Pensions&Investments

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Face to Face

CalPERS' Gilmore to lean on strengths of the giant fund

New CIO cites size, internal and external talent, and a long investment horizon as assets

By JULIE TATGE

Kevin Fiscus

IN THE DRIVER'S SEAT: CalPERS' Stephen Gilmore

Stephen Gilmore takes a thoughtful pause before answering how he'd describe himself as an investor.

The new CIO of the $528.8 billion California Public Employees' Retirement System, Sacramento, has been on the job since July. Before joining CalPERS, he spent five years as CIO of the New Zealand Superannuation Fund, valued at more than NZ$76.6 billion ($45.7 billion).

Gilmore settles on "fairly patient."

"As an investor at CalPERS, I really do want to focus on the strengths that we have. The market — it is hard to beat the market. But we have some areas that I would say are definite strengths," he said, citing the size of the nation's largest public pension fund.

"We can probably do more things than others may be able to do, internally in some cases. We also have better negotiating power with partners. We also might have more influence. And that could lead to lower costs," said Gilmore, who hails from New Zealand.

Then there's an investment staff of more than 300, a healthy number of external partners and a long horizon.

"We've been around for a long time. We will be around for a long time, and that should

SEE GILMORE ON PAGE 32

Regulation

U.K. government retirement reform takes cues from Australia, Canada

By SOPHIE BAKER

The U.K. retirement system will undergo its biggest reform in decades, with Chancellor of the Exchequer Rachel Reeves announcing plans for further mergers of local government pension schemes and the consolidation of defined contribution plans into "megafunds," in a move that aims to unlock £80 billion ($103.3 billion) in investment.

Reeves outlined the changes — affecting retirement plans that are set to have about £1.3 trillion in total assets by 2030 — in her inaugural Mansion House speech Nov. 14, with the government also publishing its interim report for its retirement system review, announced in July. The aim is also for improved governance among retirement plans.

Government analysis shows that retirement plans are better placed to invest in a wider range of assets — such as startups and infrastructure — once their asset size reaches between £25 billion and £50 billion, a government briefing note said.

LGPS plans in England and Wales are set to have about £500 billion in assets by 2030, but the assets are currently split across 86 administering authorities, each with between £300 million and £30 billion. Local government officials and councilors manage each pension fund — although efforts have already been made to consolidate these pension funds into eight pools.

The government said consolidating these assets into just a "handful of megafunds run by professional fund managers will allow

SEE U.K. REFORM ON PAGE 29

SPECIAL REPORT CONSULTANTS

Who watches the watchmen? Independent evaluators horning in on consultants' turf

By DOUGLAS APPELL

For decades, investment consulting firms have maintained their perch as the prime gatekeepers of institutional portfolios, advising asset owners on manager selection, asset allocation and portfolio construction.

But with consultants, in their guise as outsourced CIOs, now almost universally bringing their own dogs to the money management fight, the question of who can gatekeep the gatekeepers is taking on growing relevance.

The answer, increasingly, is "third-party evaluators" — boutique firms with expertise vetting OCIO providers and investment consultants that help plan sponsors sift through an ever-growing universe of competitors.

The continued rise in the number of retirement plans considering OCIOs has found a growing number

SEE CONSULTANTS ON PAGE 35

solvod/Getty

SOUND BITE

INTERNATIONAL CENTRE FOR PENSION MANAGEMENT'S **KEITH AMBACHTSHEER:** 'The big question is: **Why did the Alberta government do this?**' **Page 2**

Trump 2.0's effects on the industry

P&I takes a look at what Donald Trump's return to the White House could mean for markets, ESG and more. **Page 3**

CONSULTANTS

Will the good times keep rolling? Yes, say industry execs

Assets under advisement up roughly 20% over five years, and OCIO assets increased 20% in one year

Arnold Adler

'GOLDILOCKS MOMENT': Mercer Investments' Rich Nuzum

By **DOUGLAS APPELL**

Investment consultants enjoyed broad gains last year for their advisory and outsourced CIO businesses and expect tailwinds to outpace headwinds for the current year as well.

That rosy view stands in contrast to the topline results for *Pensions & Investments'* latest survey of the industry, which showed a 1% decline in consulting firms' total assets under advisement to $50.55 trillion for the year through June 30. The global institutional portion of that total fared better, posting a gain of 4.2% to $49.93 trillion, while U.S. institutional, tax-exempt AUA edged up 1% to $27.24 trillion.

The year-on-year figures were skewed by the absence of survey responses this year from Bank of America and Goldman Sachs Asset Management. If those organizations' numbers were excluded from the 2023 survey results, both total AUA and global institutional AUA would be up 6.7% for the latest year.

From the vantage point of *P&I's* last five surveys, those adjusted numbers effectively move the industry back toward the bull market gains of between 8% and 9% a year logged for the two years through June 30, 2021, after an aggressive rate hiking cycle from March 2022 saw industry AUA slip 0.7% that year, followed by a modest rebound of 1.7% for the 12 months through June 30, 2023.

Over the past five years, total AUA, as well as global institutional and U.S. institutional, tax-exempt AUA, posted growth of roughly 20% apiece.

Investment consultants with OCIO offerings, meanwhile, reported $1.7 trillion in assets under management, an increase of 20% from the year before for the 36 respondents.

Industry executives said a strong year for capital markets overshadowed what, on balance, was a positive story about the mix of tailwinds and headwinds facing their businesses over the latest survey period.

Market gains, including the S&P 500's 40% run over the past 12 months, made it a great year for clients, while a "Goldilocks moment" for the global economy — marked by a soft landing, full employment and strong growth prospects — proved a favorable backdrop for consultants as well, said Rich Nuzum, executive director, investments and global chief investment strategist at Mercer Investments.

"The traditional investment consulting industry is alive, well, profitable, thriving (and) growing," Nuzum said.

While defined benefit plans, the traditional mainstay of consultants' business, continue to shrink on the back of plan closures and pension risk transfers, growing demand from other segments — including defined contribution plans, pooled employer plans and an ever-expanding universe of foundations and family offices — should help ease the pain, executives say.

Mercer on top again

For the latest survey, Mercer's investment consulting business — with an 8.2% gain to $17.56 trillion, and its outsourced CIO business, up 25% to $492.4 billion, padded by its acquisition in March of Vanguard's $60 billion OCIO business — retained the top spots in their respective rankings.

Callan, in second place with a 5.7% gain in AUA to $4.98 trillion, was likewise able to take advantage of tailwinds, including a pickup in RFP activity last year, leaving the firm "on pace for record revenue," said Greg Allen, CEO and chief research officer of the San Francisco-based consulting firm.

Callan reported a total of 559 institutional clients for the latest survey, an increase of 30 on the year, which included 17 defined contribution plans, seven defined benefit plans and five healthcare trusts.

Other leading consulting firms likewise reported strength across a broad range of client segments, including Meketa Investment Group, which held on to sixth place in the overall rankings with a 4.6% gain in AUA to $2.94 trillion.

"Our business had a great 2024," with growth across public funds, Taft-Hartley union funds, corporates, nonprofits and private markets mandates, as well as both outsourced CIO and nondiscretionary mandates, said Stephen P. McCourt, San Diego-based managing principal and co-CEO of the Westwood, Mass.-based firm.

Meketa aims for steady, measured growth over time, but friendly markets have seen the pace accelerate a bit over the last year or so, McCourt said.

Jeffrey MacLean, CEO of Verus Advisory, likewise highlighted the breadth of his firm's latest gains, with a 51% surge in AUA to $1.15 trillion lifting the Seattle-based investment consultant's ranking to 10th place from 12th.

"When you peel back the onion … and look at our growth … you would see hospitals, multiemployer plans, corporate retirement plans, health and welfare plans, educational endow-

SEE **OPTIMISM** ON PAGE 22

Investment consultant stats at a glance

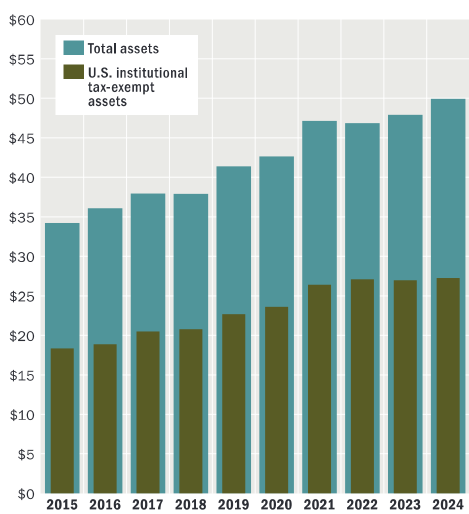
Assets are in millions as of June 30.

	2024 data	One-year change	Five-year change
Total assets under advisement	**$50,550,407**	-1.0%	20.0%
Institutional	**$49,926,273**	4.2%	20.6%
U.S. institutional tax-exempt	**$27,241,727**	1.0%	20.2%
Assets under management	**$1,240,393**	10.7%	30.7%
Number of minority- & women-owned consultants	**2**	0.0%	N/A
Number of consultants with a diverse-manager search policy	**22**	-12.0%	N/A
Number of consultants providing advice on digital assets/cryptocurrency	**20**	5.3%	N/A
Number of consultants offering digital assets/cryptocurrency manager searches	**15**	15.4%	N/A
Number of consultants with a formal policy for using AI internally	**17**	N/A	N/A
Number of consultants with a formal policy for using AI to serve clients	**11**	N/A	N/A

Historical data may include retroactive updates.

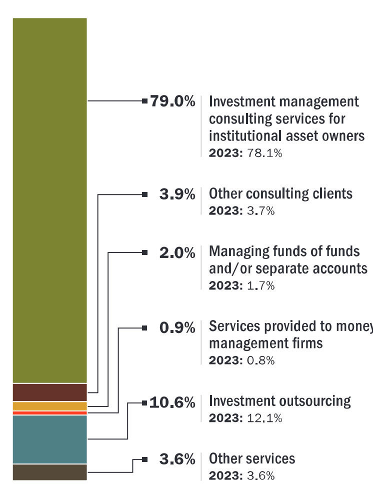
Growth of assets

Institutional advisory assets, in trillions, as of June 30.



Average revenue breakdown

As of June 30.



*SMOKE-FREE BUSINESS NET REVENUES AS OF Q3 2014.
**SMOKE-FREE BUSINESS NET REVENUES AS OF Q3 2024.

IMPORTANT NOTE: THE INFORMATION IN THIS POST SHOULD BE READ IN CONJUNCTION WITH THE PHILIP MORRIS INTERNATIONAL INC. EARNINGS RELEASE DATED OCTOBER 22, 2024, AS WELL AS THE ACCOMPANYING GLOSSARY OF KEY TERMS, DEFINITIONS, EXPLANATORY NOTES, SELECT FINANCIAL INFORMATION AND RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES. "PMI" REFERS TO PHILIP MORRIS INTERNATIONAL INC. AND ITS SUBSIDIARIES.

ASTRID
Netherlands
Helped her partner
leave cigarettes behind

Consultants' move into wealth management a case of following the $$$

NEPC/Hightower deal seen as one of many to come chasing wealth's growth and margins

By DOUGLAS APPELL

Willie Sutton, asked more than half a century ago why he robbed banks, memorably replied "because that's where the money is."

The same logic, writ large, is driving investment consulting firms — traditionally focused on serving institutional asset owners — into the wealth management space now.

The latest milestone: the Oct. 21 announcement by NEPC — a Boston-based consultant overseeing $1.66 trillion in mostly institutional assets — that it will sell a majority stake to wealth manager Hightower Holding.

Executives connected to the deal see broader trends afoot: "Retail investors want the best of institutional capabilities, and (institutional consultants) want to gain access to retail as well, just because the size of the pie is so large," said Bob Oros, Hightower's chairman and CEO, in an interview.

Industry veterans expect more combinations to come.

Technology is narrowing the historic gulf between the institutional and wealth channels, resulting in a "collision" now between low-end institutional and high-end retail, with consultants increasingly attracted to the wealth channel's strong growth and relatively high margins, said Brad Jung, Russell Investments' head of North America adviser and intermediary solutions.

Firms like Hightower, consolidating an industry where 1,300 registered investment advisers with client assets of over $1 billion account for 70% of the RIA space, will inevitably have to grapple with the need to build, buy or rent the institutional investment capabilities needed to complement their client service — an imperative that should spur a growing number of tie-ups over the coming 24 to 36 months, Jung predicted.

The current year has already seen a pickup in such combinations, including Mariner Wealth Advisors' acquisition in February of institutional investment consulting firms AndCo Consulting and Fourth Street Performance Partners, and wealth advisory firm Cerity Partners' April acquisition of Agility, Perella Weinberg Partners Capital Management's OCIO business.

Oros predicted his firm's deal with NEPC — pairing "a scaled RIA" that's consolidated roughly 140 financial advisory practices with $156 billion in client assets since Hightower's founding in 2008, with a scaled institutional consultant/outsourced CIO with more than $100 billion in assets — will prove "transformational," calling it a "one plus one equals five situation."

Jim Scheinberg, managing partner of North Pier Search Consulting, which conducts searches on behalf of plan sponsors for providers of OCIO and investment consulting services, agreed, saying that in the wake of such a "monumental" deal, no OCIO will be considered too big to be a merger and acquisition candidate, whether as an acquirer or the object of an acquisition.

Facing headwinds

The wealth market's growth prospects are all the more attractive when compared to the headwinds facing client segments that have powered consulting industry growth until now, veterans say.

With corporate defined benefit plans that still account for a big chunk of consultants' client assets freezing or shutting down now, the wealth management segment is increasingly taking on the aura of a great white whale, promising solid growth and attractive margins.

Family offices and the rest of individual, after-tax wealth "are the two fastest-growing institutional investment consulting segments on the planet, in terms of the number of clients," said Rich Nuzum, executive director, investments and global chief investment strategist with Mercer.

Nimisha Srivastava, Willis Towers Watson's head of investments, North America, cited wealth management opportunities now as an antidote for shrinking defined benefit totals. "The size of the wealth market is now larger than the size of the U.S. defined contribution market," she noted.

Growth prospects for other key consulting segments, meanwhile, are likewise facing challenges, including the defined contribution space, where the growing number of participants retiring has moved that segment to net outflows, and the outsourced CIO space, where fees have continued to face dramatic downward pressures, said Gregory C. Allen, CEO and chief research officer of Callan.

Srivastava and Allen both pointed to the wealth management segment as a small but growing segment now of their consulting businesses.

As of June 30, Callan oversaw just under $5 trillion in client assets, with DB clients accounting for 63% of the total and DC clients another 26%.

Different paths

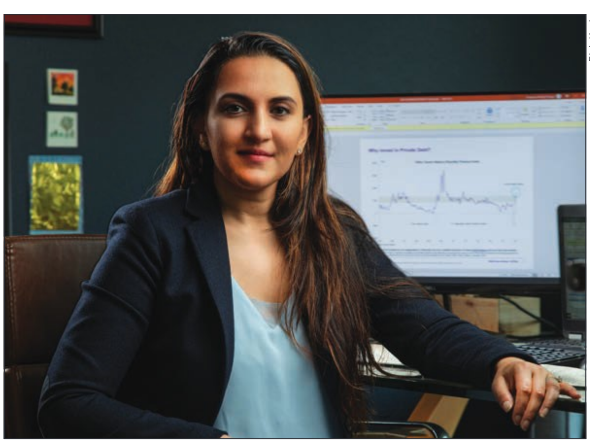
But if there's general consensus that wealth management will be an increasingly important business segment, investment consultants have beaten a variety of paths to its door.

Michael A. Rosen, chief investment officer of Angeles Investments, a Santa Monica, Calif.-based investment consulting firm, said Angeles' entry into the segment came from reverse inquiries from trustees of the endowments and foundations that accounted for the bulk of Angeles' clients.

"People would come and say, 'Hey, I've got a chunk of money. Can you manage it for me? Because I like what you're doing for the foundation that we work with,'" he said.

Angeles began handling such requests as a "sort of one-off thing," but it soon became clear that the required service model — including estate planning and communication across generations — was markedly different from that for the firm's pure investment management focus, Rosen said.

A dozen years ago, when Jonathan Foster, a wealth management veteran serving as a trustee of one of Angeles' clients, suggested the firm "create something for families," Rosen said "great, you need to lead it, because I don't know what I'm doing with that." Foster became president and CEO of Angeles Wealth Management, which currently accounts for about a quarter of the group's $8.4 billion in AUM and half of its revenues, Rosen said.



Rick Hovis

'The size of the wealth market is now larger than the size of the U.S. defined contribution market.'

WILLIS TOWERS WATSON'S **NIMISHA SRIVASTAVA**

'ONE PLUS ONE EQUALS FIVE': Hightower Holding's Bob Oros

WTW, meanwhile — on the hunt for opportunities to provide wealth management clients with the services and capabilities the firm honed serving institutional investors — announced at the start of October it had acquired a stake in atomos, a U.K.-based, advice-led wealth manager with more than $8 billion in client assets, backed by funds managed by Oaktree Capital Management, said Srivastava.

For wealth management platforms that might have billions in client assets but just a handful of professionals overseeing research and investments, WTW's ability to step in and serve as an investment engine and solution provider should provide continued opportunities, she said.

In February, meanwhile, Meketa Investment Group, a Westwood, Mass.-based investment consulting firm with $2.9 trillion in client assets, announced the launch of Meketa Capital to serve RIA clients.

Stephen P. McCourt, San Diego-based managing principal and co-CEO of Meketa, said that business — bringing best practices from the institutional marketplace to the wealth management segment — was hived off to a separate corporate structure because "we didn't want to distract ourselves from our primary focus, which is supporting our institutional clients."

"It's still a relatively new enterprise and endeavor for us but it's gone quite well so far," McCourt said.

Like Angeles, NEPC's first foray into wealth management, in the 1990s, was in response to trustees with the endowments, foundations and hospitals the firm advised saying, "hey, can you come and help us," said Michael P. Manning, managing partner of NEPC, in an interview.

After decades, the firm decided to pursue a more structured business plan, bringing in needed talent, and over the past six or seven years, it has grown to be a "full-fledged business line," posting the fastest growth of any segment of NEPC's business, Manning said. Wealth management assets account for maybe 3% of NEPC's OCIO assets but a much higher percentage of that business's revenues, he said.

Up until now, NEPC's wealth management business has focused on the family office market, the really high end of the wealth segment, but working with Hightower should "allow us to bring our capabilities to a broader audience," he said.

Case study

The high-profile NEPC-Hightower combination, meanwhile, should prove a case study in the challenges of building a business serving high-net-worth clients while retaining the trust and devotion of an existing institutional client base.

"The ultimate question for any acquisition that's shaped like this is: Does having to distribute down into that wealth management sleeve water down the institutional process?" noted North Pier's Scheinberg.

The goal for NEPC is to ensure that the answer is "no" but "the proof is in the pudding (and) time will tell," he said.

Competitors likewise contend that the benefits of the deal — which include providing NEPC's cutting-edge private markets research to Hightower's roughly 140 financial advisory practices — are, at first glance, more obvious for Hightower than for NEPC clients.

The deal could help Hightower, majority owned by Boston-based private equity firm Thomas H. Lee Partners since 2018, advance its strategy of getting much bigger and eventually going public, but it's not immediately clear how this will advantage NEPC's institutional clients, said Rosen of Angeles Investments.

Manning said institutional business will continue "to be the lifeblood of what we do." The process of facilitating Hightower's ability to tap into NEPC's capabilities — whether on manager selection, alternatives or outsourced CIO services — on behalf of its retail clients won't find NEPC professionals working directly with Hightower's financial advisory practices, he said.

Hightower's "expertise is working with the end clients. They don't need us to come in and help with that," said Manning. Instead, in some cases, Hightower may just be taking NEPC's intellectual capital and figuring out how to deliver that to clients; in others, NEPC could be part of a package solution crafted by Hightower to solve a problem for the

firm's RIAs, he said.

Up until now, Oros noted, when Hightower acquired a financial advisory practice, it took over back-office functions such as human resources, finance and compliance technology, but left investment-related functions such as market research and portfolio construction to those financial advisers. "We didn't have the ability from the center to do that for them," he said.

Now, with NEPC, "it gives us the ability to go to an adviser and say, 'You know what? You have one (or two people) focused on doing this … you could redeploy them to do something else (such as estate planning or trust services) and let us do it,'" said Oros.

Having a sophisticated partner such as NEPC, meanwhile, will be an added attraction going forward for financial advisory practices considering joining Hightower, Oros said.

And opening up a new growth segment for NEPC should ultimately benefit the firm's institutional clients, who currently account for more than 90% of NEPC's assets under advisement or management, executives say.

If, as anticipated, NEPC's tie-up with Hightower "allows us to accelerate growth," that will enable the firm to reinvest back into its business, bolstering its investment team and back-end infrastructure as well, said Steven F. Charlton, NEPC partner and head of client solutions.

Still, he conceded, gatekeepers could opt to put the firm "under the microscope," at least for the first six months, on alert for signs of change.

But Manning insisted NEPC's heart will remain institutional. In the week following the announcement of the NEPC-Hightower combination, a few people — more managers than clients — told him this suggested a view within NEPC that "institutional investment consulting is a bad business."

"I don't believe that," Manning said. "I think we undertook this thing with Hightower because it was a really good opportunity, not because we had to."

"It's not an indictment of the investment consulting industry," Manning emphasized. "It's been an awesome business for as long as I've been in it and I'm excited for it still to be a big part of what we're doing." ■

The largest investment consultants

In millions as of June 30.

By worldwide institutional assets under advisement

Rank	Consultant	Assets
1	Mercer	$17,558,134
2	Callan	$4,983,868
3	Aon	$4,307,395
4	WTW Investment Services	$4,200,000
5	RVK	$3,691,498
6	Meketa Investment Group	$2,942,824
7	NEPC	$1,644,890
8	PPCmetrics	$1,273,000
9	Wilshire Advisors	$1,167,382
10	Verus	$1,148,630
11	CAPTRUST Financial	$926,390
12	Russell Investments	$924,027
13	Morgan Stanley/Inst'l Cons.	$732,190
14	StepStone Group	$531,439
15	NFRC	$468,290
16	Segal Marco Advisors	$454,464
17	Marquette Associates	$393,824
18	Fiducient Advisors	$305,300
19	Cardinal Investment Advisors	$292,352
20	SageView Advisory	$216,702
21	UBS Institutional Consulting	$213,177
22	Asset Consulting Group	$160,157
23	Alan Biller and Associates	$152,850
24	Gallagher Fiduciary	$118,339
25	Mariner Institutional	$110,479
26	LCG Associates	$102,069
27	Cliffwater	$83,241
28	Fund Evaluation Group	$80,096
29	MMA Securities	$78,893
30	CBIZ Investment Advisory	$71,108
31	Prime Buchholz	$71,025
32	Investment Performance	$61,727
33	Bellwether Consulting	$52,500
34	Innovest Portfolio Solutions	$44,376
35	Concord Advisory Group	$35,058
36	Multnomah Group	$34,751
37	Highland Associates	$28,909
38	IIC	$25,261
39	Strategic Capital Investment	$22,973
40	DeMarche	$20,067
41	Vergence	$19,407
42	Highland Consulting	$18,900
43	Asset Advisors	$18,000
44	Newport Capital Group	$17,549
45	Dahab Associates	$17,300
46	Benefit Financial Services	$17,045
47	PlanPilot	$15,637
48	Francis Investment Counsel	$14,421
49	Quan-Vest Consultants	$13,256
50	Canterbury Consulting	$10,382
51	Sellwood	$9,149
52	BilkeyKatz	$7,857
53	Bolton Partners	$7,589
54	Hamilton	$3,546
55	Milliman	$2,711
56	Comperio Retirement	$1,911
57	Guidance Point Retirement	$1,895
58	Benefit & Investment Consulting	$63
	Total	$49,926,273

By total worldwide advisory assets

Rank	Consultant	Total assets	Retainer clients	Non-retainer clients
1	Mercer	$17,558,134	$14,553,471	$3,378,315
2	Callan	$4,983,868	$2,155,863	$2,724,733
3	Aon	$4,307,395	$3,775,857	
4	WTW Investment Services	$4,200,000	$4,200,000	$706,847
5	RVK	$3,691,498	$1,639,249	$1,836,391
6	Meketa Investment Group	$2,942,824	$2,371,317	
7	NEPC	$1,661,073	$1,661,073	$813,030
8	Wilshire Advisors	$1,400,000	$1,400,000	
9	PPCmetrics	$1,273,000	$764,000	
10	Verus	$1,148,630	$1,148,630	
11	CAPTRUST Financial	$1,004,446	$1,004,446	$305,000
12	Russell Investments	$924,027		
13	Morgan Stanley/Inst'l Cons.	$732,190	$732,190	
14	Segal Marco Advisors	$635,551	$635,551	
15	StepStone Group	$531,447	$531,447	
16	NFRC	$468,290	$467,912	
17	Marquette Associates	$408,016	$408,016	
18	Fiducient Advisors	$333,200	$333,200	$2,470
19	Cardinal Investment Advisors	$292,352	$292,352	
20	SageView Advisory	$216,702	$216,702	

By U.S. inst'l, tax-exempt advisory assets

Rank	Consultant	Total assets	DB plans	DC plans
1	Callan	$4,262,692	$2,496,154	$1,410,829
2	Mercer	$3,687,868	$1,480,918	$1,086,525
3	Aon	$3,454,059		
4	RVK	$3,203,540	$2,069,607	$1,005,715
5	Meketa Investment Group	$2,939,305	$2,716,950	$95,493
6	NEPC	$1,640,853	$836,233	$539,628
7	Wilshire Advisors	$1,165,285	$1,050,946	$61,887
8	Verus	$1,148,630	$1,052,829	$44,316
9	Russell Investments	$696,944		
10	Morgan Stanley/Inst'l Cons.	$649,030	$135,536	$301,554
11	WTW Investment Services	$572,923	$178,119	$390,149
12	Segal Marco Advisors	$454,464	$255,595	$141,877
13	CAPTRUST Financial	$395,430	$7,064	$356,748
14	Marquette Associates	$393,584	$131,565	$71,975
15	Fiducient Advisors	$305,300	$22,500	$258,112
16	StepStone Group	$293,266	$287,660	
17	SageView Advisory	$216,702	$4,246	$212,456
18	UBS Institutional Consulting	$213,177		
19	Asset Consulting Group	$160,157		
20	Alan Biller and Associates	$152,850	$103,621	$38,974

By managed assets

Assets in funds of funds or other discretionary money management products, in millions, as of June 30.

Rank	Consultant	Assets
1	Mercer	$492,438
2	Russell Investments	$301,472
3	StepStone Group	$169,333
4	Wilshire Advisors	$121,000
5	Morgan Stanley/Inst'l Cons.	$61,279
6	Aon	$33,600
7	WTW Investment Services	$32,700
8	Callan	$7,398
9	Segal Marco Advisors	$7,145
10	NEPC	$5,070
11	CAPTRUST Financial	$3,208
12	Highland Associates	$2,759
13	Canterbury Consulting	$1,357
14	Fund Evaluation Group	$1,209
15	DeMarche	$212

Optimism

CONTINUED FROM PAGE 17

ments, Native American entities, public pension plans," MacLean noted.

Research provides a leg up

Meanwhile, executives at top firms tied at least some of their latest gains to being among the industry vanguard at building private markets research capabilities.

Meketa's early focus on private markets has "allowed us to punch above our weight in terms of the amount of resources and support we can provide clients" that continue to allocate more and more to those alternative strategies, McCourt said.

For most client segments, alternative investments are becoming ever more important and the huge amount of innovation occurring there now makes researching that growing market segment an ongoing challenge, said Nuzum.

And not necessarily a lucrative one, some executives suggest.

Allen noted that in contrast to public markets, researching alternatives is relatively labor intensive, with a revenue model "more like piece work — if you're not actually underwriting (i.e. vetting an alternative strategy on behalf of a client), you're not making any money."

"Net, net, it's probably not dilutive but it's not necessarily accretive either," Allen said.

Fee pressures

Despite the generally healthy environment for consulting firms, executives grappled with at least a few headwinds last year, among them an acceleration of downward fee pressures, particularly for OCIO mandates.

"We've certainly seen fee compression in the industry," driven by more competition and the growing role played by third-party evaluators — independent, boutique firms that run OCIO- and consultant-focused searches on behalf of plan sponsor clients, noted Nimisha Srivastava, head of investments, North America, with Willis Towers Watson.

Those search intermediaries rightfully focus on getting the best outcomes for their clients, often leading to multiple rounds of fee negotiations that drive down prices, Srivastava said.

Some market participants say the falloff in OCIO fees has been dramatic.

Just under a decade ago, as demand for OCIO services really began taking off, the fees an investment consulting firm could garner on an OCIO mandate were about three times that of consulting fees, but today much of that advantage has evaporated, said Uma Kolluri, a principal with Curcio Webb, a Lawrenceville, N.J.-based benefits consultant seen as one of the biggest competitors in the consulting/OCIO search business.

It's not unusual for an OCIO provider, bidding after five years to retain a client, to have to reduce the dollar cost by half, said Callan's Allen.

Michael Kozemchak, a managing director with Michigan-based OCIO search firm Institutional Investment Consulting, said five years ago, plan sponsors with $500 million to $1 billion in portfolio assets were looking at costs of between 10 and 17 basis points to hire an OCIO provider. Today, the costs would be closer to between 6 and 10 basis points, he said.

P&I's latest survey shows consulting firms' average revenues attributable to investment outsourcing dropping to 10.6% of total revenues from 12.1% the year before — the biggest change for any business segment. (The next biggest revenue shift, for investment management consulting services delivered to institutional asset owners, was a gain of just under 1 percentage point to 79% of total revenues from 78.1% the year before.)

Market participants differ on how problematic that falloff in OCIO fees could be for the industry.

Callan's Allen, noting the considerable risks OCIO providers take on in managing clients' portfolios, said at some point the question will arise as to whether "you're being compensated for taking that risk."

Kozemchak, by contrast, says even if fees have come down a lot, "these guys are still making a boatload of money."

Srivastava said while a fixation on headline OCIO fees can obscure the costs and benefits of what are highly complex, individualized programs, there are signs of progress on that front.

"What we try to showcase is … here's the value that we bring, and very transparently showcase the fees," with a determination that there has to be a floor to make sure "you're still delivering high-quality solutions," rather than engaging in a race to the bottom, she said.

"I think slowly, our consulting peers are starting to do the same thing, which … will help sort of reduce this fee compression trend that was pretty prominent last year," Srivastava said. "I've seen a little bit less of it this year," she added.

Willis Towers Watson held on to fourth place in the latest survey rankings, despite an 8.6% drop in AUA to $4.2 trillion. The consulting giant's OCIO AUM slipped 2.1% to $167.3 billion.

Srivastava said it was "a pretty decent year for our business," even if AUA was dinged by pension risk transfers — occurring now for the defined benefit industry at a faster pace in the U.S. market in particular than many people had anticipated — and a decision by one big retainer client to shift to a big asset management firm's OCIO offering.

But if DB totals remain under pressure, other growth segments — including wealth management clients and WTW's recently launched pooled employer plan business, which has quickly garnered between $500 million and $1 billion — should increasingly act as a counterweight, she said.

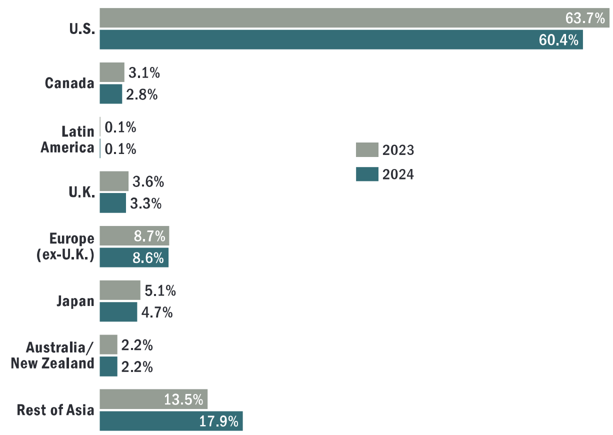
Executives say they're likewise confident their businesses will continue to thrive.

"Consulting has always been sort of trench warfare," McCourt said. Every year institutional clients are demanding more resources and looking to pay less and less for them, he said. Consulting firms are always challenged in envisioning how they're going to square that circle but somehow "we always figure it out," he said.

"It's just a lot of blocking and tackling, it's a lot of hard work and it's a lot of listening to what your clients want…(but) I have a lot of confidence that we'll continue to get more efficient, continue to provide superior resources to our clients and be fee competitive in doing it," McCourt said.

Advisory assets by client domicile

Weighted average as of June 30.



Independent consultants

Consultants not providing services to/collecting fees from money management firms, as of June 30.

- Alan Biller and Associates
- Asset Advisors
- Asset Consulting Group
- Bellwether Consulting
- Benefit & Investment Consulting
- Benefit Financial Services
- BilkeyKatz
- Bolton Partners
- Canterbury Consulting
- CAPTRUST Financial
- Cardinal Investment Advisors
- CBIZ Investment Advisory
- Comperio Retirement
- Concord Advisory Group
- Dahab Associates
- Fiducient Advisors
- Francis Investment Counsel
- Fund Evaluation Group
- Gallagher Fiduciary
- Guidance Point Retirement
- Hamilton
- Highland Associates
- Highland Consulting
- IIC
- Innovest Portfolio Solutions
- Investment Performance
- LCG Associates
- Mariner Institutional
- Marquette Associates
- Meketa Investment Group
- Milliman
- MMA Securities
- Morgan Stanley/Inst'l Cons.
- Multnomah Group
- Newport Capital Group
- NFRC
- PlanPilot
- PPCmetrics
- Prime Buchholz
- Quan-Vest Consultants
- Russell Investments
- RVK
- SageView Advisory
- Segal Marco Advisors
- Sellwood
- StepStone Group
- Strategic Capital Investment
- Vergence
- Verus

Consultants offering outsourced CIO services

As of June 30.

- Alan Biller and Associates
- Aon
- Asset Advisors
- Asset Consulting Group
- Callan
- Canterbury Consulting
- CAPTRUST Financial
- CBIZ Investment Advisory
- Cliffwater
- DeMarche
- Fiducient Advisors
- Fund Evaluation Group
- Gallagher Fiduciary
- Highland Associates
- Investment Performance
- LCG Associates
- Mariner Institutional
- Marquette Associates
- Meketa Investment Group
- Mercer
- Milliman
- MMA Securities
- Morgan Stanley/Inst'l Cons.
- Multnomah Group
- NEPC
- Newport Capital Group
- NFRC
- PlanPilot
- Prime Buchholz
- Russell Investments
- Segal Marco Advisors
- Sellwood
- Strategic Capital Investment
- Verus
- Wilshire Advisors
- WTW Investment Services

Consultants with diverse-manager search policy

As of June 30. May include consultants with an informal policy.

- Callan
- Canterbury Consulting
- CAPTRUST Financial
- Cardinal Investment Advisors
- Francis Investment Counsel
- Fund Evaluation Group
- Highland Associates
- Innovest Portfolio Solutions
- Mariner Institutional
- Marquette Associates
- Meketa Investment Group
- Mercer
- Morgan Stanley/Inst'l Cons.
- NEPC
- PlanPilot
- Prime Buchholz
- RVK
- Segal Marco Advisors
- StepStone Group
- Verus
- Wilshire Advisors
- WTW Investment Services

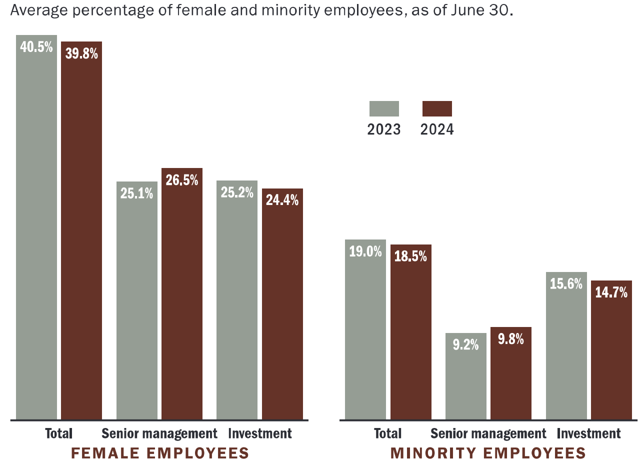
Minority- & women-owned investment consultants

As of June 30.

- Benefit & Investment Consulting
- RVK

Diversity of investment consultants' U.S.-based employees

Average percentage of female and minority employees, as of June 30.



dowments is also important," he said. "What exposures do you have to certain sectors (like) venture capital, buyouts, growth equity, distressed debt and special situations can also play a factor into your one-year returns."

Appling said that explains more of a dispersion over a one-year period among endowments with large allocations to private equity. The one-year returns, he notes, is not the endowments' ultimate goal.

"Exposure to alternatives, specifically exposure to private equity and venture capital, have really been a tailwind to long-term success for these schools, especially for the 10-year and very long-term time periods," said Appling. "Some sectors of private equity held up better than venture capital, like buyouts and special situations, so if your portfolio was tilted more to venture capital, you may have underperformed peers with higher allocations to those other sectors. Also, If there was more exposure to secondaries or co-investments in the private equity portfolio, that may have helped peer-relative performance as well."

Long-term success

For the five and 10 years ended June 30, endowments with higher allocations to private investments are outperforming those with lower allocations, experts say.

Some larger endowments did not provide longer-term returns, but Princeton University — which posted the worst one-year returns among all endowments this year — disclosed it has returned an annualized 9.2% for the 10 years ended June 30, well within the top quartile of reported 10-year returns, and Yale University returned an annualized 9.5% for the period.

"Private equity has been the main driver of returns for the long-term period," said NEPC's Reynolds. "You can imagine that the questions are around (whether) private equity drive returns in the future, and so there are a lot of discussions about private equity valuations largely coupled with public equity valuations."

Reynolds said that while in the last two years private equity returns have been lower, she still thinks there are strong returns ahead in the long term, especially in areas like middle-market buyout funds, the kinds of areas where operators are strongly involved.

Garrett Wilson, managing director and a member of the management committee at OCIO firm Hirtle Callaghan, said in an interview that it's important for endowments to realize they need to stay the course on private markets.

"These are long-term, perpetual endowments that should ultimately outlive or outlast all of us that are in the room or managing those assets," said Wilson. "That idea of intergenerational benefit really is important to remind yourself of, particularly when it comes to private markets." ■

Consultants

CONTINUED FROM PAGE 1

of them looking for outside help in navigating that process, with some, perhaps, uncomfortable with the idea of possibly having their incumbent advisers select themselves as OCIO, said David Levine, a principal with Washington-based ERISA-focused Groom Law Group.

In what remains a fragmented market, even if everyone is "aiming for the same goal posts," they're looking at different paths to get there, said Michael Kozemchak, a managing director with Institutional Investor Consulting, a consultant/OCIO search firm. "You really need somebody … that's competent to help a sponsor figure out" who's taking on what mix of investment, administrative and custodial functions, at what fees and with what liability exposures, he said.

At the end of the day, the promise of third-party evaluators is a more efficient search process, OCIO veterans say.

The hope, said Michael P. Manning, managing partner of Boston-based investment consultant and OCIO firm NEPC, "is that they're going to put us in front of organizations where there's a good cultural or philosophical fit, as opposed to organizations … who just send out 20 RFPs," without a deep understanding of how a firm such as NEPC works and its relative strengths.

For now, that market segment remains nascent, with a lingering "mom and pop" feel about the small circle of competitors that have won a modicum of name recognition.

The third-party evaluation business of benefits advisory firm Curcio Webb, which market participants point to as one of the largest players in the space, has a team of seven, said Uma Kolluri, a principal with the Lawrenceville, N.J.-based firm.

Other firms focused on OCIO and consultant search assignments include Marina Del Rey, Calif.-based North Pier Fiduciary Management; Michigan-based Institutional Investment Consulting, with a team of six principals and support staff; and Chatham, N.J.-based Kidderbrook Group, which lists two principals on its website.

With low barriers to entry, a number of competitors with just one or two key professionals apiece has entered the fray in recent years, analysts say. Prospective clients who might have been aware of five third-party evaluators in the past now say they may know of maybe 20 or more, Kolluri noted.

Big footprint

Compact size, meanwhile, doesn't necessarily mean an insignificant footprint.

By way of example, Alpha Capital Management, with only two principals and one analyst, reports having conducted over 100 OCIO and consultant searches over the past eight years, including 23 for clients with $1 billion or more and another 12 with between $500 million and $1 billion, according to Brad Alford, a principal and founder of the Atlanta-based firm.

Traditional investment consultants, eyeing third-party evaluators' growing role in overseeing OCIO searches, have responded by bolstering their efforts to forge and maintain relationships with the one or two handfuls of players quarterbacking the bulk of those RFPs now.

With a lot of corporates and even some public funds "starting to use third-party search firms to do consultant searches … we're making an effort to have a good relationship with those people," said Greg Allen, CEO of San Francisco-based Callan.

That effort evolved over time as Callan found those firms sporting an ever-higher profile in industry searches. Three years ago, there was maybe one firm Callan made a little effort to cultivate ties with. "It wasn't really a strategic matter for us," said Allen, more a matter of "hey, these people keep calling." But Callan's team quickly concluded that the firm should be making more of an effort to work with those growing search boutiques.

Steve Charlton, a partner and head of client solutions with NEPC, said with third-party evaluators now accounting for roughly a third of the OCIO searches NEPC responds to, the investment consultant — with $1.66 trillion in advisory assets as of June 30 and over $100 billion in OCIO mandates — is making "a concentrated effort" to engage with those firms, reflecting their rising profile as "the interface between the firm and the end client."

To some extent, executives say, it can be challenging for traditional consultants to adjust to that evolving environment.

In an interesting way, as third-party evaluators continue to carve out solid businesses, "consultants now have to kind of put on their consultant relations hats," said Callan's Allen.

Historically, "we would be the trusted adviser in the room, with no other voice" weighing in, noted Rich Nuzum, executive director, investments and global chief investment strategist with Mercer Investments. Going forward, "you have to be humble and recognize that you're actually going to get kicked out of the room when the client wants (an) opinion on you," he said.

Mercer may be better placed than most to make that adjustment because its work in 85 countries has provided it with "85 different learning laboratories," Nuzum said. "We've had experience being intermediated," a development seen in the Australian market as early as 20 years ago, he said.

Positive role in the industry

Despite the challenges, Allen, Charlton and Nuzum agree that third-party evaluators are playing a positive role in the market.

Yes, "you've got to share that trusted adviser status that we all value so highly and aspire to with other parties" but ultimately that's good for the industry, said Nuzum. The diversity of views and even some constructive conflict "adds value to investment decision-making," helping plan sponsors get the most out of the consultants and OCIOs they work with, he said.

"They do a really good job, (creating) a level of consistency and transparency that helps both us and the asset owners," agreed Allen.

Third-party evaluators ask a lot of challenging questions, Charlton noted, which in turn can result in a more robust process than searches that don't involve those players. They are effectively helping clients do a better job fulfilling their fiduciary duty, he said.

Kolluri said the goal of all the questions Curcio Webb asks — of

ENGAGING: NEPC's Steve Charlton

both the clients looking to hire an OCIO and the OCIOs themselves — is to make sure the right providers are brought to the table for the right clients. "It's all about the fit," she said.

With the number of OCIO providers growing quickly, "how do you start differentiating them," asked Kolluri. "This is what we do, day in and day out now," she said.

P&I's latest annual survey of the investment consulting industry found 36 respondents with OCIO services managing a combined $1.7 trillion in assets, up roughly 20% from the year before.

The third-party evaluator sector, meanwhile, remains highly concentrated, with some market players estimating that the top five players in the space account for 90% or so of the OCIO searches those firms manage.

Jim Scheinberg, managing partner of North Pier Search Consulting, figures there's lots of room left to grow.

Third-party evaluators oversee roughly 400 searches annually now, triple the level of just five years ago, Scheinberg said.

That remains a tiny fraction of a universe of 200,000 institutional pools of capital in the U.S. with $50 million in assets or more, Scheinberg noted. With more and more plans accepting that it's prudent to test their prevailing governance structure by running an evaluation or a search at least once every 10 years, he figures North Pier could double in size over the coming five years.

Even with expectations of a growing number of searches, however, the competitive environment should remain conducive for the small, independent boutiques that currently dominate the sector, Scheinberg predicted, noting that it's just not profitable enough for bigger consulting firms "to take it seriously right now."

If bigger consulting firms did begin offering third-party evaluation services, meanwhile, that could make it more difficult for OCIO providers, themselves often tied to big consulting firms, to open their books to a competitor, noted Julie K. Stapel, a Chicago-based partner, focused on ERISA-related issues, with law firm Morgan Lewis & Bockius.

Growing demand

For now, the top third-party evaluators report growing demand for their services.

Eight or nine years ago, Curcio Webb's OCIO search business was garnering maybe three assignments a year but today that number is closer to 30, said Kolluri.

"The other thing we do, and it's been picking up a lot of steam recently … is OCIO monitoring," she said.

Asset owners can share fiduciary responsibility with an OCIO but they never really offload that responsibility entirely, Kolluri said. And that reality can lead to something more like retainer work, where the client is saying "all right, once a year please come in and review" how the OCIO is performing, she said.

Stapel uses a car analogy with plan sponsors: "You've given (the OCIO) the keys but there's still some role for you here to make sure they're …not going to run the plan off the road." And often, the client will retain the same firm that conducted the search to do the subsequent monitoring, she said - a nod to the fact that, at the moment, "there just aren't … all that many players in the space yet."

However Alpha Capital's Alford said that dual role could prove problematic, citing the challenges of remaining objective about the performance of a firm your team recommended to the client in the first place.

In another possible sign that the third-party evaluator sector is maturing, potential clients are increasingly "running RFPs to select third-party evaluators," with between 30% and 50% of the search mandates Curcio Webb wins now coming out of a process competing against firms "like us," said Kolluri.

"Hiring a consultant to hire a consultant can get a little dizzying," said North Pier's Scheinberg. Such competitive processes probably account for roughly "two out of every three cases that we do now," he said. Five years ago, "that number was not even 25%," he said. ■