Hedge Funds

Managers are warming up to custom funds

Firms answering the demands of clients for more specialized separate accounts

By **CHRISTINE WILLIAMSON**

The hedge fund industry is in transition as managers work to provide asset owners with exactly what they want: customization.

Increasingly, hedge fund managers are acceding to demand from pension funds, endowments, foundations, hedge funds of funds and other allocators for custom versions of flagship hedge fund strategies that better meet their investment goals.

BOOM: Andrew S. Lapkin said demand is steadily growing for custom hedge fund strategies.

Assets managed in separately managed customized hedge fund accounts have skyrocketed over the past five years, sources said.

HedgeMark International LLC, New York, the industry's largest hedge fund managed account provider, for example, has seen huge growth in assets in separately managed hedge fund accounts on its investment platform, said Andrew S. Lapkin, CEO.

Assets run in separately managed hedge fund accounts of all kinds on the HedgeMark platform rose 450% to $22 billion as of Oct. 31 from less than $4 billion when the firm was acquired in 2014 by Bank of New York Mellon Corp.

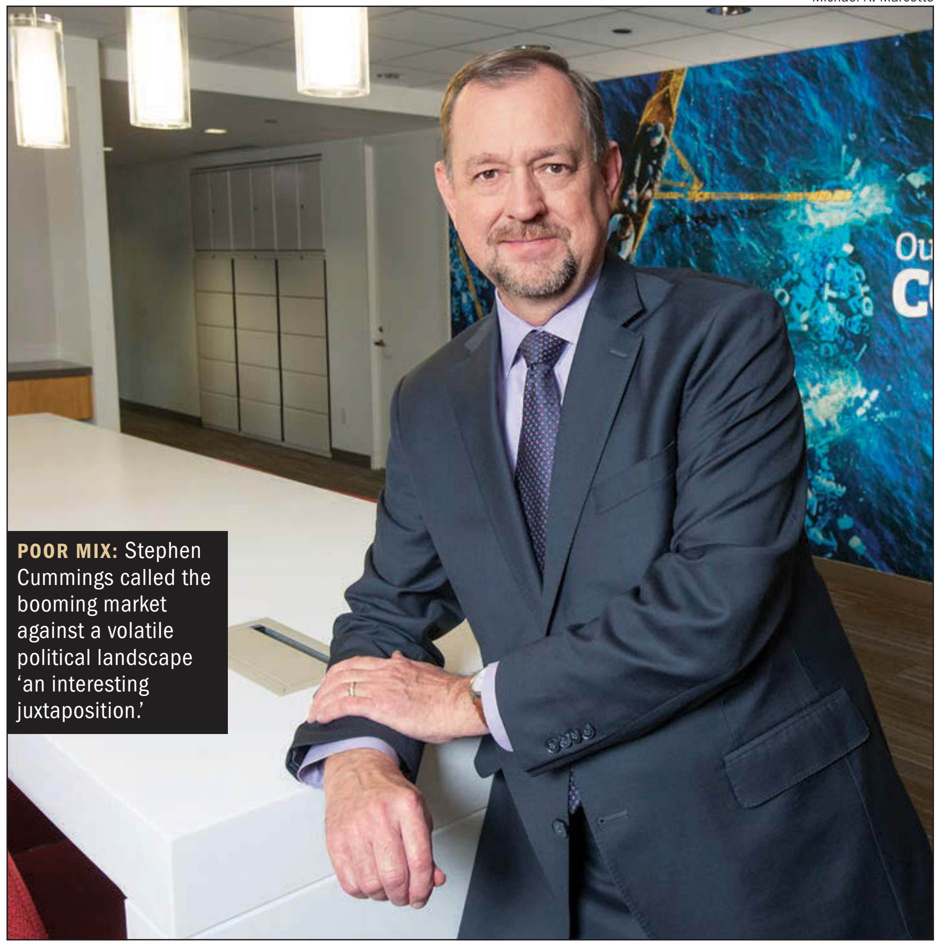
The proportion of customized hedge fund managed accounts on HedgeMark's investment platform is growing, Mr. Lapkin said. In 2019, 30% of new hedge fund accounts were for co-investment or other highly customized strategies compared with 15% per year between 2015 and 2018.

"Customized strategies are well-suited for dedicated management accounts. We are seeing a continued increase in (hedge fund) manager interest to offer a (dedicated managed account) to large investors," Mr. Lapkin said.

Among myriad possibilities, sources said popular customized approaches within dedicated managed accounts

SEE **CUSTOM** ON PAGE 39

Michael A. Marcotte



POOR MIX: Stephen Cummings called the booming market against a volatile political landscape 'an interesting juxtaposition.'

SPECIAL REPORT INVESTMENT CONSULTANTS

Consultants weighing impact of global financial challenges

By **DANIELLE WALKER**

Investment consultants are focusing on the lasting impacts that macroeconomic trends — the growing wealth gap, longer life expectancy and political uncertainty in an unprecedented bull market — will have on institutional investors and the asset management industry at large.

Stephen Cummings, Chicago-based CEO of Aon Hewitt Investment Consulting Inc. and global investment officer, head of North America investments at parent Aon PLC, said his top concern is the stock market approaching an 11-year bull run.

"Everyone is holding their breath wondering how much longer will this bull market run," Mr. Cummings said. "To be in the longest sustained bull market that we've ever known, while also being in an unsettled political environment — it's just an interesting juxtaposition."

Adding to that are concerns about global wealth inequality and the fact that governments and employers need to grapple with the possibility of many people outliving their wealth. Additionally, a "sandwich generation," which often refers to those simultaneously caring for elderly parents and their children, is emerging, Mr. Cummings added.

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MORE ON CONSULTANTS

- M&A pace is not expected to slow down. **Page 22**
- For the full report, go to **pionline.com/consultants19**

Defined Contribution

Plan sponsors jump to meet changes over withdrawals

By **MARGARIDA CORREIA**

Sponsors of 401(k) and 403(b) plans and their record keepers are moving quickly to satisfy new IRS regulations that will make it easier for plan participants to take hardship withdrawals from their retirement accounts.

Beginning Jan. 1, employees will be able to keep contributing to their accounts should they need to withdraw funds for hardships such as medical expenses. That marks a departure from previous IRS rules that required employers to suspend employee contributions for six months following a hardship distribution.

The new rule is part of a package of mandatory and voluntary measures that the IRS developed at Congress' behest to ease restrictions on hardship withdrawals. Plan sponsors will, for example, also be able to allow participants to withdraw qualified employer contributions, which was previously forbidden, and will no longer have to require participants to take all available plan loans before taking a hardship withdrawal.

The regulations — finalized Sept. 23 after a nearly yearlong comment and review period — have earned support among plan sponsors as they look to encourage participants to preserve their retirement savings while also giving them access to the funds for true financial hardships. While some sponsors had concerns about plan leakage, the flexibility of the rules helped alleviate those worries, industry observers said.

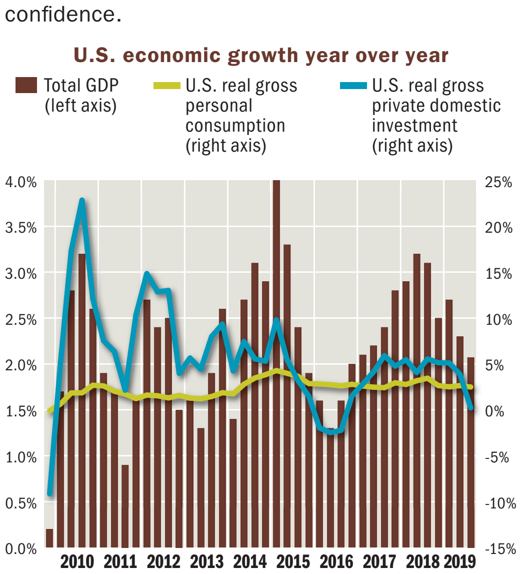
Participants already face significant deterrents to taking hardship distributions because they must pay taxes on the money plus a 10%

SEE **HARDSHIP** ON PAGE 36

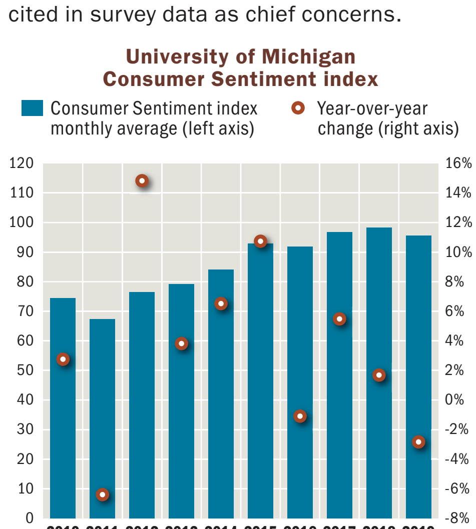
The wisdom of the crowd

As the equity bull market heads into an 11th year, a reasonable view would be that a downturn, or even a recession, should be expected. Given slowing economic growth, a case for a recession on the horizon could be made. Economic concerns were enough to convince the Federal Reserve to cut rates three times this year. But it's the warning signs from consumers and investors that signal weakness.

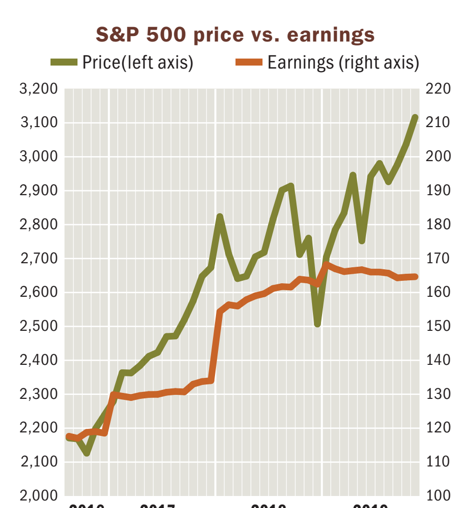
Been there: U.S. real GDP has been 2% or higher over the past three years. The dip in private investment could signal low business confidence.



Good and bad days: Consumer spending fuels the bulk of GDP. But consumer confidence has been falling this year and more volatile. Personal finances have been cited in survey data as chief concerns.



Runaway train? With fewer good investment alternatives, U.S. equity prices have grown disproportionately to earnings. Low bond yields drove demand for stocks.



Murky forecast: Lower forward valuation* estimates for 10 of the 12 S&P sectors mean analysts expect price declines in the coming 12 months.

Price/earnings ratios

Sector	Backward P/E	Forward P/E
S&P 500	20.7	18.9
Info. technology	24.8	21.8
Consumer disc.	24.2	23.0
Telecomm.	21.9	18.9
Consumer staples	21.3	20.8
Health care	20.8	16.3
Utilities	20.7	20.3
Materials	19.8	20.1
Industrials	19.3	19.1
Energy	18.0	20.0
Financials	14.0	13.4

*Price-to-earnings ratios. Sources: Bloomberg LP, University of Michigan, U.S. Bureau of Economic Analysis

Compiled and designed by Charles McGrath and Gregg A. Runburg

Special Report

INVESTMENT CONSULTANTS

Weighing impact in a world of change

CONTINUED FROM PAGE 3

"Inequity and longevity will have big implications on how we think about investing," he said.

As of mid-2019, the bottom 50% of wealth holders collectively owned less than 1% of total global wealth, while the top 1% owned 45% of global wealth, an October report from Credit Suisse found.

"These are global macro trends that I believe investors ignore at their own peril," Mr. Cummings said.

As consultants serve in the capacity of advisers — and increasingly as discretionary managers under the growing outsourced CIO trend — these are "big-picture trends" firms should be looking at, he said.

Data from *Pensions & Investments* show that worldwide institutional investors are increasingly turning to consultants for both advisory and OCIO services.

For the year ended June 30, institutional assets under advisement grew 9.2% to $41.4 trillion, *P&I*'s annual survey of investment consultants found. During the same period, U.S. institutional tax-exempt AUA also grew 9.2% to $22.67 trillion.

OCIO pace quickens

OCIO, or discretionary, assets grew at a quicker pace over the year, rising 15.2% to $1.42 trillion as of June 30.

Over the five-year period ended June 30, OCIO assets near doubled, growing 94.8% from $731.5 billion. In comparison, institutional AUA and U.S. institutional tax-exempt AUA grew 16% and 19.2%, respectively, over the same period.

The growth of OCIO use brings forth other considerations for investment consultants, which have historically had low client turnover in their traditional investment advisory businesses, said Tyler Cloherty, senior manager and head of the knowledge center for Casey Quirk, a practice of Deloitte Consulting LLP, New York.

While consultants have generally had client turnover of around 5% per year, money managers see higher turnover, around 17% per year, among institutional investor clients, Mr. Cloherty said.

Consultants have targeted growth through their OCIO businesses, but Mr. Cloherty believes there's "an underappreciation for the revenue volatility this could cause" for consultants since they "are moving into a more performance-dependent relationship" with institutions.

"As the investment consultant business shifts more toward OCIO, there could be a potential for relationships that were long in duration (to be) shortened," he said.

This year, 52 investment consultants in the survey reported offering OCIO services, inclusive of two firms that did not offer them the year prior: CBIZ Inc., which acquired Memphis-based investment consultant Gavion LLC in July; and Fiduciary Investment Advisors LLC, Windsor, Conn.

Despite the growth of OCIO assets, *P&I*'s survey showed that investment consultants still garner the majority of their annual revenue from traditional investment management consulting services for institutional asset owners, which on average accounted for 80.7% of their revenues. In comparison, investment outsourcing services accounted for 7.8% of firms' total revenues.

The revenue breakdown was similar in 2018 among reporting firms, with 79.6% of annual revenues derived from investment management consulting services for institutions, while 9.3% came from investment outsourcing, on average.

BIT OF HELP: Richard Nuzum said the growing focus on OCIO has 'left some openings' for Mercer's more traditional advice approach.

Downturn worries

Michael C. Patanella, a New York-based audit partner and asset management sector leader at Grant Thornton LLP, said the consultant industry's move toward OCIO services could also introduce risks when the extended bull market comes to a halt.

"We will see how (OCIOs) do in a downturn," Mr. Patanella said, explaining that investors will be watching whether OCIOs do a better job of selecting external money managers.

Richard Nuzum, the New York-based president of Mercer's global wealth business, said that as other consultants have shifted their focus to OCIO, the trend "left some openings" for Mercer in the traditional advisory space.

Mercer retained its position as the largest consultant by worldwide institutional AUA, with $15.04 trillion as of June 30, *P&I*'s survey found. Over the year, Mercer worldwide institutional AUA grew 29.3%, widening its lead over the second-largest consultant, Aon, which reported $3.52 trillion in worldwide institutional AUA as of June 30, up 13% year-over-year.

Mercer's assets were boosted in part by its acquisitions of Pavilion Financial Corp. and most of Summit Strategies Group in deals that were completed in the fourth quarter of last year. With the acquisitions, Mercer acquired the investment consulting, alternatives consulting and wealth management operations of Pavilion, which had around $716 billion in AUA as of June 30, 2018, according to *P&I* data. With the Summit Strategies deal, Mercer acquired all of Summit's businesses except for its public defined benefit plan consulting unit.

The Summit and Pavilion businesses had a combined $5.5 billion in discretionary AUM as of Dec. 31, a Mercer spokeswoman said.

"We see a lot of our competitors focusing on OCIO at the expense of focus on consulting. Probably the best way to grow your OCIO busi-

SEE IMPACT ON PAGE 22

Investment management consultant stats at a glance

Assets are in millions as of June 30.

	Assets	1-year change	5-year change
Total assets under advisement	$42,127,772	9.8%	16.8%
Institutional	$41,399,703	9.2%	16.0%
U.S. institutional tax-exempt	$22,671,588	9.2%	19.2%
Number of money manager searches	10,371	-0.6%	31.2%
Assets under management	$937,155	5.6%	48.0%
Outsourced CIO assets	$1,424,984	15.2%	94.8%
Number of cybersecurity professionals:			
Working on internal issues	87	—	—
Working with clients	12	—	—

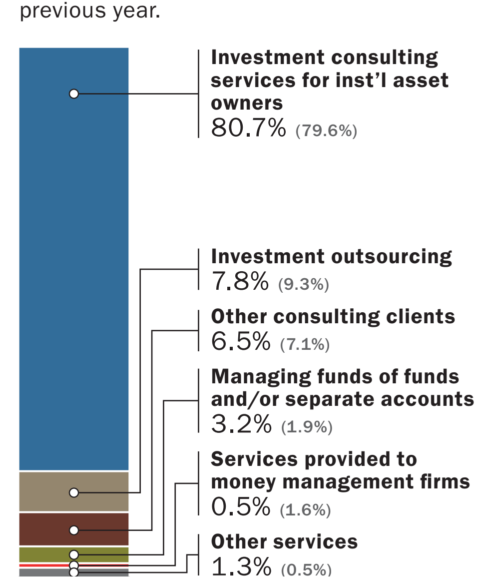
Historical data may include retroactive updates.

Growth of institutional advisory assets

Assets are in trillions as of June 30.

Consultants' average revenue breakdown

As of June 30; data in parentheses are previous year.



The largest investment consultants

Ranked by worldwide institutional assets under advisement, in millions, as of June 30.

Rank	Consultant	Assets
1	Mercer	$15,043,914
2	Aon	$3,524,407
3	Willis Towers Watson Investments	$2,600,000
4	Callan	$2,508,232
5	Russell Investments	$2,450,000
6	RVK	$2,380,063
7	Cambridge Associates	$2,172,749
8	Meketa Investment Group	$1,975,867
9	NEPC	$1,072,412
10	Wilshire Associates	$983,747
11	Rocaton Investment Advisors	$641,210
12	PPCmetrics	$536,000
13	Nomura Securities	$518,039
14	Verus	$425,371
15	Hamilton Lane	$408,957
16	CAPTRUST Financial	$331,206
17	Segal Marco Advisors	$330,304
18	Morgan Stanley/Graystone	$321,668
19	Cardinal Investment Advisors	$239,530
20	Marquette Associates	$217,927
21	StepStone Group	$216,488
22	BofA Merrill Lynch	$188,182
23	NFP Retirement	$163,882
24	UBS Institutional Consulting	$148,552
25	Cammack Retirement	$102,509
26	SageView Advisory	$102,000
27	LCG Associates	$99,123
28	Alan Biller	$97,272
29	AndCo Consulting	$92,246
30	Fiduciary Investment Advisors	$85,800
31	DiMeo Schneider	$84,400
32	Portfolio Evaluations	$79,522
33	Cliffwater	$73,204
34	TorreyCove Capital	$68,282
35	Ellwood Associates	$65,604
36	Gallagher Fiduciary	$64,962
37	Fund Evaluation Group	$64,209
38	River & Mercantile Solutions	$53,582
39	Bellwether Consulting	$51,789
40	Cook Street Consulting	$50,982
41	Prime Buchholz	$50,732
42	CBIZ Retirement/Investment/Gavion	$50,259
43	Investment Performance	$46,860
44	Milliman	$43,032
45	Colonial Consulting	$38,700
46	Concord Advisory Group	$33,979
47	Newport Group	$32,696
48	Hyas Group	$32,000
49	Angeles Investment Advisors	$31,680
50	Highland Associates	$27,173
51	DeMarche	$25,198
52	Multnomah Group	$24,914
53	Portfolio Advisors	$23,521
54	Innovest Portfolio Solutions	$21,802
55	Advanced Capital Group	$20,660
56	George & Bell Consulting	$20,400
57	Strategic Capital Investment	$15,886
58	Dahab Associates	$15,600
59	Institutional Investment Consulting	$14,783
60	MJM401k	$14,529
61	Highland Consulting	$14,184
62	SECOR Asset Mgmt.	$13,638
63	Atlanta Consulting Group	$12,000
64	Compass Financial	$11,771
65	Benefit Financial Services	$11,436
66	Canterbury Consulting	$10,826
67	Quan-Vest Consultants	$9,602
68	Francis Investment Counsel	$9,459
69	Asset Advisors	$8,000
70	Fourth Street Performance	$7,800
71	PlanPilot	$7,592
72	BilkeyKatz Investment	$7,291
73	Bolton Partners	$6,534
74	Sellwood Consulting	$5,536
75	Conrad Siegel	$5,492
76	Arnerich Massena	$5,393
77	Cafaro Greenleaf	$5,150
78	Cornerstone Advisors	$4,985
79	Strategic Capital Allocation	$3,900
80	Hamilton	$3,386
81	Alpha Investment Consulting	$3,326
82	Hooker & Holcombe	$3,209
83	Comperio Retirement	$3,179
84	Berla Investment Consulting	$2,533
85	HM Capital	$2,494
86	Morrison Fiduciary	$1,242
87	Guidance Point Retirement	$1,074
88	Benefit & Investment Consulting	$74
	TOTAL	$41,399,703

The largest investment consultants ranked by total worldwide advisory assets

Iin millions, as of June 30.

Rank	Consultant	Total assets	Retainer clients	Non-retainer clients
1	Mercer	$15,043,914	$12,127,032	$2,916,882
2	Aon	$3,524,407	$3,196,190	$328,217
3	Willis Towers Watson Investments	$2,600,000		
4	Callan	$2,508,232	$1,582,777	$925,455
5	Russell Investments	$2,450,000		
6	Cambridge Associates	$2,426,032	$2,426,032	
7	RVK	$2,380,063	$1,008,938	$1,371,125
8	Meketa Investment Group	$1,975,867	$1,434,457	$541,410
9	Wilshire Associates	$1,170,347	$1,170,347	
10	NEPC	$1,080,244	$1,080,244	
11	Rocaton Investment Advisors	$641,210	$641,210	
12	Segal Marco Advisors	$540,042	$540,042	
13	PPCmetrics	$536,000	$440,000	$96,000
14	Nomura Securities	$518,039	$293,206	$224,833
15	Verus	$425,371	$425,371	
16	Hamilton Lane	$408,957	$408,957	
17	CAPTRUST Financial	$340,848	$340,848	
18	Morgan Stanley/ Graystone	$321,668	$321,668	
19	Cardinal Investment Advisors	$239,530	$239,530	
20	Marquette Associates	$225,088	$225,088	

The largest investment consultants ranked by U.S institutional, tax-exempt assets

In millions, as of June 30.

Rank	Consultant	Total assets	DB plans	DC plans
1	Mercer	$4,245,561	$1,061,720	$1,079,041
2	Aon	$2,946,847		
3	Callan	$2,507,047	$1,807,155	$324,345
4	RVK	$2,196,544	$1,420,494	$714,003
5	Meketa Investment Group	$1,975,867		
6	NEPC	$1,067,797	$695,337	$178,141
7	Wilshire Associates	$982,847	$883,529	$38,228
8	Cambridge Associates	$952,575		
9	Russell Investments	$728,800		
10	Rocaton Investment Advisors	$583,059	$147,266	$228,279
11	Willis Towers Watson Investments	$536,262	$290,260	$246,001
12	Verus	$425,371	$344,520	$8,688
13	Segal Marco Advisors	$330,304	$211,203	$101,533
14	Marquette Associates	$217,927	$122,219	$39,356
15	Hamilton Lane	$202,021	$199,151	
16	Morgan Stanley/ Graystone	$200,470	$59,310	$102,202
17	NFP Retirement	$163,882	$8,164	$155,718
18	StepStone Group	$154,949	$138,044	$16,904
19	CAPTRUST Financial	$148,032	$3,694	$144,176
20	UBS Institutional Consulting	$142,610		

The largest investment consultants ranked by managed assets

In funds of funds or other discretionary products, in millions, as of June 30.

Rank	Consultant	Total assets
1	Russell Investments	$297,800
2	Mercer	$282,940
3	Hamilton Lane	$64,304
4	Morgan Stanley/Graystone	$61,971
5	StepStone Group	$54,969
6	Aon	$40,629
7	River & Mercantile Solutions	$33,400
8	SECOR Asset Mgmt.	$27,200
9	Willis Towers Watson Invest.	$19,082
10	Portfolio Advisors	$14,034
11	NFP Retirement	$10,000
12	Highland Associates	$6,410
13	Segal Marco Advisors	$5,923
14	Cornerstone Advisors	$3,152
15	Angeles Investment Adv.	$2,695
16	UBS Institutional Consulting	$2,100
17	Callan	$1,961
18	Newport Group	$1,875
19	CAPTRUST Financial	$1,505
20	Fiduciary Invest. Advisors	$1,500

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Aon

Aon Hewitt Investment Consulting, Inc. 200 E. Randolph Street, Suite 700, Chicago, IL 60601

Investment consultants offering outsourced CIO services

As of June 30.

- Angeles Investment Advisors
- Aon
- Arnerich Massena
- Asset Advisors
- Atlanta Consulting Group
- BofA Merrill Lynch
- Alan Biller
- Cafaro Greenleaf
- Callan
- Cambridge Associates
- Canterbury Consulting
- CAPTRUST Financial
- CBIZ Retirement/Investment/Gavion
- Cliffwater
- Colonial Consulting
- Compass Financial
- Conrad Siegel
- Cornerstone Advisors
- DeMarche
- DiMeo Schneider
- Ellwood Associates
- Fiduciary Investment Advisors
- Fund Evaluation Group
- Gallagher Fiduciary
- Highland Associates
- Highland Consulting
- Hyas Group
- Investment Performance
- LCG Associates
- Marquette Associates
- Meketa Investment Group
- Mercer
- Milliman
- Morgan Stanley/Graystone
- Morrison Fiduciary
- Multnomah Group
- NEPC
- Newport Group
- NFP Retirement
- PlanPilot
- Prime Buchholz
- River & Mercantile Solutions
- Rocaton Investment Advisors
- Russell Investments
- SECOR Asset Mgmt.
- Segal Marco Advisors
- Sellwood Consulting
- Strategic Capital Investment
- UBS Institutional Consulting
- Verus
- Willis Towers Watson Investments
- Wilshire Associates

Independent investment consultants

Consultants not providing services to/collecting fees from money management firms, as of June 30.

- Advanced Capital Group
- Alpha Investment Consulting
- AndCo Consulting
- Angeles Investment Advisors
- Aon
- Arnerich Massena
- Asset Advisors
- Atlanta Consulting Group
- BofA Merrill Lynch
- Bellwether Consulting
- Benefit & Invest. Consulting
- Benefit Financial Services
- Berla Investment Consulting
- BilkeyKatz Investment
- Alan Biller
- Bolton Partners
- Cafaro Greenleaf
- Cambridge Associates
- Cammack Retirement
- Canterbury Consulting
- CAPTRUST Financial
- Cardinal Investment Advisors
- CBIZ Retirement/Investment/Gavion
- Colonial Consulting
- Compass Financial
- Comperio Retirement
- Concord Advisory Group
- Conrad Siegel
- Cook Street Consulting
- Cornerstone Advisors
- Dahab Associates
- DiMeo Schneider
- Ellwood Associates
- Fiduciary Investment Advisors
- Fourth Street Performance
- Francis Investment Counsel
- Fund Evaluation Group
- Gallagher Fiduciary
- George & Bell Consulting
- Guidance Point Retirement
- Hamilton
- Hamilton Lane
- Highland Associates
- Highland Consulting
- HM Capital
- Hooker & Holcombe
- Hyas Group
- Innovest Portfolio Solutions
- Institutional Investment Consulants
- LCG Associates
- Marquette Associates
- Meketa Investment Group
- Milliman
- MJM401k
- Morgan Stanley/Graystone
- Morrison Fiduciary
- Multnomah Group
- Newport Group
- NFP Retirement
- Nomura Securities
- PlanPilot
- Portfolio Advisors
- Portfolio Evaluations
- PPCmetrics
- Prime Buchholz
- Quan-Vest Consultants
- River & Mercantile Solutions
- Rocaton Investment Advisors
- Russell Investments
- RVK
- SageView Advisory
- SECOR Asset Mgmt.
- Segal Marco Advisors
- Sellwood Consulting
- StepStone Group
- Strategic Capital Investment
- TorreyCove Capital
- Verus

Consultants providing services to/collecting fees from money managers

As of June 30.

- Callan
- DeMarche
- Investment Performance
- Mercer
- NEPC
- Strategic Capital Allocation
- UBS Institutional Consulting
- Wilshire Associates

Impact

CONTINUED FROM PAGE 19

ness is to do a good job in your (non-discretionary) consulting," Mr. Nuzum said.

Mercer's managed assets in discretionary products as of June 30 were $282.9 billion, up nearly 17% from a year earlier. The firm ranked second in assets in this universe, following Russell Investments, which had $297.8 billion in managed assets in the No. 1 spot, up 2.7% from last year.

ESG and manager culture

Moving forward, consultants can expect to focus more of their manager research efforts on environmental, social and governance issues, which often includes assessing implementation of ESG in the investment decision-making process as well as vetting firm's corporate culture and diversity and inclusion practices, multiple sources said.

"In general, and this is particularly for their endowment and foundation-type clients, (institutions) are interested in ESG support other than just a negative screen on the underlying investment," said Laura Levesque, senior analyst for the institutional practice at Cerulli Associates, Boston.

Not only that, consultants are being asked to research "how many women and minorities are on the senior management team" at money managers.

"They are looking at the culture of the entire firm" and how managers are integrating ESG throughout the organization and not just on investment teams, she added.

Steve Carlson, head of investment, Americas, at Willis Towers Watson PLC in Chicago, said that over the past couple of years the firm has done much more talking with money management firms to see how they are thinking about a range of factors that can impact culture, such as workforce diversity, pay structure and hiring practices.

Over the year ended June 30, Willis Towers Watson's worldwide institutional AUA grew by 18.2% to $2.6 trillion, propelling the firm to the No. 3 spot in the ranking of the largest consultants, up from No. 7 last year. Willis Towers Watson reported $536.3 billion in U.S. institutional tax-exempt advisory assets as of June 30, down 15% from the year prior.

More due diligence

The tough competitive landscape for managers today also means that consultants' clients are often invested in products that might be subject to consolidation, which creates additional due diligence for consultants and can also impact a manager's culture, said Gregory Allen, CEO and chief research officer at Callan LLC, San Francisco.

Callan was the fourth-largest investment consultant ranked by worldwide institutional AUA, moving up one spot from No. 5 last year. The firm had $2.51 trillion in worldwide institutional AUA as of June 30, up 7.6% from the year earlier.

"We do have to be cognizant more so than in the past of the risk of a firm closing a product because it doesn't make economic sense for them (to keep it open)," Mr. Allen said.

Money managers are focusing company resources on products with a competitive advantage, and have "limited time and money to spend on promoting products," he said. This can all carry its own impact on organizational culture, he added.

"It's much easier for everyone to be happy when there's more than enough to go around. The really talented people are going to be attracted to growing organizations," Mr. Allen said, adding that a firm that is getting smaller every year "can create (staff) turnover, and clients don't want that."

Consolidation among money managers, which is ramping up in the industry, can also have this same effect. When mergers and acquisitions occur, money managers will often "merge" similar products together, resulting in closures, requiring consultants "to go in and look at each one of those situations individually," Mr. Allen said.

PricewaterhouseCoopers LLP recently predicted that 2019 will be a year of record merger and acquisition activity for asset and wealth management firms, according to an October report. So far, total deal value for the first nine months of 2019 was $13.7 billion, nearly three times the total during the same period in 2018, the report said.

"Generally speaking, clients feel more comfortable when there's not change. … All of that creates the potential for negative outcomes. Every time there's one of these mergers, our manager research people are (looking), so that's actually creating new work," Mr. Allen said. ■

Pace of M&A deals not seen to slow down anytime soon

OPPORTUNISTIC: Callan's Gregory Allen said his firm is 'always open' to acquiring smaller consulting firms.

After a busy year for mergers and acquisitions in the industry, investment consultants still see a potential for new deals moving forward.

Stephen Cummings, CEO of Aon Hewitt Investment Consulting Inc. and global investment officer, head of North America investments at Aon PLC, Chicago, expects that the recent pace of consolidation in the investment consultant industry "will likely continue."

On its part, Aon is "always keeping (its) eyes open for things that may be interesting for our clients," Mr. Cummings said of potential acquisitions — though its sights aren't set on acquiring any particular set of capabilities.

"As the second-largest (investment consulting) firm out there, we have a lot of capabilities, but we're certainly always aware of what's going on," he said.

Aon's most recent deal closed in January 2018, when it completed its acquisition of real estate investment management and consulting firm the Townsend Group for $475 million. The deal to acquire Townsend, which was majority owned by Colony NorthStar Inc., helped Aon significantly expand its investment capabilities, such as outsourced CIO and advisory services for large and midsize global organizations, Aon said in an announcement at the time.

Townsend advised on $175.7 billion in global assets and managed $14.5 billion in assets when the deal was announced in September 2017.

More recently, Aon considered combining its business with Willis Towers Watson but quickly announced in March that it was no longer pursuing the deal, which could have been the industry's largest merger.

As for the other big tie-ups, another large investment consultant, Meketa Investment Group Inc., Westwood, Mass., inked a deal this spring to acquire Pension Consulting Alliance LLC, Portland, Ore., which boosted the firm's collective client AUA to approximately $1.8 trillion, up from up around $1.1 trillion prior to the combination.

As of June 30, Meketa was ranked No. 8 by worldwide institutional AUA with $1.98 trillion, up 76.6% from the previous year, Pensions & Investments' survey showed.

Meanwhile, Callan LLC, San Francisco, has separately said it is open to considering the acquisition of smaller players in the consulting space, said Gregory Allen, CEO and chief research officer.

While Callan has the scale where it wouldn't need to merge with a larger firm, "there are smaller firms where it might make sense to merge (with) us, so we are looking at that," he said.

"We are always open. People do approach us, and we do entertain those conversations. But (as far as) us being absorbed into a larger organization, I don't think the economics would make much sense for them or us," he added.

While Mr. Allen said the firm does not have a strategic initiative in place now to search for particular capabilities, Callan is "going to be opportunistic when an opportunity comes along."

— DANIELLE WALKER