

CalSTRS Seeks Pool of Investment Consultants for Specialty Projects

By Alyson Velati

September 7, 2018

The \$221 billion California State Teachers' Retirement System (CalSTRS) is creating a pool of "jack of all trades" general investment consultants and specialty firms to have on hand for future, one-off projects.

Late last week, CalSTRS released a request for proposal (RFP) to find consultants that will be available to work with staff on particular projects that could last for one to six months, or more, as first reported by *FundFire's* sister publication *MandateWire*. This model is not very common among institutional investors yet, but could be emulated by other large plans, according to search consultants and other industry experts.

The retirement system's current general investment consultants, Pension Consulting Alliance and Meketa Investment Group, will continue to work for the board and staff.

The consultants chosen in this search will be called "project consultants," says **Chris Ailman**, CIO of CalSTRS in a video accompanying the RFP. "The best way to think about it is a traditional consultant: you come in, you work with us, you do a project and then you get to move on."

Each consultant included in the pool will be given a chance to bid on projects as they come up, which allows consultants to decide on fees and whether they want to do the project, he says in the video.

"Our projects range across the complexities of the portfolio," he says. "It could be about operational efficiency within one of our trading divisions. It could be about independent fiduciary work on a particular transaction. It could also just be studying an asset class and helping guide us on what kind of benchmark and how to do it. The key is that this RFP will be out there for five years. I can't even envision what services we might need five years from now."

Consultants must have expertise in particular categories like research on other consultants' capital market assumptions, analysis of risk management and risk governance strategies, valuation analysis, portfolio monitoring, etc.

This type of pooled consultant RFP makes sense for pension behemoths like CalSTRS, that have complex investment portfolios and the resources to take on specialty projects, according to service providers, search consultants and business development consultants.

“There’s a big recognition among institutional allocators like CalSTRS that as investment opportunities and capital markets are getting more and more complex and off the grid, they are more reliant than ever on external expertise,” says **Amanda Tepper**, CEO of **Chestnut Advisory Group**, which provides business development consulting services for asset managers. “So, they are willing to pay for that.”

But while larger funds like CalSTRS can pay up for extra consulting services, smaller plans may not follow suit.

“[F]or larger pools, this can be an interesting trend, with CalSTRS at the forefront of it,” says **Ariana Amplo**, founder and CEO of **InHub**, a digital RFP platform for institutional investors. “I think because specific project-based work may require different expertise, they may get the best fees and services by uniquely bidding out those specific projects.”

This is especially good news for consultants, since they are increasingly bolstering their business lines to stay competitive, says **Brad Alford**, founder and CIO at Alpha Capital Management, which provides consultant and outsourced CIO search services for institutional investors.

Consultants that are under pressure are always looking for higher margin business lines that fit with their skillsets, says Chestnut’s Tepper.

Contact the reporter on this story at avelati@fundfire.com or (212) 542-1282.