

Kent County Council

Post Trade Summary

Executive Summary

Kent County Council appointed State Street Transition Management (SSTM) to manage a UK equity restructure on their behalf. Kent County Council instructed the cash disinvestment from Invesco at their mid-day pricing point on the 28th of January. At the same time SSGM built up a long FTSE future position to hedge out of market exposure. Physical trading began on the 29th and SSGM sold futures while buying the SSgA UK Equity wish list. SSGM worked closely with SSgA as target manager to ensure a timely funding into their pooled fund and minimised the cash value of the funding through a secondary “wish list” cash buy.

Prior to commencing the restructuring several operational processes were required to be managed by SSTM:

- Ensuring all necessary documentation was signed and exchanged
- Cooperating with JP Morgan custody to agree and document the operational process
- Preparing comprehensive Pre-Transition Implementation Shortfall Analysis
- Preparing a futures overlay to maintain market exposure throughout the period of transition
- Arranging substitutions to minimise cash funding to SSgA

IMPLEMENTATION SHORTFALL

Physical trading commenced from the open on 29th January 2014 with trading taking place through the 6th of February. The final implementation shortfall associated with this restructure was 84.02 bps or GBP 4.4m. This compares to a pre-transition mean estimate of 85.22 bps. There were many factors that helped us achieve a favourable result in the transition including the fact that we could work directly with the target manager to ensure a basket that provided both effective index coverage and liquidity. The long FTSE hedge also helped manage the cost of the restructure. The cost of physical equities was 112.96 bps with an offsetting gain of nearly 29 bps from the futures hedging strategy.

UNIT FUND HOLDINGS

Securities and cash was transferred to SSgA using a trade date of 11th February and settlement of 14th February. Per the contract note 143,384,547.982 units of the MPF UK Equity Index sub-fund fund were provided in exchange for the transfer of securities. There remains one open corporate action in AZ Electronics which has yet to pay and will result in an additional cash funding upon settlement.

Key dates of the transition

		Action	Responsible Party	Comments
<u>Pre Transition Implementation</u>				
23-Jan-14	27-Jan-14	Draft transition plan and other documentation provided for review	Client, TM	
23-Jan-14	27-Jan-14	Instruction letters sent to managers	Client	
23-Jan-14	27-Jan-14	Legal documentation agreed and signed	Client, TM	
27-Jan-14	27-Jan-14	Final "Wish List" received from Target Manager	NM	By mid-day
27-Jan-14	27-Jan-14	Invesco provide indicative portfolio value	LM	By COB
28-Jan-14	28-Jan-14	Legacy manager terminated	LM, Client.	
28-Jan-14	28-Jan-14	Disinvestment from Legacy Manager in cash (T+4)	LM	Midday pricing point
28-Jan-14	28-Jan-14	State Street implement futures overlay to gain market exposure	TM	Mid-day
28-Jan-14	28-Jan-14	Client lends cash to cover futures margin	Client, TM	
28-Jan-14	28-Jan-14	Legacy manager confirms value of disinvestment	LM	By 4pm
28-Jan-14	28-Jan-14	Final Pre-Transition Implementation Shortfall Report	TM	Based on final list
29-Jan-14	29-Jan-14	Initial futures margin call	TM	
<u>Transition Implementation</u>				
28-Jan-14	28-Jan-14	Implementation shortfall benchmark	TM	
29-Jan-14	04-Feb-14	Portfolio restructuring	TM	
29-Jan-14	29-Jan-14	Indicative funding list provided to new manager	TM, NM	
03-Feb-14	03-Feb-14	Cash from Invesco redemption settles in account	TM, Cust.	
03-Feb-14	03-Feb-14	Cash lent by client to cover futures margin is returned	TM, Client	
03-Feb-14	07-Feb-14	Trade settlement and account reconciliation	TM, Cust.	
11-Feb-14	11-Feb-14	Final Funding list provided to new manager	TM, NM	
11-Feb-14	11-Feb-14	Assets transferred to new manager (T+3)	TM, NM, Cust.	
14-Feb-14	14-Feb-14	Assets settle at the new manager	TM, NM, Cust.	
<u>Post Transition</u>				
12-Feb-14	26-Feb-14	Post transition reporting	TM	

TM= Transition Managers	NM= New Managers
LM= Legacy Managers	Cust= Custodian

SSgA Contract Note



Managed Pension Funds Limited
Participant Record Keeping System

From: 01 February 2014
To: 20 February 2014
Lending Status: All Participants

Trade Summary Report

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Fund: HKEG - MPF UK Equity Index sub-Fund

Date	Participant	Participant	Trans Type	Units Traded	Price	Comm.	Market Effect	Total Cost/ Proceeds	Realized Gain/Loss
11 Feb 2014	80401	Kent County Council Pension Schem	Buy In-kind	143,318,858.066	3.713980	0.00	0.00	532,283,372.48	
11 Feb 2014	80401	Kent County Council Pension Schem	Buy	63,706.400	3.738860	0.00	0.00	238,189.31	
11 Feb 2014	80401	Kent County Council Pension Schem	Swap Buy	1,983.516	3.713980	0.00	0.00	7,366.74	
			Buy Subtotal:	143,384,547.982		0.00	0.00	532,528,928.53	0.00

Registered Number: 4486031 England
Registered Office and principal place of business:
20 Churchill Place, Canary Wharf, London. E14 5HJ

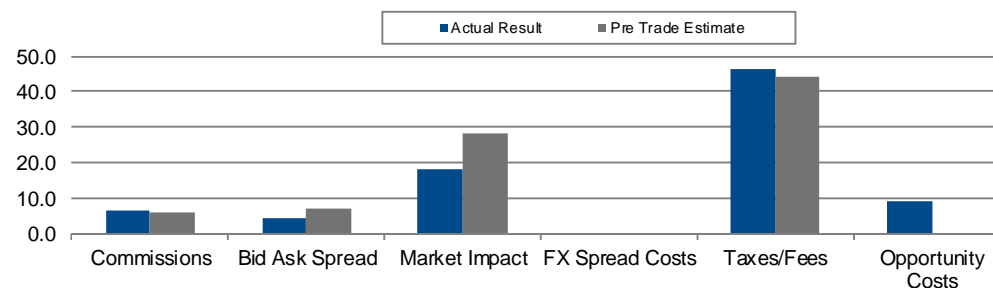
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Authority

Report Created At: 20 February 2014 6:56 AM

Transition costs (GBP)

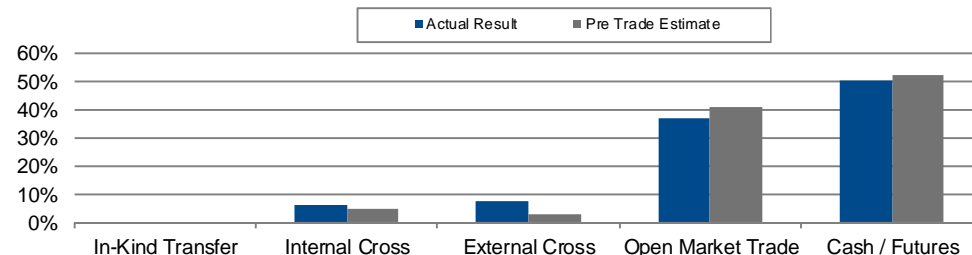
Cost Attribution in bps

	Actual Result	Pre Trade Estimate	Variance
Commissions	6.14	5.98	0.16
Bid Ask Spread	4.46	6.65	(2.19)
Market Impact	18.31	28.25	(9.94)
FX Spread Costs	-	-	-
Taxes/Fees	46.23	44.33	1.90
Opportunity Costs	8.88	-	8.88
Total Costs	84.02	85.22	(1.20)



Trading By Execution Method

	Actual Result	Pre Trade Estimate	Variance
In-Kind Transfer	0.0%	0.0%	0.0%
Internal Cross	6.1%	4.8%	1.4%
External Cross	7.4%	2.4%	5.0%
Open Market Trade	36.6%	40.7%	-4.2%
Cash / Futures	49.9%	52.1%	-2.2%



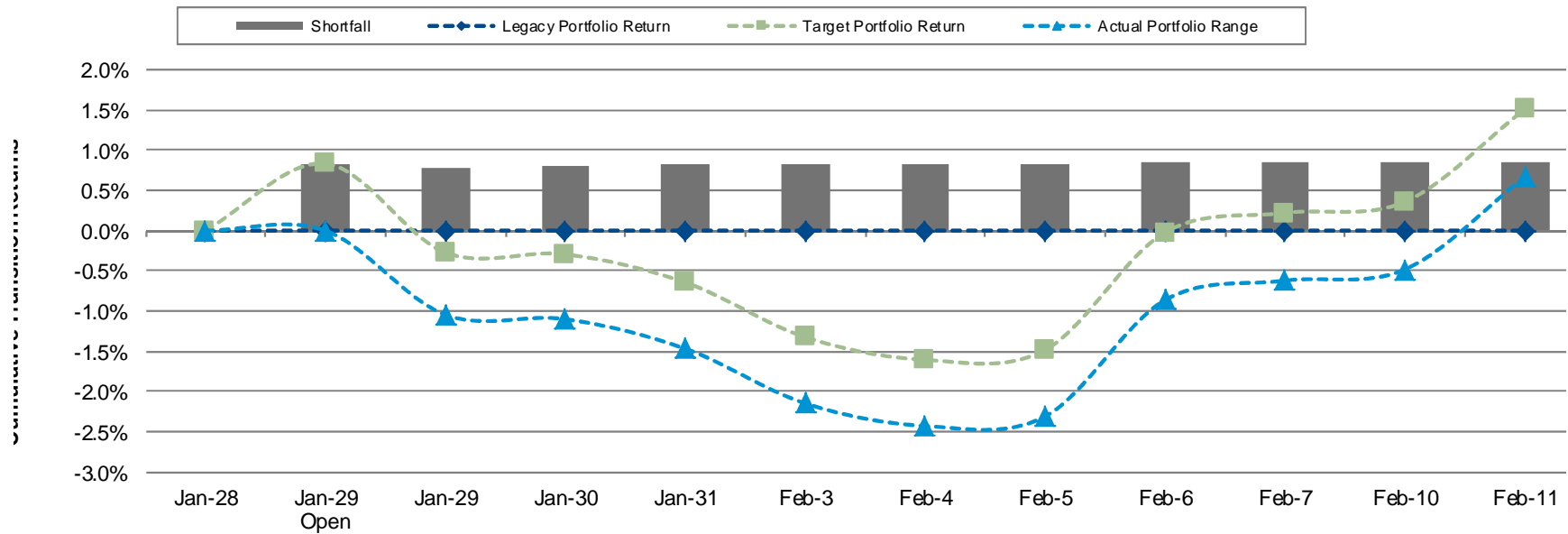
Summary

- The total implementation shortfall cost for event was 84.02 bps or GBP 4,439,718
- The pre trade mean cost estimate was 85.22 bps

Portfolio performance during event

Implementation Shortfall Summary

	Starting Value	Ending Value	Gain/Loss	Performance
Kent County Council Portfolio	528,412,748	531,936,234	3,523,485	0.67%
Target Portfolio	528,412,748	536,375,951	7,963,203	1.51%
Legacy Portfolio	528,412,748	528,412,748	-	0.00%
Implementation Shortfall (Target Return - Kent County)				0.84%



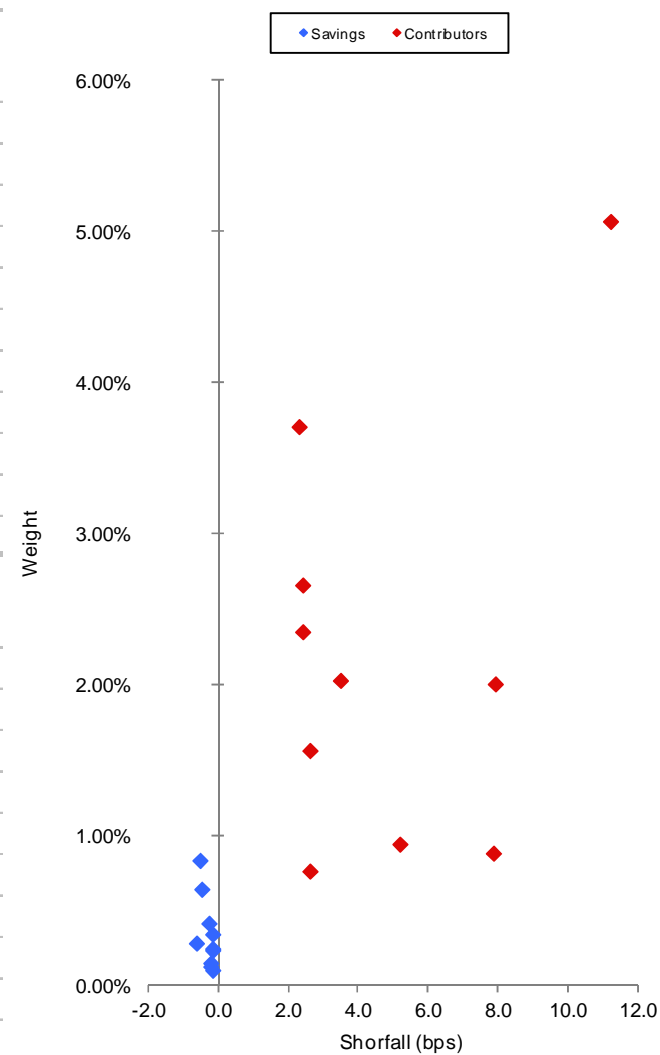
Individual security analysis - Target

Target Portfolio - Largest Savings to Shortfall

Name	Value Traded	Weight	Shortfall	Shortfall (bps)
GREENCOAT UK WIND PLC	1,480,387	0.27%	(31,733)	(0.60)
SHIRE PLC	4,225,413	0.83%	(26,951)	(0.51)
A VIVA PLC	3,376,790	0.64%	(24,172)	(0.46)
BRITISH SKY BROADCASTING GRO	2,124,399	0.41%	(12,236)	(0.23)
PENNON GROUP PLC	636,477	0.12%	(9,160)	(0.17)
COCA-COLA HBC AG-CDI	811,655	0.14%	(8,707)	(0.16)
SAINSBURY (J) PLC	1,241,938	0.23%	(8,153)	(0.15)
UNITED UTILITIES GROUP PLC	1,241,204	0.24%	(7,377)	(0.14)
BTG PLC	528,261	0.10%	(6,983)	(0.13)
BACIT LTD	1,803,292	0.34%	(6,673)	(0.13)

Target Portfolio - Largest Contributors to Shortfall

Name	Value Traded	Weight	Shortfall	Shortfall (bps)
VODAFONE GROUP PLC	27,955,706	5.06%	593,596	1123
BARCLAYS PLC	11,500,288	2.00%	420,900	7.97
CARPHONE WAREHOUSE GROUP PLC	4,713,382	0.87%	418,103	7.91
ANGLO AMERICAN PLC	4,679,865	0.93%	275,334	5.21
RIO TINTO PLC	10,241,890	2.02%	186,646	3.53
ENTERTAINMENT ONE LTD	3,726,672	0.76%	139,448	2.64
PRUDENTIAL PLC	8,276,648	1.56%	139,075	2.63
ROYAL DUTCH SHELL PLC-B SHS	14,108,826	2.66%	129,839	2.46
ASTRAZENECA PLC	12,318,826	2.34%	129,350	2.45
ROYAL DUTCH SHELL PLC-A SHS	19,775,269	3.70%	123,359	2.33



Summary

- > Efficient implementation of the agreed strategy
- > A robust operational strategy which involved cooperation between Kent County Council, State Street Transition Team, & SSgA
- > Security substitution process to manage funding list liquidity
- > Investment into SSgA pooled funds as directed
- > All costs fully reconciled and reported to the client

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