

## Rise of OCIO Search Consultants Exerts Downward Pressure on Fees

A new report from Chestnut Advisory Group finds that search consultants are now involved in as much as half of all OCIO searches.

By **Justin Mitchell**

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The unabated growth of the outsourced chief investment officer, or OCIO, market has led not only to a proliferation of these firms but also the rise of specialized search consultants to help institutional managers decide which to hire. This has in turn led to a greater level of scrutiny on fees and some early signs that the cost of OCIO services is starting to decline, according to a new report from Chestnut Advisory Group.

Between one-third and half of all OCIO searches are led by third-party search consultants, according to the report. Total assets in the OCIO market are set to hit \$4 trillion by 2026.

A few years ago, clients would usually get charged one bundled fee, and it could be difficult to learn what a client was actually being charged, leading to an effect of comparing “apples, oranges and pears,” said **Amanda Tepper**, CEO of Chestnut.

“There was less transparency in the fees that were involved in outsourcing all of a portfolio to somebody,” she said. “It was really difficult to compare what you were getting offered ... that was one of the first orders of business for search consultants, was to try to make the fees comparable.”

Still, there is no reliable OCIO fee data being reported yet, Tepper said, by email. She added that, “anecdotally,” OCIO fees have declined approximately 30% to 50% over the last five years but seems to be stabilizing now.

All-in fees are one of the most important factors driving OCIO hiring decisions, with 75% of respondents listing that as one of their top two concerns. The study surveyed more than 450 professionals, including asset managers, institutional investors, consultants and wealth advisors.

Search consultants seem to agree that fees are a major concern with clients, and a big part of the services they provide. In fact, being able to negotiate fees is one of Alpha

Capital Management biggest “value adds,” said **Brad Alford**, the search consultant’s founder.

When clients make the transition from traditional consultant to OCIO, they want to know how much more they will have to pay, and what they’re getting for their money, said **Phil Edwards**, principal at search consultant Curcio Webb. While fees have come “way down” since his firm’s search business began over a decade ago, that does not necessarily mean investors are not willing to pay more if they feel the provider is worth the cost.

“The strongest tangible value is the performance track record, and that is what I think asset owners and plan sponsors are willing to pay for,” he said.

This apparent reduction in fees for OCIO services may be a natural byproduct of increased transparency across the investment industry, said **Bill Jarvis**, head of thought leadership for Bank of America’s endowment and foundation business.

“As in any industry, the introduction of transparency and scrutiny of providers’ business models has enabled clients to evaluate what is being provided and at what cost,” he told FundFire in an email. “In this sense, the fee compression that has been observed across the broader investment management industry in recent decades may now be coming to OCIO services as well.”

Fees alone are far from the only concern asset owners should have when searching for an OCIO, said **Rosalie Wolf**, owner of Botanica Capital Partners, a governance consultant who has helped with OCIO searches.

“A good OCIO will achieve other fee savings that offset some if not all of their fees,” she wrote FundFire in an email. Integrity, track record, quantitative analytics credentials, experienced judgement and a strong pipeline of younger staff and a plan for the future are also important, Wolf adds.

Often, though, search providers need to scrutinize an organization’s values and norms when trying to match a client to an OCIO. Whether or not an OCIO can do the job is “table stakes,” said **Uma Kolluri**, another Curcio Webb principal.

It’s often a matter of cultural fit, she said.

“The same OCIO that we recommended today for one client, in the very next meeting [with another client] we are saying ‘they may not be a fit for you,’” she said. “Obviously, they wouldn’t be at the table at all if we didn’t believe in their model.”

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