CLIENT CASE STUDY

Completion portfolios help a leading multi-manager platform navigate benchmark concentration risk

Russell Investments

Organization

A leading U.S. financial services firm oversees a large multi-manager mutual fund platform spanning multiple equity strategies.

Having worked with Russell Investments for years through transition management services, the firm sought new ways to enhance portfolio implementation, manage benchmark risk, and improve operational efficiency across its fund lineup.

Challenge

As market leadership became increasingly concentrated, the client faced a growing challenge shared by many active equity investors.

A small number of stocks began accounting for an outsized share of benchmark performance, particularly within the Russell 1000 Growth Index. While these companies represented increasingly large benchmark weights, many underlying active managers maintained more diversified portfolios and intentionally underweighted certain names due to valuation concerns, risk controls, or portfolio construction disciplines.

The result was an unintended gap between portfolio exposures and benchmark composition.

Key Results

1. Reduced benchmark exposure gaps tied to Nvidia, Micron, and other rapidly appreciating benchmark constituents.
2. Improved implementation flexibility through dynamic completion management and daily holdings analysis.
3. Added approximately 450 basis points of excess return contribution in the large-cap growth strategy over a recent three-month period.[1]

This created several challenges:

- Elevated tracking error
- Structural underweights to key contributors
- Performance headwinds during narrow leadership
- Limited ability to respond quickly as exposures shift

At the same time, the client was managing daily cash flows across multiple sub-advisors through a decentralized process, creating operational complexity and the performance drag from holding cash.

The client needed a more flexible framework that could:

- Reduce unintended benchmark risk
- Address concentrated stock exposures dynamically
- Preserve active manager autonomy
- Improve implementation efficiency
- Adapt as market conditions change

Solution

Using daily holdings analysis, portfolio optimization tools, and proprietary exposure analytics, Russell Investments designed an equity completion solution that complemented the client's active managers while helping align the overall portfolio exposures more closely with benchmark objectives.

After launching implementation for the initial suite of four funds, the completion portfolios hold $6.6 billion in assets, while the cash equitization solution manages $2.2 billion in equity derivatives notional.

Key elements included:

Managing benchmark concentration risk

Russell Investments continuously monitored sub-advisor holdings and benchmark exposures to identify exposure gaps that could become meaningful sources of active risk.

As individual stocks became meaningful contributors to active risk, the completion portfolios selectively added exposure where appropriate to help reduce structural underweights and improve overall portfolio alignment.

For example:

- The large cap growth completion portfolio helped offset benchmark underweights to Nvidia as the stock has become a dominant index constituent over the last several years.

- The large cap value completion portfolio dynamically added Micron exposure as the stock rallied sharply and became a larger contributor to benchmark performance.

Rather than relying on static passive allocations, exposures were adjusted dynamically using daily holdings data and portfolio analytics.

Risk-aware portfolio construction

The completion portfolios were designed allowing for custom ranges on portfolio-level risk controls across multiple dimensions, including:

- Sector exposures
- Industry exposures
- Style factors
- Individual security risk

This approach helped maintain the integrity of each active manager's investment process while supporting the client's broader portfolio objectives.

Cash equitization

Russell Investments implemented dedicated cash equitization sleeves designed to keep capital invested while simplifying cash management across the multi-manager structure.

Russell Investments used liquid market exposures to maintain market participation while accommodating subscriptions, redemptions, and other portfolio cash needs.

This approach helped:

- Reduce cash drag
- Improve overall market participation
- Allow portfolio managers to remain focused on security selection rather than cash management
- Centralize liquidity management across multiple sub-advisers

By centralizing liquidity management, the client gained a more efficient framework for maintaining target exposures across the platform.

Streamlined portfolio implementation

The framework helped to centralize exposure management, improving operational efficiency while minimizing the performance impact and tracking error associated with uninvested cash balances.

As market opportunities and risks evolved, the client gained a more flexible mechanism for adjusting exposures without disrupting manager relationships or implementing broader portfolio changes.

Result

Reduced unintended active risk - The completion portfolios helped mitigate structural benchmark underweights and reduce unintended sources of active risk while preserving the benefits of active management.

Strong early performance contribution - The large-cap growth completion portfolio has generated approximately 450 basis points of excess return since inception[1], with the cash equitization program contributing 21 basis points to the total fund. The large cap value completion portfolio launched a few months later and has generated over 400 basis points since inception, with the cash equitization program adding 12 basis points at the fund level.

More efficient capital deployment - Unlike traditional passive allocations that simply dilute active manager insights, the completion portfolios were designed to target specific portfolio gaps, allowing capital to be deployed more efficiently in support of benchmark and risk objectives.

Enhanced portfolio agility – The client gained additional flexibility to address benchmark concentration risks and evolving market dynamics without requiring changes to its underlying manager lineup.

Expanded strategic partnership - The relationship evolved beyond transition management into a broader portfolio construction and implementation partnership. Today, Russell Investments continues to support the client with ongoing exposure analysis, implementation expertise, and portfolio optimization capabilities across its equity platform.

By implementing a combined completion portfolio and cash equitization framework, Russell Investments helped the client reduce unintended benchmark risk, improve cash management efficiency, and streamline implementation. The result is a more adaptive portfolio construction framework that preserves active manager autonomy while helping the client navigate increasingly concentrated markets.

[1] Completion portfolio performance is cumulative (not annualized), gross of fees, for the period January 26, 2026 (inception) through May 29, 2026. The completion portfolio returned 13.53% versus 8.79% for the client's blended benchmark (67% Russell 1000 Growth / 33% Russell 1000), resulting in 4.74% (474 bps) excess return at the completion sleeve level. The completion portfolio represented approximately 10% of total fund AUM, contributing approximately 45–50 bps to total fund excess return. Cash equitization contribution is calculated as futures P&L, expressed as a percentage of total fund AUM, relative to the return drag from uninvested cash (assumed 0% return).

Where to next?

Call Russell Investments at 800-426-8506
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First used: July 2026

AI-31070-06-29

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