Callan Pushes Into Managed Account Biz

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Callan Associates is diving further into the wealth management business with a new unified managed account program it started last month. The new UMA – which combines the San Francisco-based institutional consultant's money manager research with overlay management from Natixis Global Associates – may help more institutional managers ease into the advisory market.

Callan, an investment consulting giant, is joining several other large consultants that have been making inroads into the high-net-worth market. The new UMA appears to signal Callan is stepping up the effort.

A UMA is a consolidated structure that combines various types of investments into a single custodial account for an individual client. Callan's program offers a customizable menu of 70 investment products, including 29 separately managed account (SMA) strategies, as well as mutual fund and exchange-traded fund options. The SMA mix has numerous institutional-class managers, but Callan would not disclose which or how many.

The UMA was operational last month and already has client assets, says Curt Overway, president and portfolio manager of Natixis's overlay business unit, which oversees $10 billion in multiple-discipline assets. "It gives us a nice way to access a key group of independent advisor firms that already use the manager research and due diligence process that Callan has created," he adds.

Overway says it's fair to read Callan's new program as an expansion of institutional consultants' ambitions to win retail market share. "They leverage the research that's already done," he says. "It makes a lot of business sense."

Institutional consultants are seeking new pastures because they see their core business contracting, says **Dan Seivert**, CEO and managing partner of **Echelon Partners**, a strategic consultant in Manhattan Beach, Calif. "For the pension consultants, this is a way to play the retail space because the [defined benefit] market is shrinking," he says. "Given [industry] trends, this is only a natural business development move for these firms."

Seivert says Callan's UMA is the most aggressive move yet by institutional consultants wading into the retail space. Most others focus on supplying manager research and other portfolio construction advice to the intermediary firms and outsourcing companies that provide services to financial advisors with high-net-worth clients. Four large consultants – Mercer, Fund Evaluation Group, Wilshire Associates, and Rogerscasey– all announced upgrades or expansions for their retail businesses last year.

While some retail-oriented firms may view the institutional consultant invasion dimly, there is also a bright side, says Noreen Beaman, executive v.p. at Brinker Capital, a turnkey asset management provider in Berwyn, Pa. One possible plus is how institutional money managers that have shied from the retail space may be willing to follow their consultants into the high-net-worth market – and ultimately work with others in the sector.

"It could be another level of competition," Beaman adds. "But there is more than enough business out there. By having more firms participating, that ultimately improves prices and product delivery and can optimize product offerings."

For Callan, the new UMA also bolsters its retail presence after it lost a high-profile assignment providing manager research and monitoring for an SMA platform run by Charles Schwab & Co. of San Francisco. Callan had consulted on that program since it debuted in 2001, but on Jan. 1, Schwab ended the contract and switched the research functions for its Manager Account Select platform to an internal due diligence team. Schwab has made no changes to the line-up of about 75 strategies. Schwab advisors have more than $36 billion in SMA assets combined between the Select platform and a larger dual contract platform of SMA managers on which the firm does not conduct due diligence.

The new Callan UMA is only open to clients of its Independent Adviser Group division, which provides a menu of services – such as access to capital markets research, proprietary analytics software, investment policy statements, and manager research – on a retainer-fee basis. Callan would not disclose the names of the three dozen clients that use the service, but Brent Considine, senior v.p. for the division, says most are large independent investment consultants or financial intermediaries whose advisors serve wealthy investors, family offices, endowments, and foundations. Most of Callan's clients in this sector have a national footprint and about five to 40 advisors in house, Considine says.

Callan is looking to attract advisors with high-net-worth investors who are unable to meet the investment minimums of institutional money managers and would use the UMA to tap those more exclusive strategies, Considine says.

"This is an effective means for these advisors to be able to provide an institutional-caliber solution," he adds.

The new UMA has a $1 million minimum, but the typical client will probably have $4 million to $5 million in investable assets – a decidedly up-market segment that typically has not been targeted with UMAs, Natixis's Overway says. The press announcement states that the overall target client asset range for the new UMA stretches from $1 million to $150 million.

"Callan has created a very sophisticated UMA that caters to these advisors," Overway says. Among the differentiating features is its customization for individual clients, unlike more rigid UMA programs on the market today that restrict product combinations to preset allocation models, he adds.

The new UMA merges Callan's manager due diligence, performance reporting, and other client reporting tools with the overlay functions of trade execution, tax management, and account rebalancing from Natixis. Considine says Callan is exploring the addition of product options on the alternatives side for the future.

The program does not have a wrap fee, but instead has unbundled pricing for the money manager, overlay, research, custodial, and clearing services, Considine says. The SMA managers can charge on a flexible scale from 15 to 50 basis points, depending on asset class and style. Advisors using the program will be able to mix and match any of the 70 products on the menu for their clients.
cases it allows the managers to conduct their own trades but coordinates around those moves to ensure they fit in with the overall overlay management goals.

Callan advises on about $1.2 trillion in assets for 300 institutional clients.