

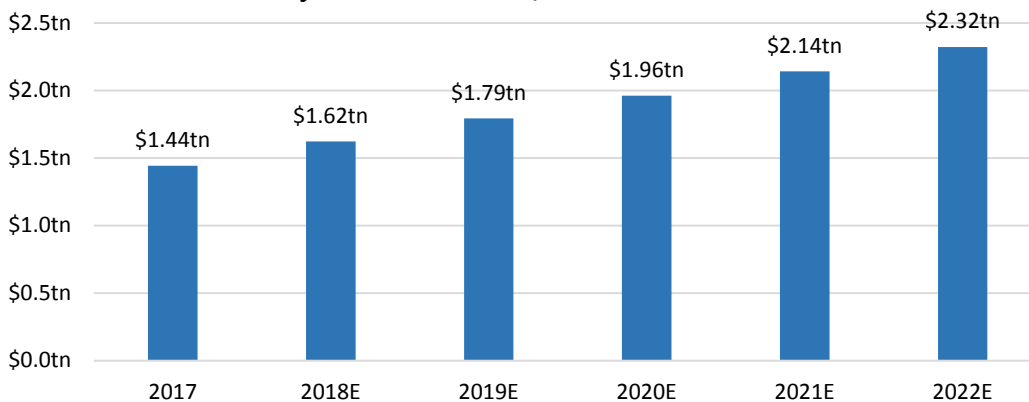


ACG Insights: Implemented Consulting

What is Implemented Consulting?

Implemented Consulting, the outsourcing of investment discretion, is also known as Outsourced Chief Investment Officer (“OCIO”) or Discretionary Investment Management. Simply put, Implemented Consulting is a relationship between a client and an investment consultant whereby the consultant has investment discretion for certain aspects of the client’s portfolio. According to Pensions & Investments and Cerulli Associates, more than \$1.6 trillion in institutional assets are currently managed through an Implemented Consulting model as of Q1 2018. This is expected to grow to \$2.3 trillion by 2022.

Projected OCIO AUM, 2017-2022E



*Sources: Pensions & Investments, Cerulli Associates
 This data includes global assets managed by investment outsourcing providers, with both full and partial discretion.
 Projected assets are based on 2016 assets, growth rates predictions from Cerulli’s proprietary survey and Cerulli analyst input. Growth rates from the survey project assets for 2018, 2020, and 2022; the remaining years (2019 and 2021) are calculated based off interpolating the aforementioned years.*

In an Implemented Consulting relationship, the consultant works with the client to develop an Investment Policy Statement (“IPS”) which sets investment objectives, risk parameters, and asset allocation ranges. The client then cedes day-to-day management of the portfolio to the consultant. The consultant makes all decisions related to the investment process – hiring and firing investment managers, portfolio rebalancing, and making changes to the asset allocation within the investment policy guidelines – and implements those decisions. The IPS governs

the decision-making process and defines how the consultant will be judged for their management of the portfolio. This keeps the consultant within guardrails set by the client.

The following table shows the main areas of the consulting process and the differences in responsibility between Traditional Consulting and Implemented Consulting. The key difference between the two is in the implementation phase of the process.

| | Traditional Consulting | Implemented Consulting |
|------------------------------------|---|---|
| Investment Policy Statement | Client with Investment Consultant input | Client with Investment Consultant input |
| Implementation | Client with Investment Consultant input | Investment Consultant |
| Oversight | Client with Investment Consultant input | Client with Investment Consultant input |
| Reporting | Investment Consultant | Investment Consultant |

Additionally, fees charged for Implemented Consulting vary significantly based on size and complexity of portfolios. According to Cerulli Associates, for portfolios of less than \$100 million, the most common range of fees charged by investment consultants is 21 to 30 basis points but can be as high as 90 basis points. For portfolios of \$101 million to \$500 million, fees typically range from 11 to 30 basis points. However, the higher fees associated with Implemented Consulting, compared to Traditional Consulting, may result in additional benefits discussed in the next section.

Why do investors choose Implemented Consulting?

The governing bodies of many colleges, universities, not-for-profit organizations, religious institutions, and retirement plans face ever-increasing responsibilities and complexity in managing toward the goals of their institutions. Additionally, the board members for these organizations may not have the expertise needed to make investment decisions as they likely come from a broad range of backgrounds. As such, boards have looked to yield some of the required investment decisions and have opted to partner with investment consultants through an Implemented Consulting relationship.

In a Traditional Consulting relationship, consultants bring recommendations to boards who then have to vote on the approval of these recommendations. With Implemented Consulting, the board allows the consultant to make these decisions. The time saved in board meetings from not voting on all investment decisions can be used by the board to discuss other important topics, such as how to best use funds to further the mission of the organization.

The operational burden of implementation can also be lifted from the internal staff of the organization. With Traditional Consulting, once the board makes investment decisions, the staff must implement those decisions

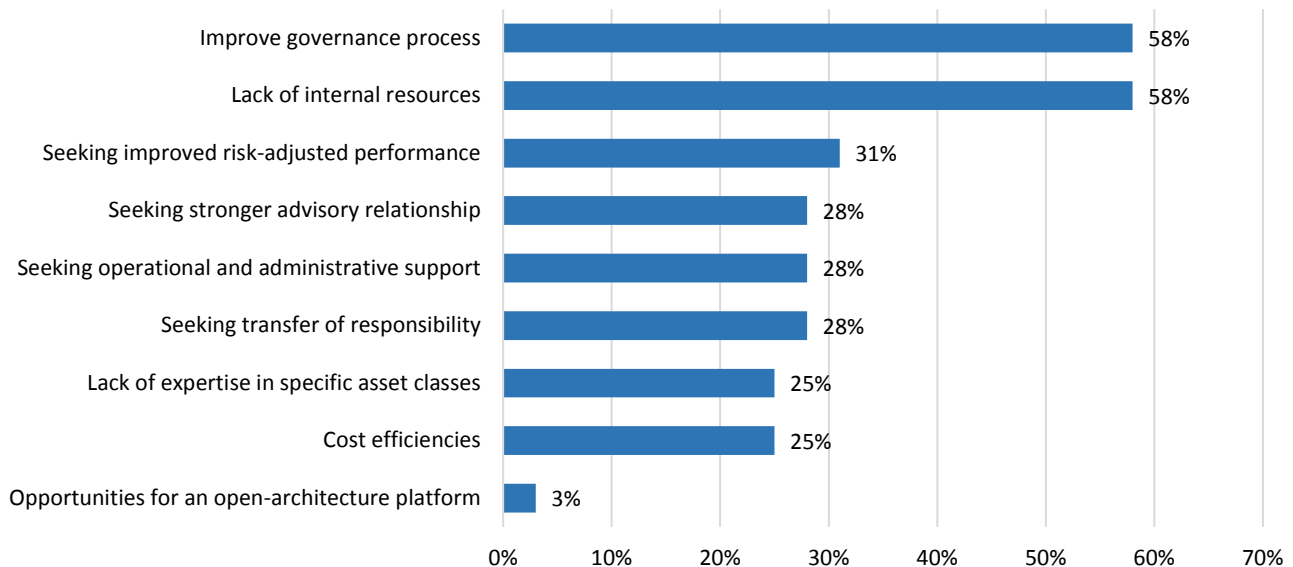
by filling out the appropriate paperwork and coordinating with custodians and investment managers. If your organization is resource-constrained with respect to staffing, the consultant taking on this responsibility is particularly helpful.

Further, with Implemented Consulting, investment decisions can be made and implemented on a real-time basis. In Traditional Consulting, the consultant typically brings recommendations to the board four times a year at quarterly board meetings. Following a vote by the board, the staff of the organization must implement the change. This process may result in several months of lag time between when the consultant decided on the recommendation and when that recommendation “goes live” in the portfolio. There is minimal lag time in an Implemented Consulting relationship. The consultant has the ability to make portfolio changes as they deem appropriate on a real-time basis.

Participants in a 2017 Cerulli Associates survey noted that a lack of internal resource (58%) and the need to improve governance (58%) were the top reasons for pursuing an outsourced investment solution. Other reasons (participants were asked to choose their top three reasons) included seeking improved risk-adjusted performance (31%), seeking transfer of responsibility (28%), seeking operational and administrative support (28%), and seeking stronger advisory relationship (i.e. garnering more out of existing relationship) (28%).

With respect to the response of “seeking transfer of responsibility,” it is important to note that some investment consultants may be willing to take on co-fiduciary duties with the client, however utilizing Implemented Consulting does not relieve the client’s governing body of their fiduciary duties. For example, under ERISA, fiduciaries may delegate responsibilities by hiring a consultant to have discretion over investment duties (a 3(38) adviser). However, the general fiduciary responsibility of hiring the 3(38) adviser and monitoring performance periodically is not alleviated.

Top Reasons for Pursuing an OCIO Relationship



Source: Cerulli Associates
 Participants were asked to select the top three reasons why institutions choose to outsource.

What differentiates Atlanta Consulting Group?

Implemented Consulting is not one-size-fits-all and there are varying levels of discretion, customization, and services offered to clients by different investment consultants. Below we dive into a few factors that differentiate Atlanta Consulting Group from other consultants.

Customization. Atlanta Consulting Group fully customizes each individual portfolio to directly reflect the objectives and constraints of each client, no matter if the client is utilizing Traditional or Implemented Consulting. We do not have model portfolios that we force fit clients into based on a limited number of parameters. Our size allows us to be flexible compared to our larger competitors whose need for scalability limits customization.

Discretion. Atlanta Consulting Group's focus on customization also allows for varying levels of investment discretion. For example, a client may want to retain discretion on all alternative investments in their portfolio while allowing Atlanta Consulting Group to make decisions on all traditional investments.

Open Architecture. Atlanta Consulting Group is not affiliated with any investment managers. As a result, we have a fully open architecture platform whereby we can choose what we believe to be the best investment managers for each portfolio. Investment consultants who have affiliations with investment managers may be bound to utilizing their firm's strategies, limiting their investment opportunities.

Client Service. Atlanta Consulting Group prides itself on client service. Clients yielding investment discretion does not result in decreased levels of communication. We communicate all portfolio changes to clients in a timely manner. And, as with all clients, we meet in person on a quarterly basis, collaborate in the development of the Investment Policy Statement, provide customized educational sessions, report on investment performance, and negotiate with investment managers and custodians on each client's behalf. Additionally, some examples of specialized services Atlanta Consulting Group provides based on client type are as follows:

- Endowments and Foundations: Spending policy analyses, ESG/Socially Responsible Investing
- Hospitals/Healthcare: Days cash on hand analyses, Stress testing and scenario analyses
- Retirement Plans: Liability Driven Investing (LDI), Asset/Liability studies, Defined contribution plan investment line-up

Access to Professionals. Atlanta Consulting Group is focused on a team-based approach. Clients of Atlanta Consulting Group benefit from the full depth of experience of all ACG employees. There is no separate team managing Implemented Consulting portfolios.

Length of Experience. Atlanta Consulting Group was founded in 1985 and has been managing institutional portfolios for over 30 years.

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