FUNDfire

A Financial Times Service

# Consultants, OCIOs Vie for Healthcare Mandates in Growth Push

By Alyson Velati April 9, 2018

Consultants and outsourced CIO (OCIO) providers are targeting healthcare institutions as a key area of growth. For asset managers, healthcare-related mandates can be attractive as they span endowment, foundation, insurance and pension asset pools, but the manager selection process can differ from traditional mandates, according to consultants.

Pavilion Advisory Group is one consultant targeting the space, which 52% of consultants surveyed by Cerulli Associates identified as a top area of growth over the next three years, as reported in June. The consultant's 2016 acquisition of $125 billion rival Jeffrey Slocum & Associates doubled the firm's healthcare assets under advisement, since both firms had almost identical amounts of healthcare assets, according to Keith Mote, president and a managing director at Pavilion. Now, about half of Pavilion's $247 billion in assets under advisement are healthcare-affiliated assets, he says.

"The healthcare space is perhaps the easiest client channel to see how our research team and consulting team work hand in hand in terms of manager selection," says Nolan O'Neill, director of manager research for Pavilion, via email. "Healthcare clients often have a variety of plan types with different needs, which can require a different approach to manager selection versus a one-size-fits-all approach."

The multiple pools of assets "tend to make managers with a high service model and expertise across a broad array of product and client types good partners for our healthcare clients," he says.

For the firm's healthcare clients with operating assets, especially institutions that have debt issuance, the manager research team works with managers on tiered liquidity assets from cash to short term fixed income, says O'Neill.

"Working with managers to ensure they understand the potential liquidity needs and to prioritize avoiding surprises is a typical example," he says.

And Pavilion has tailored specific approaches for healthcare institutions with operating pools.

When Pavilion bought Slocum, both firms had different ways of approaching enterprise risk for healthcare operating assets. Following the acquisition, Pavilion merged the two systems to create the “Healthcare Enterprise Risk Model” to aide healthcare systems asset allocation.

The model helps healthcare organizations take a holistic view of the portfolio through asset allocation modeling and risk metrics, says Mote. The modeling is based on defined benefit plan modeling but with a focus on metrics relevant to a healthcare provider, like cash on hand and debt service coverage, according to firm documents.

“We’ve taken this modeling and put it in a straightforward, easy to understand way, which helps clients make better investment decisions,” he says.

In addition, Pavilion also expects to see more healthcare organizations utilize its OCIO services. Although the firm only has 10 OCIO clients, the firm expects to build this client base in the future, in part driven by anticipated merger activity in the health sector.

OCIO firms have dedicated healthcare business to meet the demand of healthcare systems wanting to outsource their investment operations. **SEI** has had a dedicated healthcare division since the early 2000s and has grown its healthcare business to $15.4 billion from $10.4 billion over the last five years, according to the firm, which has around $95 billion institutional client assets. An uptick of merger and acquisition activity and uncertainty surrounding the Affordable Care Act (ACA) has driven more healthcare organizations to outsource their investment offices, says **Craig Standen**, head of SEI’s institutional healthcare division.

Since the firm is essentially operated as a manager of managers, the firm works with managers that are familiar with a delegated approach.

“The benefit for them [heathcare providers] is that it gets them out of the weeds to evaluate performance and they can focus on a higher level, which includes strategy development and execution,” says Standen.

NEPC is also experiencing a growing amount of interest from healthcare institutions wanting to outsource certain aspects of their investment processes, says KC Connors, a partner and philanthropic practice and private wealth director at NEPC. Specifically, healthcare systems with assets over $2 billion still want to have the ability to set asset allocations, but are willing to pass over delegation and execution of manager searches over OCIO providers.

*Provided by SEI Investments Management Corporation, a registered investment adviser and wholly owned subsidiary of SEI Investments Company.*