Transition Accounts

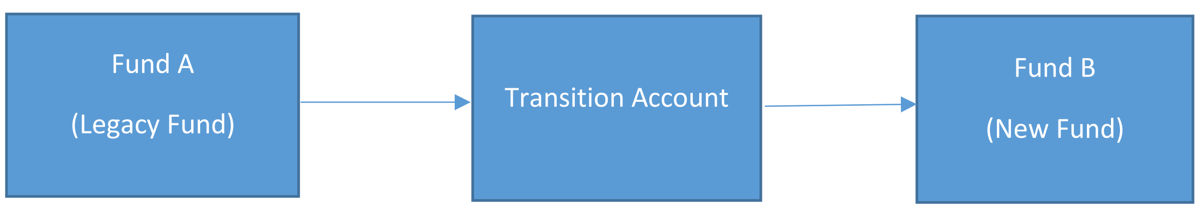
This article helps describe the reasons for using a transition account and how they work. It is technical in nature since this is a highly specialized business process.

When is a transition account needed?

A transition account is sometimes required when an investment option is being eliminated. Investment options may include mutual funds, collective investment trusts (CITs) and separate accounts. In the case of the Plan, some of the eliminated mutual funds require transition accounts. A mutual fund has the right, as described in its prospectus, to provide for redemptions in cash or securities. In the case of large redemptions, mutual funds will often provide securities upon redemption. Transition accounts can also be used when a large investment is being made. This process is used as a way of protecting fund investors from incurring costs associated with large asset inflows and outflows, especially when the redemption represents a large portion of the fund. It is particularly common when the fund is invested in mid and small cap stocks or bonds that trade infrequently. Transition managers act in a fiduciary capacity and are responsible for minimizing costs and risks involved in a transition.

How does a transition account work?

Transition managers receive the securities from an outgoing fund and efficiently trade them to create a portfolio of securities closely matching the portfolio of the new managers. The process can take up to a month or more in some situations. During this process, the transition manager will maintain market exposure and restructure the portfolio to replicate the new investment option.



The amount and types of trading will depend on the unique circumstances of the old (legacy) fund and the new fund. Some of the securities desired in Fund B may already exist in Fund A, requiring no trading other than some adding or trimming. Some trades may be done using “crossing” where trades are effected between buyers and sellers away from stock exchanges. Most of the securities will be traded on exchanges, but the transition manager will use technology and market knowledge to minimize what is called “market impact.” Simply, market impact is the effect on a security’s price when there is significant buying or selling volume, especially within a short period of time. Too many buyers or sellers at one time can affect the prices received of any one security.

How does this process benefit participants?

It benefits participants by minimizing the total costs in making the transition. If all of the Plan’s holdings in a fund were sold and then put into a new fund on the same day, it may cause unnecessary transaction costs. There is less benefit, if any, in using a transition manager when the Plan’s holdings represent a small portion of an investment option and/or the securities in both the old and new funds are large and actively traded.

Investing involves market risk, including possible loss of principal. No investment strategy—including asset allocation, diversification and dollar-cost averaging—can guarantee a profit or avoid loss. Actual results will vary depending on your investment and market experience.

Before you decide to direct investments under the Plan, carefully consider the fund's investment objectives, investment methods, risks, charges and expenses. This and other information is contained in the fund prospectus, which you should read carefully before investing. To get any prospectus, ask your Account Executive, call the HELPLINE at 1-800-422-8463 or access the Web site (www.nysdcp.com).

There is no prospectus for CITs and Custom Funds because these options are not mutual funds. You may obtain a fact sheet on each of these options from the HELPLINE at 1-800-422-8463 or our Web site (www.nysdcp.com).

International investing involves additional risks, including currency fluctuations, political instability and foreign regulations, all of which are magnified in emerging markets.

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