



## Cambridge, Russell Lead Due Diligence Rankings

By Mariah Summers

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Asset managers say **Russell Investments** and **Cambridge Associates** give them and their products the most complete and thorough due diligence reviews, according to a *FundFire* survey targeted to consultant relations professionals. Meanwhile, **NEPC** wins praise for being very receptive to hearing about new products; **Callan Associates** and **Wilshire Associates** also placed well in that category.

When asked to rate the due diligence processes at 10 firms on a scale of one to five – with five being the most demanding – Russell earned an average score of 4.4, giving it the highest average rating of the group. Cambridge's due diligence program followed with an average rating of 4.0.

Survey respondents were also asked to name the consulting firm they feel is most receptive to new products. In this write-in question, NEPC dominated the responses with 12 mentions, while Callan and Wilshire received six and five mentions, respectively.

The survey gained responses from 56 consultant relations professionals, who were asked about their responsibilities, the consulting firms they work with and trends in the industry. The findings on due diligence are important because, experts point out, that review process touches on the entire sales and service process.

“More stringent manager searches and due diligence processes can affect everything from the RFP to who [at the consulting firm a manager is] able to see,” says **Robert Testa**, principal at **Cerulli Associates**.

He also notes that different consultants take different approaches to the due diligence process. “There are consulting firms that put more of a qualitative emphasis and other have a more quantitative approach. Where it is an art and where it is a science is a very fine balance.”

Cambridge says its due diligence leans toward qualitative rather than just relying on numbers. One executive thinks that might explain why the firm was rated as one of the most demanding.

The firm's high rating “probably is derived from the fact that we take a very fundamental and qualitative approach to due diligence,” says **David Shukis**, managing director of hedge fund research and consulting at Cambridge. “We don't assess managers solely on performance, and we don't take so much of a quantitative measure of managers on their prior performance; we try to get to know the people and the investment strategy involved. If we had a more quantitative process, it would probably appear less stringent, but it's not really the essence of the process.”

Shukis adds that the firm selectively conducts additional due diligence on a manager's operations and compliance procedures.

Russell also placed well in the *FundFire* survey, and that firm also uses a multi-layered approach to its due diligence “In our overall research process, Russell has two components,” says **Dianna Zentner**, the firm’s director of global manager oversight and due diligence. “We have a high level of focus on investment research. The second component is our manager compliance and operational review... We have experts on the investment research side and experts on the compliance research side, so when you combine those things, that makes us more comprehensive.”

Zentner adds that the compliance side of Russell’s due diligence is complementary to the investment side and focuses on a number of factors.

“The key areas that we’re looking at are current regulatory environments around the globe,” Zentner says. “What changes are occurring and can [the managers] keep up with those changes? On the operations side, we look at everything from the trade process to the middle and back office – their infrastructure, the controls that they have in place to minimize errors on trade execution. The service is really leveraging a global network of experts and that really helps set us apart.”

**Mark Thurston**, head of global equity research at Russell, focuses more on the investment side of the firm’s due diligence efforts and says that a long history of research helps Russell thoroughly vet managers.

“There are a few things that differentiate Russell from other firms,” Thurston says. “We started in the 1970s with some big pensions. We’ve been able to collect a lot of data on holdings and performance over the years that has helped us build up systems to look at managers, so that has given us a key advantage. Another advantage is that we have a dedicated team of analysts that specialize in asset classes, geographies and even styles.”

When it comes to new products, Cerulli’s Testa says that in order for consulting firms to truly be considered receptive and open to new ideas, they have to go beyond just adding a firm’s product to their databases.

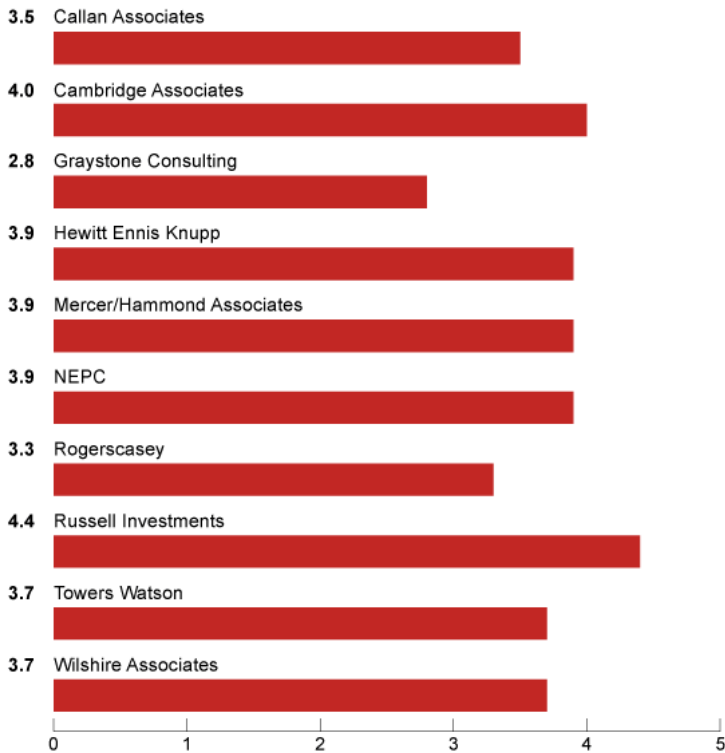
”It’s one thing for a consultant to add it to their database and start tracking them, and another thing to actually start using them,” Testa says. “The investors that are actually bringing on these new consultants are very methodical. They want these new products, but it is always a battle for the manager.”

At Callan, one of the firms regarded as most receptive to new products in the survey, customization is key to both evaluating and using new products, says **Lauren Etcheverry**, v.p. of global manager research at the firm.

”I think it all stems back to the fact that Callan’s search process is extremely customized,” she says. “We have an open door policy for our database with asset managers. This starts a conversation and a relationship. Putting the information into our database makes those products and those managers’ options available. In order to provide that customized solution to our clients, we need to make sure we have that robust list to choose from with new products.”

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Rate the following consulting firms on the demands that they place on managers during the due diligence or manager review process, on a scale of 1 to 5 (1 being the least demanding and 5 being the most demanding).



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