

Transition management as an essential part of restructuring investments

Once decisions to change investment strategies are taken, plan sponsors must ensure that the implementation costs do not outweigh the benefits.

A Transition Manager's sole focus is to implement cost efficient investment strategy restructures. It takes on a risk management responsibility across the client's entire strategy, rather than at individual portfolio level. It brings together the necessary project management and execution expertise as well as operational excellence to preserve portfolio asset value throughout a defined, transparent and documented process.

The structural changes that benefit from Transition Management include changes in asset allocation or asset managers as well as the construction or liquidation of portfolios. These events are periods of intensive trading – in some cases, a restructure can account for 100% of portfolio turnover with its associated costs.

A plan sponsor should be aware of the costs and risks associated with the decision to restructure and the Transition Manager ensures that these are clearly estimated at the project's outset. Throughout the implementation, the Transition Manager keeps the client informed of its progress, delivering pre-trade analytical reports that are compared to post-trade reports to deliver a documented approach.

TABLE OF CONTENTS

The need for Transition Management	2
The Transition Management process	2
One-sided and two-sided events	2
Client confidentiality	3
Why J.P. Morgan	3
Case Studies	3
Conclusion	3

For more information, please contact your J.P. Morgan Worldwide Securities Services representative or visit www.jpmorgan.com/transitionmanagement

If a plan sponsor directly tasks its various portfolio managers to handle the process, two very separate attributes – the short term implementation costs and the long term portfolio performance – become indistinguishable. The only way to keep them separate is by using a Transition Manager who will take the short term responsibility to manage the implementation and hand over the assets to the various fund managers to manage their respective portfolio and increase its long-term value.

By having a Transition Manager carry out the implementation and the fund manager handle long-term investment, the plan sponsor is able to fully take advantage of the industry's professionalism to carry out the change in its investment strategy.

In the US and Europe, Transition Management is already an established method of handling the restructuring process. And in Asia-Pacific, demand is growing, as plan sponsors seek greater transparency and control over the costs and risks of restructuring. Within the region, a wide range of institutional investors leverage Transition Managers: such as sovereign wealth funds, central banks, insurance companies, government pensions and endowments.

The need for Transition Management

Whenever an asset managing institution restructures its investment portfolio, Transition Management can help reduce the market- and security-specific risk associated with the project. Although Asia is already on track to recover from the financial crisis, volatility remains a key characteristic of the region's markets, which means a restructuring can significantly affect the value of an investor's assets if the project is not handled in the right manner.

The alternatives to using a Transition Manager all come with an increased level of cost and risk:

Cash funding of the mandate: Here, the legacy manager is instructed to sell all of the portfolio's assets with the cash raised given to the incoming manager. This

method fails to exploit crossing opportunities that could arise from the transfer. It also removes the fund's exposure to the market during the period that the transfer takes place.

Incoming manager as transition manager:

In this scenario, the legacy assets are handed over to the incoming manager, who is then expected to trade into the new portfolio. The new manager is given a performance holiday as they restructure the assets over a period of time, without performance responsibility or cost accountability. This option is time-consuming, because the incoming manager will not be as quick as a specialist Transition Manager, and more expensive, since the fund manager's commission rates will be more expensive than the Transition Manager's rates.

Investor as transition manager: While it is possible for an investor to undertake a transition on its own, it will not have the same level of experience of carrying out restructuring projects that a Transition Manager has. Furthermore, the investor might not be comfortable taking on the risks associated with the project, or the extra workload that it would entail.

Transition Management addresses all of the problems that arise from the alternative methods. It allows an investor to outsource the asset restructure to a specialist that can provide transparency during this intensive trading period. The restructure occurs in an ordered manner, according to a trading strategy designed to maintain asset value. And the investor can measure success by comparing post-trade reports against the predicted costs at the project's outset.

The Transition Management process

Whenever an investor mandates J.P. Morgan to carry out a restructure, the bank is committed to maintain portfolio exposure, reduce risk and costs, and preserve asset value. In such a situation, J.P. Morgan provides a consultative and centralized project management approach throughout the transition. It contains the following stages:

Planning: determine the client objectives, conduct portfolio analysis, calculate expected costs and devise a preliminary project plan and trade execution strategy.

Planning: Develop strategy, identify optimal trading flows, and coordinate all involved parties to complete necessary documentation.

Execution: Provide optimal exposure management, risk mitigation and minimization of implementation shortfall through complete management of in-kind transfers, internal and external crosses, open market trade execution, and currency transactions with full coordination of all cash flows and settlement.

Performance Analysis: Deliver clear measurement of transition implementation shortfall and actual cost outcome compared with pre-trade estimates.

Throughout the transition, the investor will be continually informed of the progress of the restructure by the Transition and Project Manager.

J.P. Morgan only charges commissions on executions (at execution-only rates) that need to be carried out in the market. This is significantly cheaper than the full-service commission rates that the asset manager would typically pay to their brokers for the same set of trades.

One-sided and two-sided events

Structural changes in asset management can be broken into two categories:

One-sided events: Portfolio liquidation into cash or portfolio creation from cash

Two-sided events: Asset reallocation, manager and benchmark changes, scheme mergers or restructures

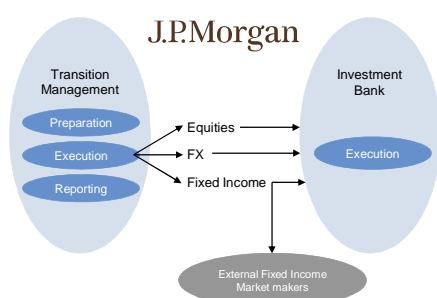
While it might be tempting for an investor to try and carry out a one-sided event on its own, these events are potentially more risky than a two-sided mandate. This is due to the higher opportunity costs resulting from uncorrelated legacy and target portfolios, whereas in a two-sided event there are opportunities to trade offsetting assets during the same event

horizon, which not only dampens volatility, but also reduces costs and risk. The trade of offsetting assets can be done by taking advantage of in-kind crossing opportunities or via an optimized trading strategy.

Client confidentiality

The Asian market for transition services is dominated by public sector institutions, a client-base for which confidentiality is paramount. Whenever J.P. Morgan is hired to carry out a transition project, it is able to maintain complete confidentiality via the use of strict Chinese walls and the total segregation of business lines.

J.P. Morgan's Transition Management team is part of the Worldwide Securities Services (WSS) business, which is completely separate from the investment banking arm of the company.



This means that it is impossible for a conflict of interests to arise or for confidentiality to be breached because client information, as well as the execution strategies used in the restructure, are not shared at any stage of the project.

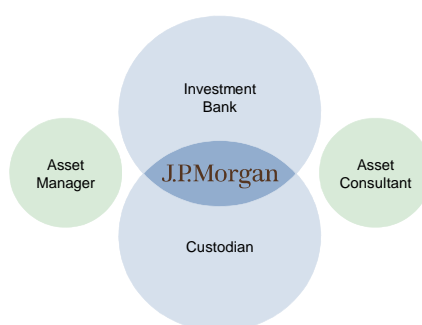
Why J.P. Morgan is the natural first choice for Transition Management

With a 20-year heritage in Transition Management, J.P. Morgan provides its clients access to its deep experience and broad global reach. The Transition Management team has a total of 26 professionals, with its Asia-Pacific specialists located in Singapore, Tokyo and Sydney. J.P. Morgan is able to offer in-country localized support, along with direct access to its market knowledge and

the trading ability of its regional teams in London and New York.

J.P. Morgan's strengths in Transition Management include:

Universal Banking Model: J.P. Morgan is the only Transition Manager in Asia-Pacific that can offer both custodian and investment bank services.



This means that our clients simultaneously benefit from the operational and administrative expertise of a leading custodian bank, as well as the global liquidity, analytical and execution capabilities of a leading investment bank.

Delivering Success: In 2009, J.P. Morgan was able to successfully deliver all transitions within pre-trade estimates, despite the high-levels of volatility that plagued the markets throughout the year.

Client Loyalty: In 2009, J.P. Morgan more than doubled its regional client-base, and achieved 100% client retention.

Strength in fixed income: J.P. Morgan is the only Transition Manager in Asia-Pacific that has a fixed income trading model that offers agency, principle and hybrid solutions.

Investment Bank only	Custodian Bank only	J.P. Morgan model
+ Principle / agency trading for equities only	+ Agency trading for equities & fixed income	+ Principle / agency trading for equities & fixed income
- Principal bond trading	+ Multiple bond dealer pricing (best execution)	+ Multiple bond dealer pricing (best execution)
+ Crossing capabilities	- No crossing capabilities	+ Crossing capabilities
+ Analytics	+ Operational efficiency	+ Analytics & operational efficiencies
- Reliance on custodians	- Reliance on market makers	+ No external reliance

Case Studies

Case study 1

A client that had recently terminated its service with several external asset managers asked J.P. Morgan to assist with a pool of portfolios managed in house. By utilizing its integrated global network, J.P. Morgan was able to help the client manage its US dollar fixed income portfolio restructure beyond the Asian time zone. This meant the client was able to take advantage of the bank's US market liquidity platform to fully optimize their portfolio investment.

Case study 2

In 2009, J.P. Morgan worked on what is believed to be Asia's largest fixed income mandate. The bank was able to complete a \$2 billion global fixed income restructure that was traded and delivered within pre-trade estimates and completed in three days, the length of time projected at the outset. This means that the restructure was completed within the client's expectations both on cost and on time.

Case study 3

A large Australian superannuation fund approached J.P. Morgan after it had recently changed several of its asset managers. The bank was hired to restructure their international equities business across multiple mandates and implement a currency hedge and futures overlay strategy to minimize risk and volatility. The client was pleased with the equities restructure, especially since it was a solution that adhered to the corporate strategy.

Conclusion

The role of a Transition Manager is to help reduce the market and security specific risks associated with the restructuring of an investment portfolio. The alternatives to using a Transition Manager all come with an increase in costs and risks. J.P. Morgan's deep experience in this area and its skilled professionals can help across the full range of transitions and has, in 2009, successfully delivered on all transitions within pre-trade estimates.