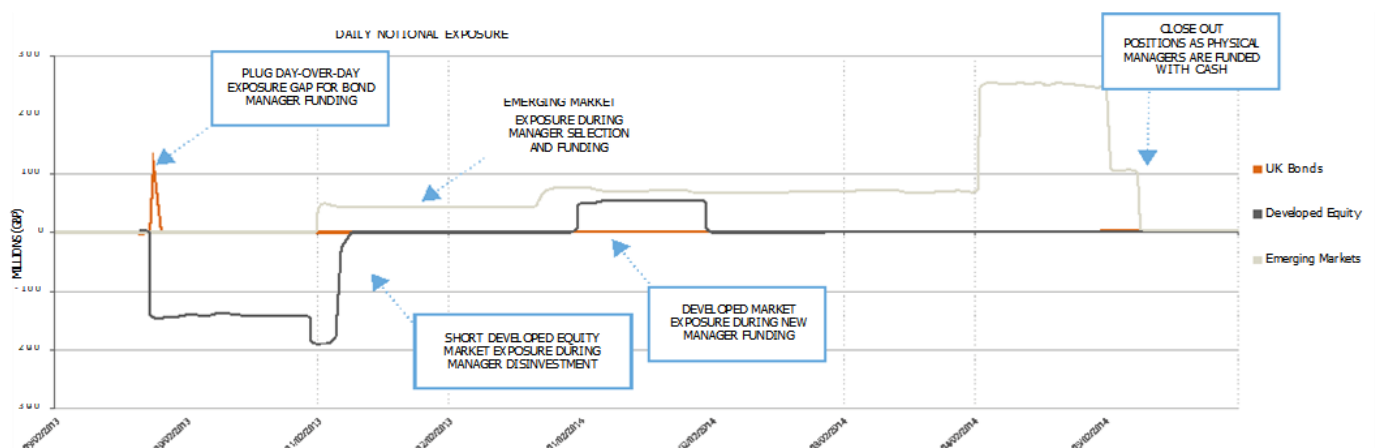
Interim portfolio management during manager selection and funding

As with any significant restructuring of pension schemes at a plan-level, it took time to fund the two new emerging market and the new developed equity managers. Nationwide were finalising discussions on active vs. passive management as well as finalising the selection of new managers including conducting the appropriate due diligence and contract negotiations.

By using Russell Investments' implementation platform, the trustees were able to maintain the desired asset class exposures to global and emerging market equities until all decisions were made, and operational aspects were in place. They did this by dynamically increasing and decreasing the regional exposure levels using derivatives as legacy manager disinvestments or new manager allocations were met. They also used this tool to gain appropriate exposure from additional contributions before it could be invested.

In the end, Nationwide was able to take one month to disinvest from their global equity portfolio. They were also able to take a further six months to hire two new emerging market managers and re-configure their other manager allocations. During the whole time, Nationwide was able to maintain their desired asset class and currency hedging exposures using Russell Investments implementation platform.

Exhibit 2: The daily notional exposure to keep the portfolio exposure close the SAA



Source: Russell Investments. For illustrative purposes only.

Acting as the implementation specialist for the pension team

Working with Nationwide's pension team, alongside their investment consultant, Russell Investments can implement on strategies and investment ideas quickly and efficiently. With access to a dedicated portfolio management team – Nationwide are able to access the full breadth of Russell Investments' implementation services through a single contact point – covering everything from portfolio structural changes and execution to strategic exposure and tactical risk management. The pension team is also able to continuously monitor market, hedging and risk exposures across their entire fund – while having access to pricing and best execution expertise at arm's reach when required.

All of Russell Investments' implementation solutions are wrapped in a single investment management agreement (IMA) to ensure a straightforward operational structure with clear investment guidelines. By contracting as an investment manager, Nationwide is able to benefit from a pure-agency business model, leveraging multi-venue liquidity with a transparent reporting and remuneration structure, that is fully transparent and explicit.

In order to retain implementation flexibility – Russell Investments manages the entire operational setup covering areas such as ISDA negotiation, broker account opening, counterparty credit agreements, regulatory reporting; variation and collateral movements, and reconciliation for positions. This leaves the Nationwide pension team free to focus on strategic investment decisions – rather than burdensome day-to-day operational requirements.

The results: Solution and implementation challenge

Transition management

Using Russell Investments' transition management platform – managing circa ten separate events over the past three years alone including manager changes across their growth portfolio; physical de-risking events; as well as restructuring of their core matching portfolio. In 2013, we managed a significant restructure of Nationwide's growth portfolio – moving from a suite of active managers to a single passive manager. The event also included managing a strategic reduction in equity allocation and purchasing a portfolio of matching assets to meet their target liability profile. This event is outlined in greater detail in the next section of this case study.

Interim exposure management

In mid-2016, a sudden need to change an emerging market manager required an interim portfolio solution to reduce out-of-market-risk and cash drag in the portfolio. Once a new manager was selected, a targeted approach to funding was required to reduce the impact of dilution levies on subscribing to the new fund. While assessing different solutions for circa £100m in emerging market exposure, exchange traded futures and currency forwards were ultimately used to ensure Nationwide were continuously invested, ensuring flexibility for plan-level events including de-risks and allocation changes.

Currency hedging

Since 2008, Nationwide have managed currency risk through passive currency overlays. Over the years – the hedging objectives have covered an array of managers across a range of asset classes. These involve monitoring daily hedge exposures, managing currency rolls and providing advice for efficient implementation. Due to centralised nature of the mandate, Nationwide have benefited directly from the management of counterparty risk across their portfolio as well as efficient cash management for realised gains or losses.

Collateral and cash management

Since 2008, Russell Investments has managed collateral, variation margin and cash movements for all implementation events. For many pension clients, the daily management of cash can be a burden that detracts from their ability to focus on more strategic investment and operational objectives. Coordinating with investment managers, conducting currency transactions, managing variation and initial margin, as well monitoring projected balances can be a cumbersome activity requiring significant time and adding unnecessary risk. In 2015 alone, we managed over 240 separate private market movements with over half in non-base currencies – requiring coordinated currency exposure management and spot FX trades.

Flexible de-risking

Across 2015 and 2016, Nationwide used custom market-based triggers to manage exposure to developed equity and emerging markets. Through a defined governance structure with clear guidelines Nationwide was able to quickly react to de-risking opportunities. Over the course of the mandate, Russell Investments was able to efficiently reduce some £200m of equity risk within hours using derivative instruments, rather than waiting days if not weeks to manage the redemption physically.

Portfolio construction

In 2015, Russell Investments built a bespoke portfolio of £100m in supra-national index-linked bonds to enhance yield while retaining important matching elements of their liability profile. Specifically, the programme involved continuously monitoring the market to achieve both desired yields spread, target maturity and best-execution. Due to efficient market monitoring, Russell Investments was able to complete the programme in roughly one and a half months significantly quicker than originally expected – with a circa 20bps yield pickup from the target spread.

About Partnership

Russell Investments has been a dedicated implementation partner for the Nationwide Pension Fund since 2008. The success of the relationships stems from the comprehensiveness of the implementation platform covering transition management, bespoke portfolio construction, interim exposure management, passive currency hedging, collateral management, as well as tailored risk management solutions. Through an efficient implementation platform – Nationwide is able to remain flexible to meet their investment objectives.

About Russell Investments

Russell Investments is a global asset manager with a unique set of capabilities that we believe is essential to managing your total portfolio and to meeting your desired outcome. At Russell Investments, we stand with you, whether you're an institutional investor, a financial adviser, or an individual guided by an adviser's personalised advice. We believe the best way to reach your desired outcomes is with a multi-asset approach that combines: asset allocation, capital markets insights, factor exposures, manager research and portfolio implementation.

For more information

Call Russell Investments at **+44 (0)20 7024 6000** or visit [russellinvestments.com](https://www.russellinvestments.com)

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