

# The Evolving Investment Consulting Industry and Business Model

## Opportunities for Institutional Asset Managers

### Overview

This report provides an overview of the evolving institutional investment consulting industry and the trends reshaping the consultant business model. It examines the evolving needs of each institutional client segment (defined benefit, defined contribution, endowments and foundations, and insurance general accounts), as well as how asset managers can partner with key gatekeepers to meet institutions' changing needs. Also covered in this report is how asset managers can collaborate with consultants to meet institutions' expanding needs and grow assets.

Data from this report comes from extensive executive interviews and two proprietary surveys of institutional asset managers and investment consultants.

### Benefits

- Build actionable business plans to position your firm for success with investment consultants
- Review the specialties of each investment consulting firm
- Identify asset allocation trends and product development opportunities
- Understand the evolving consulting model and potential opportunities to work with these gatekeepers
- Learn which client segments are expected to generate future opportunities for asset managers and gatekeepers

### Questions Answered

1. How will the evolving investment consultant landscape impact asset managers, investment consultants, and dedicated OCIO providers?
2. Which consulting firms are gaining market share and what types of clients does each provider support?
3. As clients cede decision-making responsibility to investment consultants, how should asset managers work effectively with gatekeepers under the outsourced chief investment officer (OCIO) model?
4. How is asset allocation for institutional clients changing and which asset classes will drive future manager search activity?
5. What new services beyond OCIO are consultants providing to institutional investors, and how can asset managers collaborate with them to garner assets?
6. What are some of the best practices used by consultant relations professionals when partnering with investment consultants?
7. What is the expected demand for future consulting services across client types?
8. How can asset management firms collaborate with investment consultants to support institutional clients?



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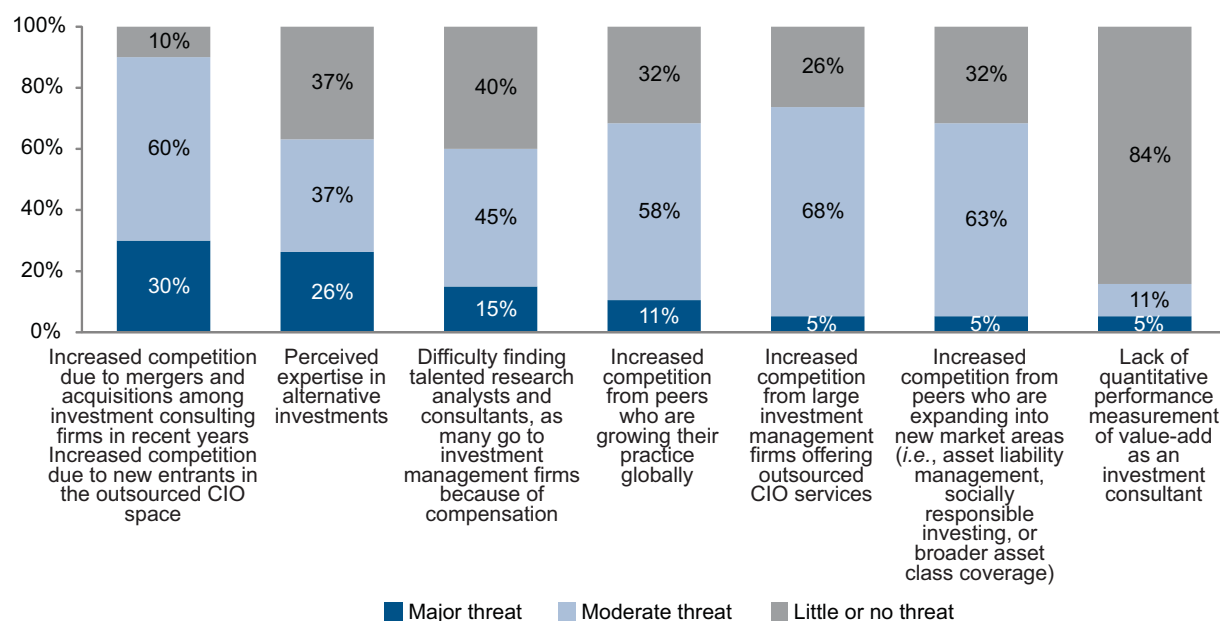
**THE CERULLI REPORT:  
THE EVOLVING INVESTMENT CONSULTING INDUSTRY AND  
BUSINESS MODEL: OPPORTUNITIES FOR INSTITUTIONAL  
ASSET MANAGERS**

## Challenges

**EXHIBIT 2: Greatest Threats Presently Challenging Investment Consultants, 2013**

Increased competition due to M&A activity among investment consulting firms was considered the greatest threat challenging investment consultants.

Sources: Cerulli Associates, in partnership with Institutional Investor Insitute



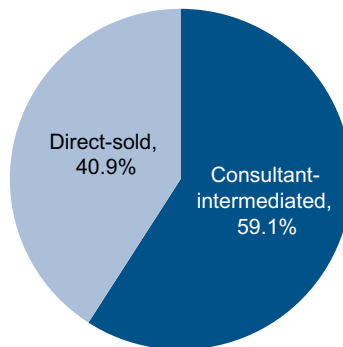
Increased competition due to mergers and acquisitions among investment consulting firms in recent years (30%) and perceived expertise in alternative investments (26%) were considered major threats currently challenging the investment consulting business.

Industry consolidation has been driven by both client needs and consulting firms' desire to grow their business and revenue. For those firms looking to grow their assets under advisement and compete in the outsourced CIO space, consolidation has been a viable option. As mentioned, these mergers have offered firms a quick way to expand and diversify their client base, grow assets, as well as diversify and enhance services offerings. However, many boutique and mid-sized firms choose to remain independent and instead focus their expertise on a particular client segment (*i.e.*, foundations) or new service offering (evaluation of outsourced CIO providers). These consolidations are making life more difficult for many small shops that don't have the expanded reach and resources of a large global firm. Cerulli contends that while larger firms have a competitive advantage, there will always be room for smaller consulting firms. Many institutional clients still prefer the personalized attention that a boutique firm offers, especially those shops with expertise in particular client seg-

**EXHIBIT 64: Institutional Flows: Consultant-Intermediated versus Direct, 2013**

Consultant-intermediated business accounts for just less than 60% of 2012 asset flows, with the remainder coming from direct sales.

Sources: Cerulli Associates, in partnership with the Institutional Investor Institute



Investment consultants are highly influential in the institutional market. Cerulli's recent survey of institutional asset managers indicates that consultant-intermediated business accounts for just less than 60% of 2012 asset flows, with the remainder coming from direct sales. Further segmentation of the data by firm size shows that consultant-generated business was greater for smaller firms with \$10 billion or less in asset under management, accounting for 75% of these firms' asset flows. Conversely, asset management firms with greater than \$50 billion in AUM generated a little more than half of their asset flows through direct sales, with 52% of asset flows coming from direct sales, while the other half (48%) of new flows were consultant-intermediated. Partnering with investment consultants is a beneficial strategy for firms with a small salesforce and limited distribution resources. While the due diligence process can be grueling, efforts expended could pay off handsomely with multiple wins and less time and resources employed thereafter.

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