



Russell, Callan Tops in Consultant Survey

By Jay Cooper

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Russell Investments has the most thorough due diligence process in the consulting industry, according to the professionals who are on the receiving end of consultants' manager review process. A survey also shows that the manager research team at Callan Associates is the most open to hearing about new products.

FundFire recently surveyed consultant relations specialists at more than 50 asset managers. One open-ended question asked which consulting firms put managers through the most stringent due diligence review. Russell got the most mentions, by a wide margin: the firm received 19 votes, more than double the votes for the next closest firms, Mercer and Cambridge Associates, which each received nine.

What makes Russell's due diligence so strong? Company officials, as well as the consultant relations specialists who meet with the firm, point to numerous factors, including Russell's well-documented history of note-taking on managers, an extensive analytical process used to evaluate the managers and internal policies designed to promote and retain quality research analysts.

"We view research as a career path, not a stepping stone," says Erik Ogard, the firm's director of institutional client strategies. "You have to compensate them with a wage that's comparable to the other things they can do with that background."

Those efforts are obvious to consultant relations professionals. "They reward manager due diligence analysts as a career," says one, who asked for anonymity because he works with multiple consulting firms. "So many other firms have a hierarchy where if you're an analyst you can only make so much money until you become a consultant." He notes that Mercer, Watson Wyatt and Hewitt Associates are among other firms that emphasize manager research as a career path. By allowing analysts to pursue a career in research, the same analysts talk to the same firms year after year, "and they're more comprehensive in their coverage of managers," he says.

Russell analysts specialize in a particular asset class, and their research is closely monitored by a mentor in the research department, Ogard explains. "Every note is looked at by senior analysts... People will critique it if you make a point without enough information."

Those senior analysts also help train the other analysts on how to ask questions of managers, according to the consultant relations source. "They have legacy manager research folks that have gone through training on how to ask good, open-ended questions that force managers to go through their process – or step on themselves when describing the process."

Consultant relations professionals and Russell executives all point to the firm's process for taking, and saving, notes as another important part of the firm's due diligence process.

Russell has kept a record of all the manager meetings it has held, dating back to the 1980s. Research analysts can access all of the prior information, which is sorted both by firm and by portfolio manager. That means, for instance, that if a portfolio manager changes firms, a Russell analyst can easily access notes on that particular person from any point in his or her career.

Another part of the secret to the rigor of Russell's process is in the way notes are shared throughout the firm.

Typically, after any manager meeting, the analyst who met with that firm or person includes within their notes a series of follow-up questions to be asked the next time Russell meets with someone from that same money manager. "We're sort of known for the follow-up," Ogard says.

Multiple consultant relations professionals agree. One source says that many times, Russell will only want one investment professional from a manager in a meeting at a time. Other investment professionals will be asked many of the same questions in later meetings. "They're looking for consistency in each person's answer," this source says. She adds that the line of questioning is also different. Where many consultants ask direct questions, Russell's questions "allow interpretation to the question," she says. "It gets you to expound upon an idea."

Another consultant relations specialist notes there have been times when someone from Russell's manager research team in the U.S. will quote something a one professional said in an earlier meeting with Russell's research team in London and ask questions based on that other meeting.

Ogard says another differentiator in Russell's due diligence process is its manager profiling tool, a database to which the firm uploads managers' holdings every quarter. Analysts can then evaluate the manager based on more than 150 different factors, including economic sector exposure, industry exposure, various valuation metrics, historical earnings growth and many others.

Russell analysts can use the profiling tool to find out how a manager's exposure to any of these factors has changed over time. For someone who enjoys research, "It's a pretty fun sandbox to play in," Ogard says.

While consultant relations professionals have to worry about surviving the due diligence process, another important issue is getting through the door to meet with a consulting firm in the first place. Another open-ended question in the *FundFire* survey asks which consulting firms are the most receptive to hearing about new products. The answers were not nearly as definitive as the due diligence question, but Callan received the most mentions with six, followed by Mercer with four.

Callan executives say they are more open to meeting managers because the firm has a larger research staff to accommodate those meetings, and because Callan conducts manager searches on a client-by-client basis.

"We've always had an open door policy," says Mark Stahl, a senior v.p. in Callan's global manager research group. "The more firms you know, the more products you know and the bigger the potential opportunity set."

He explains part of the reason Callan may be more open to meeting with managers is that the firm uses no rating system for the managers it meets with. "We don't have any ratings. Not a buy list, or a grade or a number that we use."

Instead, Stahl says, the firm handles each manager search for each client individually, rather than working from a list of managers already highly rated, as some firms do. "We want to let the client dictate specifically what they're looking for and identify that specific fit," he explains.

That philosophy drives Callan to get to know more managers because there is no telling what type of manager may be the best fit for a client search in the future.

Stahl adds that the global manager research group has more than 20 people, allowing them the time to meet with more managers. "We have a lot of resources to take on a lot of meetings," he says.

What Consultant Has Toughest Due Diligence?

Firm	Votes
Russell Investments	19
Mercer	9
Cambridge Associates	9
Callan Associates	6
Watson Wyatt	5
Ennis Knupp and Associates	5

Source: *FundFire consultant relations survey, July 2009. Some respondents voted for multiple firms.*

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