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## CONSULTANT PROFILE

**Kelly Cliff,**  
CIO of public markets, **Callan Associates**

CIO Kelly Cliff has stuck to the same consulting strategy since he joined San Francisco-based consulting firm **Callan Associates** in 1992. As co-head of manager research, Cliff sees himself as a sounding board for his clients and the consultants at his firm., fielding questions for clients and educating consultants. Callan advises more than 500 institutional investors with more than \$3 trillion in assets under management.

### On Recommendations and Manager Selection

Cliff oversees a 15-18 person dedicated manager research group. The firm has a number of proprietary instruments and databases that allow him to screen managers effectively. He's been following some managers for many years, and keeping up with the lay of the land helps Cliff present managers to clients that "might be off the beaten path." For example, some may not have enough assets under management or a long enough track record to be considered an "institutional" manager, but may still have merit due to the staff's experience in the industry.

Callan conducts more than 1,000 meetings over 18 months. "What we are looking for are qualified teams with good experience, the understanding of fiduciary obligation,

and the need to be ethical," Cliff says, stressing that there is no hard- and-fast rule on strategies and specialties. He prefers portfolio teams that are well supported, have a strong culture and apply a long-term management approach.

### On Due Diligence

Due diligence practices haven't changed much since Cliff joined. "Our job has become more difficult and we are beefing up our practice because so many firms have many different strategies. The extension from traditional to non-traditional strategies has added a broader perspective when you are researching a firm." There was an elevated area of attention back in the bull market to get the best performing managers, but that focus has now shifted to business risk.

Whereas before there was a lot of product proliferation and diversifying, now there is a retrenching and focusing back on core strategies.

### On Active vs. Passive Management

Cliff says that the debate over active and passive management goes in cycles. "We have come to expect that in narrow trading markets, it is difficult for active managers, especially when there

are not a lot of differentiating prices in stocks of companies and they all rise and fall together." In improved conditions, active management has a better performance pattern. Cliff says that there are clearly asset classes where it is more challenging to be active, particularly in large-cap equities.

### On Risk and Diversified Portfolios

Discussions regarding the structure of the portfolio are more focused than Cliff has seen in a long time. He hears clients asking how well a particular strategy fits in with other strategies in the portfolio. "We had a period where people

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— on unexpected correlation during market turmoil

thought they were more diversified than they really were, and then a lot of asset classes unexpectedly performed poorly collectively,” he said. Clients are now having discussions on trying to find unique exposures that can have less of a correlation to the rest of the portfolio. “An illustration of that unique exposure is commodities. While one can argue that they have a low long-term expected real return, they have a low correlation and low volatility with other asset classes, and if you rebalance in a different way, you can benefit the portfolio by adding commodities and reducing risk.” In

healthy markets, people wanted more return and were more tolerant of risk. Now there is more of a desire to be smart and add strategies that can dampen the volatility, Cliff said.

### **Personal Details**

Cliff lives in San Mateo, Calif., with his wife Kelly and three children. He joined Callan in 1992 as an analyst, working on plan sponsor and performance reports. In 2000 he joined the research team and has since assisted in launching of two multi-manager strategies.