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As Search Firms Gain Momentum, OCIO Providers Need to Catch Up

By Aziza Kasumov

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Search consultants are quickly gaining ground as the new matchmakers between institutional investors and outsourced CIO (OCIO) firms. But while providers have stepped up their efforts to woo these intermediaries, there are points of frustration both OCIOs and search firms still encounter, according to research by Cerulli Associates.

Almost all the roughly 23 search consultants responding to the survey said that inadequate communication around investment performance and a lack of transparency around fees were at least moderate challenges when working with OCIO firms. Closed-door policies, insufficient clarity around the investment management model and a tendency to misunderstand the client were cited as points of frustration by some respondents as well.

"If an asset owner is bringing a search consultant on board… they don't want a lot of surprises going forward," says **Laura Levesque**, senior analyst at Cerulli. While some OCIO providers "don't love the idea of an intermediary" between them and the asset owner, she believes searches through such firms will be more satisfying for institutions in the long run.

"That's why it's important to work on those frustrations a little bit," Levesque says.

The responding firms only had a minimal increase in the number of searches they conducted from 2017 to 2018 – the average went from 4.1 to 4.4.

"What that indicates is that many of these search consultants are smaller in nature and aren't really a in a position to take on a large increase in searches," Levesque says. "We expect to see more search consultants come into the market."

Some search consultants say this year has been their busiest ever.

Alpha Capital Management, for instance, was "having another record year" in terms of growth and revenue, says **Brad Alford**, founder and principal of the organization, which is currently running about a dozen searches. The firm plans on staffing up next year to better handle the influx of work, Alford says. Manager Analysis Services, too, "had a noticeable increase in inquiries" in the past year, says **Tom Donahoe**, managing director of OCIO search and governance at the firm.

Most of the increased business is still coming from nonprofit clients, traditionally the largest source of business for search consultants, according to Cerulli. All of the survey respondents had done searches for at least one foundation client before, and 88% helped an endowment find their OCIO match in the past.

But, since those clients tend to have fewer assets under management, search firms tend to avoid some of the mega OCIO providers when making recommendations.

“Some of the smaller firms cater more in a niche fashion to endowments and foundations, or educational organizations,” says Levesque. “That might be a better match with the asset owner than simply going to a very large OCIO provider that works with multiple client types.”

Overall, 40% of the OCIO mandates intermediated by the Cerulli respondents went to boutique firms, and about a quarter each to providers with roots in traditional investment consulting and to those with roots in asset management.

Beyond nonprofit clients, few of the search consultants surveyed had done any work for corporate defined contribution, health care and hospital systems so far – but Alford says the latter market is starting to see an uptick.

Search firms attribute the influx of business they've seen to the the increasingly complex OCIO landscape.

“There is a realization that the board just doesn’t have the … bandwidth to run a search while they’re maintaining oversight for the current investment processes,” says Donahoe.

Many institutions also do not seem to fully understand how an OCIO relationship works. Close to half of the respondents to Cerulli’s survey cited that disconnect as the greatest challenge with clients new to the model – but for the providers, too, that has led to frustrations.

“There have been searches in the past run directly by an organization and the objectives of what they want changed throughout the search,” says **Greg Calnon**, managing director of global portfolio solutions at Goldman Sachs Asset Management (GSAM). The “more rigorous process” that search consultants tend to apply as they look for the best possible match has eased those concerns, and it makes the dialogue with the client, the onboarding process and early steps easier “because everyone’s on the same page,” he adds.

Other OCIO providers, however, say things don’t always run more smoothly with an intermediary.

“Certainly, it’d be nice to speak directly with the asset owner all the time so we can understand some of the challenges they’re having to see through,” says **Mike Cagnina**, SEI institutional group’s v.p. and managing director. He adds that, as intermediaries, some search consultants are doing a good job at providing that access or clearly communicating what their client wants. Others, however, don’t grant access to the asset owners until later. “You can be flying blind in those instances,” Cagnina says.

Both OCIO professionals say a big chunk of new business comes from search firms these days – roughly 40% for SEI, and up to two thirds at GSAM. That’s significantly more than the RFP activity they received from search firms just two to three years ago, and it has caused them to hire dedicated staff to deal with search consultants.

Those teams might be expanded in the future, should search consultants further manifest their matchmaking role. “We’re adequately positioned now, but we’re willing to invest more in that as we see the trend growing,” Cagnina says.

Contact the reporter on this story at akasumov@fundfire.com or (212) 542-1209.