

Fixed Income Transition



Case study of a fixed income ETF transition during volatile markets

Organization

A prominent asset manager overseeing a diversified fixed income strategy. In mid-2025 (during the height of tariff-driven market volatility) the ETF advisor kicked off a sub-advisor change to better match their investment goals.

The ETF advisor had two separate actively managed fixed income ETFs, both with the same third-party sub-advisor. The transition involved replacing the sub-advisor in both funds and minimizing transaction costs while managing portfolio structure throughout the transition. This wasn't a complete product overhaul, but rather a change in the sub-advisor executing a similar fixed income investment strategy for these actively managed ETFs.

Challenge

The transition involved restructuring a \$3.5 billion fixed income ETF

Key challenges included:

- **Managing market exposure and minimizing transaction costs, during intensely volatile markets.** The event kicked off shortly after U.S. tariff policy announcements, creating uncertainty in credit markets.
- **Ensuring best execution while avoiding information leakage.** The portfolios involved had a substantial amount of assets invested in mortgage securities, asset-backed securities and commercial mortgage-backed securities, exponentially adding to the degree of difficulty in sourcing liquidity.
- **Coordinating across multiple stakeholders including custodians, counterparties, and internal teams.** These ETFs required daily liquidity, with creation and redemption transactions posted daily with T+1 settlement.

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Executing trades across a wide range of fixed income instruments, including complex securitized products. This required working closely with the target manager's traders



Solution

The team at Russell Investments highlighted their role as transition manager and jumped in to coordinate and run the transition. We ensured that all stakeholders, including the outgoing and incoming managers, custodians, and internal teams, were aligned. The transition was managed with clear, consistent communication, with over 500 communication touchpoints logged during the process.

Strategic Planning

- We constructed pre-transition analysis with cost and risk estimates, which was reviewed with the client prior to the event.
- We mapped out the strategy in detail, to efficiently align with the target portfolio's duration and sector exposures at the inception of the event and to complete the transition in the needed timeframe.

Execution Excellence

- Executed over 1,700 trades totaling \$7.5 billion in principal value.
- Worked with 66 dealers, averaging nearly seven bids per trade, to lock in cost-effective pricing and execution.
- Avoided information leakage, keeping the true size and scope of the transition unknown to market participants.

Operational Coordination

- Worked closely with the client and both managers, the custodian, and multiple execution counterparties.
- 500+ communication updates to ensure processes were harmonized with all stakeholders.
- Handled trade settlement and logistic, with nearly zero settlement fails.

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Results

The ETFs experienced performance aligned with client expectations during this specific transition. Despite very high market volatility, the transition was particularly successful, with performance-beating expectations. And the transition portfolios performed almost identically to the target portfolios the new sub-advisor requested.



Exhibit 1: ETF 1 -T Standard Portfolio Summary

	Pre-Implementation Period	Implementation Period	Post-Implementation Period	Time Weighted Return
Legacy Portfolio	-0.135%	0.145%	0.358%	0.368%
Transition Shortfall	-0.135%	0.106%	0.362%	0.333%
Target Portfolio	-0.089%	0.104%	0.362%	0.377%
US Aggregate Index	-0.389%	0.091%	0.537%	0.236%
Implementation Shortfall		0.001%		
Transaction Cost		-0.350%		
Opportunity Cost		0.351%		

Source: Russell Investments. The implementation period of active trading was from May 13th, 2025 to May 28th 2025. Performance is shown net of fees. Past performance is not guarantee of future results.

Exhibit 2: ETF 2-T Standard Portfolio Summary

	Pre-Implementation Period	Implementation Period	Post-Implementation Period	Time Weighted Return
Legacy Portfolio	-0.353%	-0.020%	0.518%	0.143%
Transition Shortfall	-0.353%	0.075%	0.586%	0.306%
Target Portfolio	-0.310%	0.061%	0.585%	0.334%
US Aggregate Index	-0.389%	0.091%	0.537%	0.236%
Implementation Shortfall		0.014%		
Transaction Cost		-0.237%		
Opportunity Cost		0.250%		

Source: Russell Investments. The implementation period of active trading was from May 13th, 2025 to May 28th 2025. Performance is shown net of fees. Past performance is not guarantee of future results.

Performance

- During the period under review, results for both ETFs' transition portfolios were above those of the target portfolios, after accounting for transaction costs.
- Trading Completion: 100% of trades completed by the targeted end-date, with new sub-advisor managing portfolios on the planned start date.

Cost Efficiency

- Actual costs aligned well with expectations.
- Securitized sectors observed to have higher expectations, playing a major role in the opportunity gain.

The transition was not only operationally smooth but also produced successful results. The team's ability to manage complex, high-value

In both ETFs the transition portfolio was observed to be higher than the target portfolio, inclusive of transaction costs.

transitions with discretion and precision was evident throughout the process.

Portfolio Alignment

- Duration and sector exposures were lined up closely with the target portfolio.
- Transition portfolio performance exceeded both the legacy and target portfolios during the implementation period.

Conclusion

This transition exemplifies Russell Investment's ability to deliver a smooth, cost-savvy, cost conscious and risk managed transition process for complex fixed income restructures. Our independence, multi-venue execution capabilities, and rigorous project management helped the client not just meet but exceeded their goals.

As we look to the future, the proliferation of ETF will drive the need for more transition management for sub-advised ETFs. Russell Investments is well positioned to partner with these ETF providers in the future, minimizing the impact of sub-advisor changes or advisors and participants.



Where to next?



Call Russell Investments at **800-426-8506**
or visit
russellinvestments.com/implementation

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