

CIO Outsourcer Signs up 17 New US Clients

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An early player in the CIO outsourcing business signed on more than a dozen clients last year even as various rivals have been entering or expanding their presence in the bustling market. SEI added 17 new U.S. clients last year, representing \$2.9 billion in assets, which brings its U.S. business to a total of 346 clients and just under \$40.5 billion in assets as of Dec. 31.

The increasing interest is across the board, from corporate defined benefit plans and the healthcare sector to foundations and endowments, says Paul Klauder, v.p. of SEI's Institutional Group. Some of 2010's new clients include LaSalle Steel and Cape Regional Health System.

One of the drivers of interest in the model -- in which institutional investors outsource decision-making responsibility for a portion of or all of their portfolios -- is that more organizations are realizing they need better risk management in how they manage various asset pools, Klauder says.

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According to consulting firm Casey Quirk, the investment outsourcing market will grow to \$510 billion in assets by 2012, representing 13% of institutional assets and 25% of institutional investors.

Klauder says that the space is becoming increasingly competitive, as there are many new entrants from the asset management side, as well as from the consultant community.

Just this week, as reported, Russell Investments hired Commonfund's former head of sales to build out an outsourced CIO team for the non-profit area.

Also this week, Commonfund said that it was realigning its own investment team to focus on its outsourced CIO business, an area the firm deems one of its strongest, as reported. It hired former ING CIO Rick Nelson as its new CIO, and is asking him to focus on that CIO outsourcing effort.

And late last month, BlackRock hired General Motors Asset Management's former CIO and CEO Nancy Everett to lead the firm's CIO outsourcing unit, as reported.

Deb Brown, managing director in the asset and wealth management practice of Russell Reynolds Associates, says that many "mid-sized" institutions have to weigh the costs and benefits of funding an in-house staff and investment office versus outsourcing.

"In addition, it is increasingly difficult to find highly qualified and affordable talent to staff up in-house operations," she says. "And many talented former CIOs have set up shop to handle multiple constituents."

Gary Price, managing principal at Fund Evaluation Group, who leads the outsourced CIO business for the firm, says that many of the practice's early clients transitioned from the consulting services side of the business because they saw benefits from the merging of FEG's dynamic asset allocation and manager recommendations in their portfolios.

"I would attribute it to an evolution in the industry, where trustees understand the limitations of meeting infrequently to review and discuss recommendations from their consultants," he says.

Several executive recruiters say that they are seeing a lot of activity in the space, as both asset managers and consultants are staffing up.

Russell Reynolds' Brown says that firms trying to build CIO outsourcing practices often need sales and client service talent who are sophisticated enough to have a dialogue with trustees, as well as asset class specialists who can help with due diligence and risk management.

Michael Martinolich, a partner at executive recruiting firm Caldwell Partners, echoes the sentiment, saying that outsourcing firms that are hiring senior level investment professionals tend to seek professionals with broad investment experience, and specifically those who have significant expertise with a "holistic" approach to investment and portfolio solutions.

"Asset allocation, risk management, and portfolio construction experience are especially relevant," he says.