

## Institutions Rethink the Consultant Model

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By [Jay Cooper](#)

The market downturn is causing some institutional investors to question whether they should continue using an investment consultant, a recent survey finds.

Multi-manager [SEI](#) conducted the poll, which surveyed 132 institutional investors, primarily corporate defined benefit plans. SEI is a direct competitor of consultants, serving as an outsourced CIO for institutional investors and making many of the investment decisions for plan sponsors that a consultant would otherwise provide advice on.

Among other questions in the survey, the respondents were asked how they felt about their consultant. Of the 73 respondents who use consultants, 38% said they are “concerned with the investment consultant model for investment management and are looking into other options,” SEI says.

The market downturn is likely the main reason investors are taking a fresh look at the consulting model, says Paul Klauder, v.p. and managing director of SEI’s global institutional group. “The principal reason is the enormous losses people have endured and feeling they have to at least investigate other options,” he says.

Richard Holbein, president and founder of consultant [Holbein Associates](#), agrees that the market downturn may cause some institutional investors to re-evaluate their use of consultants. “This is the first time in recorded history that diversification didn’t work,” he says. Holbein adds that pay-to-play and other potential conflicts of interest that have plagued some consulting firms in recent years may also play a part.

Consultants remain the gatekeeper for the vast majority of institutional portfolios. A 2007 [Greenwich Associates](#) study of more than 1,000 pension funds found that 95% of those surveyed use an investment consultant, up from 88% the year before.

Indeed, consulting firms continue to play a vital role and offer important services to institutional investors, Holbein says. The consultant should provide unbiased objective advice to clients, he says. Consultants also have the breadth and depth of market research to think ahead and get clients into new asset classes and position their portfolio in a way to benefit from future changes in the market.

*But investment committees may require more help on new asset classes and complex investment strategies than consultants can provide in a quarterly meeting, says Paul Klauder, v.p. and managing director of SEI’s global institutional group. Some institutional investors may find it easier to outsource their fiduciary responsibilities to a multi-manager, who can look after the portfolio on a daily basis if necessary*

“We’re out there exploring all the time... Investing and putting your assets to work is about investing in what’s going to happen, not what’s already happened,” Holbein says.

SEI’s Klauder agrees that investment consultants help bring investment expertise to their clients. But investment committees may require more help on new asset classes and complex investment strategies than consultants can provide in a quarterly meeting, he says. Some institutional investors may find it easier to outsource their fiduciary responsibilities to a multi-manager, who can look after the portfolio on a daily basis if necessary, Klauder says. He believes this is one of the reasons so many consulting firms have started multi-manager businesses of their own.

For SEI, the rethinking of the consultant model could help the firm’s multi-manager business. There may be evidence of this already: SEI has seen an uptick in multi-manager Requests for Proposals this year, having completed 73 RFPs so far in 2009. At this time last year, the firm had only completed 47, according to Klauder.

The economic conditions that some believe will lead to more outsourcing has given at least one analyst a more positive outlook on SEI’s business model. Glenn Greene, an analyst for Oppenheimer, recently upgraded his rating of SEI’s public stock to “outperform.”

A recent Oppenheimer report says Greene expects sales momentum for SEI “to continue near-term as the fallout from the financial crisis stimulates demand for outsourced services as companies seek to preserve capital and resources.”

