INSTITUTIONAL GROUP

Optimizing your in-house investment team.

Evaluate the risks, tradeoffs, and opportunities to determine the right investment team structure for your organization.

With the right scale and resources, a dedicated investment team can curate and manage a portfolio consistent with your organization’s mission and investment policy statement.

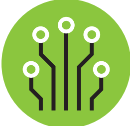
But building an in-house investment team requires significant, high-priced talent to effectively execute an investment program, especially considering today’s sophisticated realm of alternative investments.

Reaching an optimal solution depends on an organization’s size, asset pool, and scope of mandates. Talent management is hard, and many investment organizations wrestle with this issue. Without adequate scale and resources, an organization with an in-house team could likely encounter tricky issues or assume unwanted risks.

What makes a good investment team?

A good investment team starts with a Chief Investment Officer (CIO), a role that we believe commands total compensation starting at about $500,000 a year, with the best earning several million dollars.

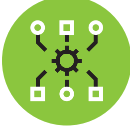
Other roles typically include:



Deputy CIO

Risk and Asset Allocation Director

Investment Directors for public equity, fixed income, and alternatives



On bigger teams, more specialists and analysts are needed to support each Investment Director

Operations support requires a back office led by a Director of Operations as well as analysts. And no team is likely effective without a custodian, data, and analytics software.

Organizations with in-house investment teams can run into various hurdles. Resource constraints limit team size and the amount of technology a single organization can dedicate to its investment function. Unless asset pools grow and an organization gains the necessary scale to expand the team and implement more sophisticated software, several talent challenges will likely persist. This paper examines three of those hurdles in detail: **budget constraints, geographic challenges, and a lack of technology talent.**

1. Budget constraints

Limited spending often means limited talent

For many organizations, optimizing talent comes down to how much the board is willing to budget and what core capabilities should be managed in house.

FoundationMark®, which specializes in providing financial analytics to private foundations, recently scoured the 990s for the 60 largest foundations in the U.S. and compiled expenditures on investment staff, legal, and accounting services, rent, travel, and media. The median spend is $1.8 million on the team and $2 million overall.[1] We summarize the data in the table below.

	Investment staff costs ($M)	Legal and accounting ($M)	Rent, travel, media ($M)	Total office costs ($M)	Total office costs (%)	Average AUM ($B)
Median	1.8	0.2	0.2	2.0	0.10%	2.7

Using other data from McLagan, Glassdoor, and Salary.com, we analyzed compensation for specific investment office roles. Our review suggests the median spend could build a team consisting of a CIO, a Director of Investments, two Investment Analysts, and two people in operations. That amounts to 0.20% on a $1 billion portfolio, or the typical charge for an outsourced CIO (OCIO). The team is missing specialists in private equity, private credit, real estate, infrastructure, and hedge funds, plus a dedicated team to conduct operational due diligence. We assume the team also lacks access to critical software and data.

A budget-constrained organization could look to outsource some or all of its investment needs to a sophisticated OCIO with greater scale and access to handle niche asset classes beyond traditional stocks and bonds.

[1] Charles Skorina, “Investment Office Costs,” Charles Skorina & Company, May 3, 2024.

Role	Count	Median salary + bonus + benefits ($M)[2]	Total for team salary + bonus + benefits ($M)
CIO	1	0.7	0.7
Director of Investments	1	0.3	0.3
Investment Analyst	2	0.2	0.3
Director of Investment Operations	1	0.3	0.3
Investment Operations Analyst	1	0.1	0.1
Total			1.8
Assumed OCIO rate			0.20%
AUM breakeven			896

Beware the revolving door

With a limited budget, an organization may find it hard to retain promising young analysts once they are finally trained and productive. If the board insists on managing investments in-house, then the organization must prepare for turnover. After a year or two of learning the trade, talented analysts could be poached by a fund of funds, join a private bank, or jump to a bigger institution. Organizations could find themselves in a cycle of endless training, turnover, and recruiting.

Routine occurrences in the workplace, such as an employee calling in sick or taking vacation, can shed light on an investment team's dependence on that individual. These seemingly minor disruptions can highlight a lack of redundancy in critical responsibilities and hint at potential challenges in continuity. If that employee departs, who would perform key administrative tasks like trade reconciliation or handling a cash flow notice in which a clerical error could cost the organization money?

Top managers bring expertise and insight

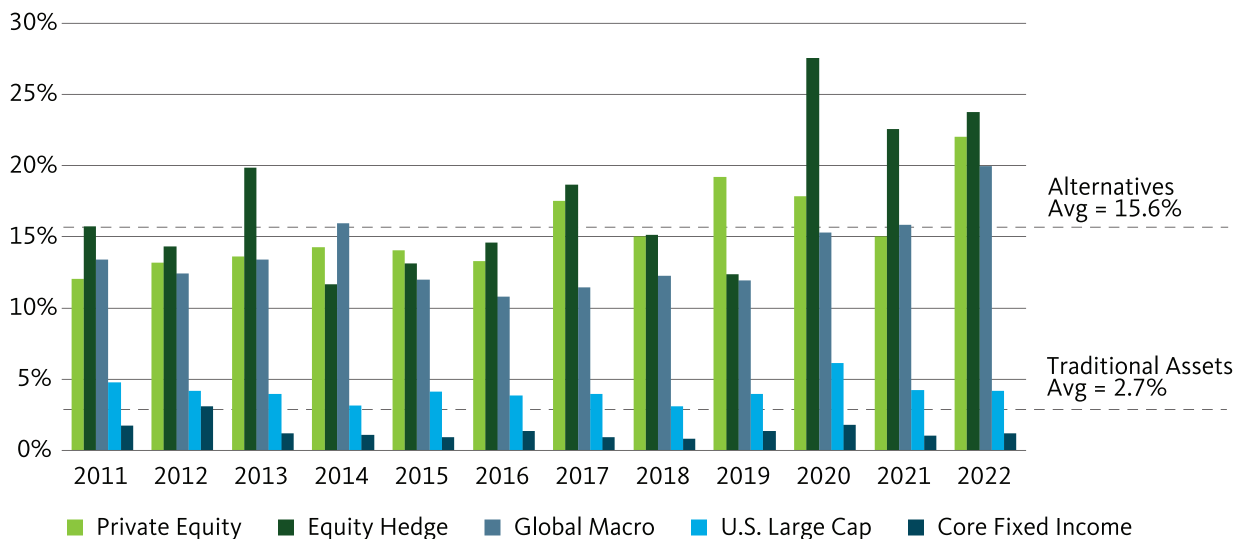
To invest in alternatives, an organization needs an investment team with the breadth, network, skill, and expertise to access top managers. At 15.6%, the performance differential between the top and bottom quartile alternative managers is nearly six times greater than the differential for traditional managers.

To find and access the best managers, an investment team needs experts across the various types of alternative investments. For example, collateralized loan obligations (CLOs) are a unique asset class that require specialized expertise. Investors tell us all the time that they get their structured credit exposure through their core fixed-income manager. But we know how critical it is to have a dedicated focus on structured credit to invest in not just the right CLO manager or the right CLO, but also the most attractive tranche of a CLO.

[2] SEI analysis (McLagan Data), Salary.com, and Glassdoor.com.

Manager selection is paramount with alternative exposures

Difference between top quartile and bottom quartile manager performance



Returns are net of fees. Source: Lipper for U.S. Large Cap and Core Fixed Income as of 9/30/23, HFRI for Equity Hedge and Global Macro as of 12/31/22, and Cambridge All Private Equity for Private Equity as of 03/31/2023. Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index. Please see index definitions for important information.

According to Preqin data, there are nearly 2,000 alternative fund managers in North America with greater than $100 million in assets.[3] It takes weeks to do a deep dive in researching a manager, so a small investment team can only truly vet a minor portion of the overall universe. With such a large differential between the top and bottom quartiles, an organization lacking the scale and means to access and perform due diligence on a meaningful selection of managers is potentially leaving millions of dollars of returns on the table. The large performance differential typically applies to most varieties of alternatives, including private equity, private debt, and hedge funds.

Many smaller teams get their private equity exposure through the bigger private equity managers. However, portfolios that are overly dependent on the largest managers may miss out on alpha-generating managers in the less efficient, lower middle market.[4] These portfolios can be exposed to managers who are aces at fundraising but too big to produce alpha/excess return. Vetting the lower middle market, on the other hand, requires significant manual work and relationship building. Scarcity is a key factor. The “art” of vetting private equity general partners, as private equity reverts to the mean, will become more dear and nuanced, requiring true investment talent and deep expertise to execute.

[3] Source: Preqin data, April 2024.

[4] Alpha is a statistical measurement that compares an investment's performance to a market benchmark.

Investment teams can’t skimp on scale

Building a fulsome investment team requires significant scale. For asset pools in the $500 million to $2.5 billion range, it would likely be cost prohibitive to hire experts across various types of alternatives or employ a team of analysts to vet a sufficient number of managers. Some organizations work with large general consultants, but this setup typically leads to the same issue in terms of hiring the biggest managers.

Consultants put large managers capable of serving many clients on their approved lists, but they can also miss out on the less efficient lower middle market. An optimally sized advisor can provide both scale and access to up-and-coming smaller managers. This approach fosters a more nuanced investment strategy, harnessing the potential of both established giants and promising newcomers within the market landscape.

When a team is relatively small, there's often a propensity to streamline certain aspects of the due diligence process because of bandwidth limitations. This can manifest in several ways, such as the inability to conduct comprehensive operational due diligence or the challenge of conducting annual reviews with every manager within the investment lineup.

Operational due diligence is a crucial aspect of assessing investment opportunities, focusing on the operational aspects of a fund or manager to ensure they align with investors’ risk tolerance and compliance standards. However, with a small team, dedicating the necessary time and resources to thoroughly perform this diligence for each potential investment can be challenging.

Similarly, conducting annual reviews with every manager becomes a logistical hurdle for smaller teams, especially when considering the time and effort required to maintain ongoing relationships and monitor performance effectively.

In discussions with investors, we’ve encountered scenarios in which organizations grapple with these challenges. Some opt to fully outsource operational due diligence to third-party organizations, albeit not always acting in a fiduciary capacity. This approach may alleviate some of the burden on internal teams, but it introduces considerations regarding the independence and comprehensiveness of the diligence process as well as potential conflicts of interest. Balancing efficiency with thoroughness becomes paramount for smaller teams navigating these complexities in the investment landscape.

2. Geographic challenges

Cities tend to attract top talent

We believe securing essential investment talent can pose a significant challenge for organizations located outside of major metropolitan hubs. Typically, the bulk of Chartered Financial Analyst (CFA) Charterholders and Chartered Alternative Investment Analyst (CAIA)-certified individuals gravitate toward financial epicenters, potentially leaving rural areas with a scarcity of such specialized expertise. This dearth of investment skills can impede investors' ability to capitalize on critical opportunities.

Moreover, in our opinion, investors residing in outlying locations often find themselves overlooked during managers' marketing endeavors, as these professionals may prioritize more accessible destinations over hard-to-reach areas. Similarly, attending important investment conferences can prove excessively time-consuming and logistically challenging for those based in rural regions.

To overcome these obstacles, some rural-based organizations opt to run their investment functions remotely from urban centers where talent pools are more abundant. However, other leaders may hesitate because of the higher compensation demands associated with urban environments. This dilemma underscores the complexities that organizations outside metro areas face in navigating talent acquisition against cost considerations.

3. Technology talent is scarce

Are skill-level gaps hurting your team?

Remaining competitive requires harnessing technology to enhance efficiency and access advanced analytics. However, the process of selecting and implementing technology is a significant undertaking that often demands full-time attention. While larger investment teams can often dedicate specific roles to technology integration, smaller teams might have to assign this responsibility to existing members who could lack expertise in project management or technology.

The rapid pace of technological evolution demands substantial resources and ongoing support. Static tools are inadequate. Organizations require adaptable systems that can evolve with their needs. However, budgetary constraints frequently pose challenges in achieving this level of flexibility. Consequently, organizations might rely on outdated methods, foregoing efficiency and productivity enhancements. Additionally, investment teams may find themselves investing excessive time in navigating and monitoring metrics within new systems.

Meanwhile, operations teams are left to rely on manual processes because technology implementations progress slowly. As a result, investment teams find themselves either struggling with inefficient processes or allocating valuable talent toward managing the time-consuming technology implementation process.

HOW DOES YOUR TEAM MATCH UP?

Investing successfully requires specialized skills, knowledge, and experience.

For individuals who pursue this line of work, we believe obtaining designations like Chartered Financial Analyst (CFA) and Chartered Alternative Investment Analyst (CAIA) requires rigorous, multi-year study programs and testing, relevant work experience, and references. These designations signal credibility and high levels of investment competency—something every investment team should strive for in their managers.

Successful teams also typically feature a back office with experts in investment operations, accounting, and law, including individuals with Certified Public Accountant (CPA) designations and Juris Doctor (JD) degrees.

But credentials alone are not enough. Manager research and evaluation is a specialized skill that comes with experience. Seasoned veterans can pick up on things less experienced analysts might miss.

The question becomes: How does your organization's investment team match up?

Choose your ideal investment model.

After three decades serving institutions of all sizes, we have seen organizations adopt four types of investment models: in-house, consultant, hybrid, and outsourced chief investment officer (OCIO).

Breaking down the models

	In-house investment team	Consultant model	Hybrid model	OCIO
What is it?	Organization builds an investment team and maintains full fiduciary responsibility over its assets	Board/Investment Committee maintains full fiduciary responsibility and utilizes a consultant to provide research and guidance	Board/Investment Committee maintains fiduciary responsibility but delegates most of the work and entrusts much decision-making to consultant. Board has final sign-off on new ideas, but is less involved in reviewing research as a traditional consulting model. Often used when certain committee members are unwilling to relinquish control.	The organization fully outsources fiduciary responsibility to an investment advisor
Advantages	• Investment team is 100% aligned with the organization • If talent and money are available, can build a team of dedicated specialists for specific needs (if 50% illiquids, then PE experts—cheap beta for other 50%) • Speed and agility • Daily oversight	• Better access; broader research capabilities than an internal team • Co-fiduciary status • Deep bench of investment talent • Young up-and-coming talent	• Board/IC remains involved in more strategic or material decisions • Offloads tactical decisions presented by a consultant • Committee opines/decides on interesting private ideas	• Client only focuses on strategic issues • Daily oversight • Faster implementation of manager changes • Economies of scale • Advisor acts as a fiduciary • Visible track record • Access • Broad and deep bench of investment talent to cover all asset classes
Disadvantages	• It can be expensive • Talent can be elusive • Geography can pose challenges • Systems • Access • Operations • Scale/Fee leverage • Career path • No third-party verification over internal team	• Fiduciary responsibility not fully transitioned • Board or IC still involved in tactical issues; less time spent on strategic decisions • Track record is not easily measured because client is ultimately making the decision • Buy high/Sell low mentality; generally recommend divesting from a manager who has underperformed for cyclical reasons • Rearview mirror approach	• Not really transferring accountability to the provider • Maintain fiduciary responsibility and final decision-making with point-in-time data • Committee does not necessarily have full picture • Decision timing may be delayed depending on committee availability • Delineation of responsibilities can be blurry	• Hard to accept giving up control • Must rely on third party for tactical decisions • Stand-alone fees are higher than traditional consulting • Not all OCIOs are created equal

At SEI, we work with hundreds of institutions with varying missions, different sizes, and across the spectrum of models. Historically, OCIO has been ideal for smaller organizations who want a provider who takes full responsibility for investment decisions, often including asset allocation and manager selection. In recent years, we have seen larger organizations appreciate the benefits of outsourcing and choosing to utilize the OCIO model.

For some organizations, outsourcing, or relinquishing control, is not a fit with their structure and strategy, so they utilize a hybrid model. At SEI, we offer our own version of the hybrid model. We manage specific sleeves of the portfolio, like building out a private investment program or managing hedge fund investments. Our version of hybrid helps correct the blurred delineation of responsibilities and crucially solves for the talent gap associated with investing in specific alternative asset classes.

The model your organization chooses depends on several factors:

- Organization size and asset pool
- Complexity and purpose of assets
- Risk profile
- Budget dedicated to managing those assets
- Geographical location
- Makeup of the board
- Organization's culture
- Systems and resources

10 questions to optimize talent

Ultimately, each of these factors points to talent. Yes, talent. It takes talent to implement a proper investment program. Consider the following 10 questions when assessing your organization's ability to optimize talent:

1. Do you have sufficient scale to warrant an in-house investment team?
2. Can you afford the breadth of expertise to invest across the full spectrum of investment opportunities?
3. As your portfolio has increased its allocation to private investments, does your operations team have sufficient capacity to handle ballooning investment processing?
4. Are you taking shortcuts in operational due diligence?
5. Is your investment team able to meet each manager at least annually?
6. Does your organization have a desirable locale?
7. Do you have the budget to retain talent?
8. Do you have redundancy to manage through vacations or extended leave?
9. Do you have the luxury of grooming up-and-coming talent to support succession planning?
10. Is your high-priced investment talent spending too much time on data management or other clerical tasks?

We can show you the way

Set up time with our team of experts to evaluate your investment function and discuss the pros and cons of the various approaches. To learn more about our investment technology services and outsourced solutions, **visit our website**.

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Index definitions:

US Large Cap represented by Refinitiv Lipper Large-Cap Core Funds (LCCE): Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) above Lipper's USDE large-cap floor. Large-cap core funds have more latitude in the companies in which they invest. These funds typically have average characteristics compared to the S&P 500 Index.

Core Fixed Income represented by Refinitiv Lipper Core Bond Funds (IID): Funds that invest at least 85% in domestic investment-grade debt issues (rated in the top four grades) with any remaining investment in non-benchmark sectors such as high-yield, global, and emerging debt. These funds maintain dollar-weighted average maturities of five to 10 years.

The HFRI Institutional Equity Hedge Index is a global, equal-weighted index of hedge funds with minimum assets under management of USD $500M which report to the HFR Database and are open to new investments. The Equity Hedge funds that comprise the index are a subset of the HFRI Institutional Fund Weighted Composite Index. The index is rebalanced on an annual basis.

The HFRI Institutional Macro Index is a global, equal-weighted index of hedge funds with minimum assets under management of USD $500M which report to the HFR Database and are open to new investments. The Macro funds that comprise the index are a subset of the HFRI Institutional Fund Weighted Composite Index. The index is rebalanced on an annual basis.

The Cambridge Associates LLC Global Private Equity Index contains the historical performance records of 850+ private investment fund managers and 2,805 institutional quality funds raised.

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