

## Institutional Consultants Need More Alternative Investments Expertise

By Robert Testa, Cerulli Associates

Institutional consultants are best known for their manager search, due diligence, asset allocation, and investment policy capabilities. Their independence and expertise have made them a trusted source for institutional investors seeking outside advice and analysis. In the wake of the financial crisis, institutional investors have recognized the growing importance of consultants, causing consultants' influence to grow dramatically.

Yet as consultants have grown in importance, their business has become more challenging: Assets and search activity have fallen considerably, while consultants have been asked to further develop their expertise in alternative investments, liability-driven investing, and asset allocation. Not surprisingly, a series of high-profile mergers has taken place within the investment-consulting community in the past 18 months. Most recently Aon Corporation announced that it was acquiring Hewitt Associates; just days later, this transaction was followed by an announcement that Hewitt Associates would acquire Ennis, Knupp & Associates. When combined, these three firms will become a global juggernaut, providing a wide range of consulting services that specialize in everything from human-resources support to investment consulting.

Before the Aon, Hewitt, and Ennis Knupp merger, Towers Perrin and Watson Wyatt tied the knot to become Towers Watson. Like Aon-Hewitt-Ennis Knupp, Towers Watson combines two firms with complementary client bases and creates a truly global consultancy along the lines of Mercer. And speaking of Mercer, this already-dominant global consultant nearly grew more powerful last year, initially announcing then calling off a merger with Callan Associates. While industry observers believe that the deal was nixed because

of complex compensation and cultural considerations, the proposed merger might have been the opening salvo for firms to begin looking at evaluating strategic purchases.

Consultants of all sizes are experiencing more demand for alternatives, especially from the largest pensions, endowments, and foundations. As these investors evaluate different hedge funds, private equity, real assets, real estate, and funds of hedge funds for their portfolios, they are finding that some of the more-traditional consultants are unprepared to handle these types of searches. The expertise required in the alternatives space can be markedly different from traditional investment consulting; it can require knowledge about prime brokers, leverage, fund administration, valuation procedures, trading policies, systems/technology, and other issues. Ironically, small and mid-sized firms such as Albourne Partners, Angeles Investment Advisors, and NEPC have built better reputations in this niche than traditional stalwarts.

To regain market share, more-traditional investment consultants have been aggressively hiring experts with alternatives experience. The weak labor market has made it an attractive time for firms to find staff that would have been unavailable just a few years ago. For example, Mercer has announced that it's building a boutique devoted to alternative products. Other consultants are buying firms with alternatives experience. It's speculated that Hewitt may have purchased Ennis Knupp because the latter is well-respected in the alternatives space and had an extensive client roster. We may see more of this in coming months as competition continues to heat up for alternatives expertise. 

*Methodology: In January 2010, IMCA distributed a survey link to more than 7,500 current IMCA members providing access to a proprietary Cerulli Associates online survey instrument. The total respondent base of 126 is a sample of the investment advisor and broker-dealer membership of Investment Management Consultants Association.*

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