

Institutions Put Renewed Focus on Consultants

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Two-plus years after the market collapsed and wreaked havoc on the value of many university endowments, there still seems to be an ongoing debate about who ultimately bears responsibility for an institution's investment performance.

A recent poll by SEI questioned endowment executives on their top 10 priorities for 2011. Fourth on the list was defining "investment management fiduciary responsibilities for trustees and investment consultants." John Paul Cavaliere, senior analyst of nonprofit advice for SEI's Institutional Group, says it's an "interesting result" because he believed that this was something that had been discussed so much since 2008 that it "wouldn't be such a high priority" still today.

With so much emphasis being placed on fiduciary responsibility, it is perhaps not surprising that nearly 40% of respondents in the SEI poll said their organization is open to including an outsourced investment provider in their next consultant search.

Part of the need for hammering out fiduciary responsibilities is to identify potential conflicts of interest that a consultant might have. But the specter of 2008 remains significant, and so the discussion around fiduciary responsibility invariably leads back to the blame game that happened after things fell apart in 2008.

"It's probably been consistent with what we've heard over the last year-and-a-half," Cavaliere says. "There was a lot of finger pointing when the market collapsed. There were a lot of questions about who is responsible for the fact that the overall endowment lost 40% or 50% of its value."

A traditional consultant might argue that it is ultimately the investment committee or board of trustees that is choosing a money manager, while the consultant is merely making a recommendation. But the trustees could argue back that the consultant's expertise gives him or her significant responsibility over how a chosen manager performs.

"I think there's a big push for it," Cavaliere says. "You have these committees and trustees and they're saying, 'We don't have the time, when we meet four times a year, to parade around managers and determine the best large cap growth manager. We want to rely on you and hold you accountable.'"

This means that the interest in establishing fiduciary responsibility isn't necessarily just tied to the blame game after 2008. It can also free up the investment committee and trustees from manager selection and allow them to concentrate on other responsibilities – everything from asset allocation to risk management. Kim Wood, who heads up Mercer's implemented consulting business in the U.S., notes that both the in-house investment staff and investment committee spend a lot of their time on work that is not directly tied to "driving home the bottom line." So in many ways, the focus on fiduciary is about a "shift in priorities," according to Wood.

"People need to understand that this is not a cop-out strategy," she says. "It is a very smart way for committees to re-look at their roles and priorities and where they can add the most value."

Carla McGuire, a partner at Mercer who also serves as the external CIO for DePauw University in Greencastle, Ind., says the move toward placing greater responsibility on consultants for manager selection does not mean those investment committees are being rendered obsolete. Like Wood, she sees their responsibilities changing. When she meets with an investment committee, she will sit down with the members and develop an investment policy statement; in many cases, they may have one, but it's often outdated and antiquated. She says most committees are migrating towards a focus on asset allocation, review performance and other higher-level decisions, while outsourcing the rest of their responsibilities.

"They understand the investments that have been made, but they aren't pulling the trigger themselves," McGuire says. "These manager beauty contests, or dog and pony shows where you meet with several managers – I think committees have realized that's not a really great use of their time."

