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Consultant Poised to Enter OCIO Biz with $8B Foundation Client

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Earlier this week, the largest community foundation reportedly announced it will switch to an outsourced CIO (OCIO) model with its current consultant, **Colonial Consulting.**

This appears to be new territory for Colonial, which previously did not provide discretionary relationships, according to its most recently filed form ADV which was issued on March 31, 2017.

“We do not offer investment products or manage money on behalf of clients,” the ADV states. “We do not hold client funds and securities. We do not have discretion over client assets.”

The firm does offer “customized projects” and tailors its advice to fit the needs of its clients, according to the ADV.

“Because we do not offer investment management services, implementation of our investment recommendations, including the purchase and sale of securities and the hiring or termination of third-party investment managers, is solely at the discretion of the client and/or the selected third-party investment managers,” as stated in the ADV.

The form further notes that Colonial does not have any “discretionary authority” to hire or fire investment managers for its clients.

Currently, Colonial advises across asset classes including U.S. and international equities, fixed income, private equity, real estate and hedge funds.

Mike Miller, managing director and **Charles Georgalas**, CEO of Colonial Consulting did not respond to multiple requests for comment prior to publication deadline.

Bert Feuss, senior v.p. of investments of the $8 billion **Silicon Valley Community Foundation,** previously told *FundFire*'s sister publication *MandateWire* that it would be shifting its non-discretionary advisory relationship with Colonial to an OCIO model.

The foundation decided to change models because “across the organization, given our growth, we need to right size the governance structure,” Feuss told *MandateWire*, noting that “the amount of time [the foundation] spent on manager discussion was not a scalable approach” or “a good strategic use of time.”

With the move to an OCIO relationship, the foundation intends to “shift committee focus to setting investment policy and strategy,” instead of “manager selection,” Feuss told *MandateWire*.

For now, the foundation will start off with outsourcing its liquid investments, but will eventually manage its illiquid portion of the portfolio, as reported by *MandateWire*.

The move to begin offering OCIO services is emblematic of the pressures faced by the traditional investment consultant industry, according to industry watchers.

When traditional consulting shops venture into the discretionary or OCIO business, it makes sense for them to start off by managing portions of a client's portfolio, says **Michael Chase**, partner and senior consultant at Fiduciary Investment Advisors.

“If an investor is already happy with their advisor, it's a pretty easy transition,” he says. “There are lots of consultant firms that are not purely advisory firms. They may take discretion on one or two things and then gradually transition to the entire portfolio.”

Alpha Capital Management, a firm that offers consulting and OCIO search services for investors, is seeing more inquiries from investors regarding traditional consultant firms that offer OCIO services, says **Anna Dunn Tabke**, principal and director of research for the firm.

Other industry professionals are not familiar with Colonial's discretionary services, but believe the expansion of services makes sense due to the increasing consolidation and other pressures in the consultant industry.

“[OCIOs] make more money,” says executive recruiter Charles Skorina. “Consulting businesses are being more tough on fees and it's becoming harder and harder to win new business, so the most obvious way to increase your profit margin is to provide OCIOS services.”

And if Silicon Valley is Colonial's first OCIO client, they'll have leverage to negotiate fees, he says.

Colonial had $33.2 billion in assets under advisement as of December 31, 2016. The firm's standard fee schedule charges 20 basis points on the first $75 million, 12 basis points for the next $125 million, six basis points for the next $500 million and four basis points for any assets greater than $700 million, according to the ADV.

For a newly implemented discretionary business, Colonial would need to bolster the bandwidth of resources to numerous areas of its practice.

"Well, for instance, they don't have an investment office, they only advise and an investment office is a machine with a lot of parts," says Skorina. "Some of these parts are third party relationships like transfer agents, custodians and record keepers that they don't have now."

He further states: "It's one thing to say, 'Hey, you can use BNY Mellon or State Street for your custodian.' It's another thing to set up a legally binding relationship with these firms yourself to do it for you, because they will now have fiduciary obligations over [the foundation's] $8 billion. So, they have to establish that legal framework."

The biggest difference between a traditional advisory business and an OCIO business is operations and administration, says Fiduciary Investment Advisors' Chase.

"You need a group that knows how to trade accounts, how to compile paper work and legal professionals to review documentation," he says.