

GSAM to Expand OCIO, Advisory Biz with Rocaton Acquisition

By Danielle Verbrigghe

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Goldman Sachs Asset Management (GSAM) is set to expand its advisory and outsourced CIO (OCIO) business, with plans to acquire institutional consulting shop Rocaton Investment Advisors.

Rocaton, based in Norwalk, Conn., had more than \$600 billion in assets under advisement, including approximately \$12.5 billion in OCIO assets, as of the end of September.

“Rocaton’s team brings deep industry expertise and value to our growing platform, which will allow us to offer more holistic and customized services to our clients,” said **Timothy O’Neill** and **Eric Lane**, co-heads of Goldman Sachs’ Consumer and Investment Management Division, in a statement announcing the acquisition.

This comes after recent indications that Goldman was considering acquisitions to add scale and advisory capabilities to its asset management business, as reported.

This is the second large consultant and OCIO acquisition made by GSAM in recent years. The company bought a portion of Verus’ OCIO business in 2017, adding \$13 billion to its alternatives AUM, as reported.

The Rocaton transaction is anticipated to close in the first half of 2019, according to GSAM.

It will also significantly expand GSAM’s existing advisory business with defined contribution plans, which currently represent \$1.5 billion in client assets, according to a GSAM spokeswoman. Roughly a third, or \$216 billion, of Rocaton’s assets under advisement are in defined contribution plans, according to information from Rocaton.

The announcement comes amid a period of heightened M&A activity in the institutional consulting industry, which has been under pressure from fee compression and difficulty achieving organic growth.

Due to the “increasing complexity of capital markets, growing focus on outsourcing, and desire for a broader set of services, joining Goldman Sachs will better position Rocaton to help clients meet their investment objectives in the future,” wrote a Rocaton spokesperson in an emailed response to questions.

Rocaton’s entire team of 65 people have been invited to join GSAM, and the team will remain in Norwalk, Conn., according to information from both firms.

Going forward, Rocaton will not be evaluating or recommending Goldman Sachs products or strategies to its advisory clients, unless specifically requested by the client, according to a Rocaton spokesperson.

Rocaton's discretionary clients will have the option to elect to use Goldman Sachs products via a single fee structure, consistent with how GSAM engages discretionary clients today, the spokesperson said.

Among the factors driving consultant consolidation are fee compression and the difficulty for such firms to grow organically, says **Anna Dunn Tabke**, director of research and principal at Alpha Capital Management, which provides consultant search services to institutional investors.

"There's just some fee compression in the industry, so it's probably a little bit harder for the smaller and mid-sized firms than it was when the fees were a little bit higher," Tabke says. This is leading to a lot of consolidation in the industry, she adds.

For example, Mercer in August acquired most of Summit Strategies Group, a \$160 billion institutional consulting, and Pavilion **Financial Corporation's** investment consulting, alternatives consulting and wealth management operations, which represented \$685 billion in assets under advisement as of data available at that time. **AndCo Consulting** acquired the public funds portion of Summit's practice.

A change in ownership is not without risks for institutional consulting and OCIO businesses.

"Every Rocaton client has a fiduciary duty to review their appointment of Rocaton," said **Christopher Cutler**, founder of investment consulting firm **Manager Analysis Services**, in an email.

For some institutions, this type of event is enough to re-evaluate their relationship with their consultant or trigger a search, says Tabke.

"I think clients just want to figure out what it's going to look like," Tabke says. "Some clients have it built into their contract that this type of acquisition triggers a search." Other clients will likely prefer to give it some time to figure out how the acquisition will affect the business.

In a case like this, where the acquiring firm is an institutional asset manager, the process may involve evaluating potential conflicts of interest.

"We're very focused on identifying and evaluating potential conflicts of interest for a potential client," Tabke says.

That may involve evaluating whether there is a "Chinese wall" where Rocaton is not recommending GSAM products or determining whether there is pressure for Rocaton to recommend GSAM products, she says.

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