

ASSESS OUR INTERNAL CAPABILITIES

The Investment Division of this State Retirement System manages US\$50 billion in assets, primarily through allocations to a set of external managers. They had embarked on an initiative to move some of the assets from external to internal management and sought the assistance of Cutter Associates in the following areas:

- Determining the best practices for front, middle, and back-office functions related to internal management
- Ensuring that all relevant regulations and requirements are identified
- Understanding the benefits of insourcing versus outsourcing middle and back office functions

Cutter partnered with Funston Associates who complement Cutter's experience and skill with in-depth knowledge of governance, staffing, and compensation requirements for pension funds.

CUTTER SOLUTION

Cutter Associates and Funston Associates began by conducting a review of the client's existing environment across all functions – technology, processes and organizational framework. We interviewed people from the front to back-office to understand their pain points, manual processes, and bottlenecks.

The entire operating model was reviewed to see how well-suited it would be for managing assets internally. This included a review of the tools deployed across the organization as well as the governance, organizational, and compensation structures.

In addition, Cutter/Funston leveraged their benchmarking capability to measure staffing levels across an abbreviated resource allocation study with 15 peer firms. We also leveraged industry compensation benchmarks for assessing the staffing and compensation structure.

This study revealed that the division had areas of understaffing and was vulnerable to key person risk in a number of areas. Bringing assets in-house would only escalate these risks. It also highlighted the need for a more robust governance model and compensation structure to retain/attract competent staff.

Working with the CIO, Cutter/Funston developed the

CLIENT PROFILE

Client Type:

State Retirement System

Assets Under Management:

USD 50 billion

Location:

United States

Cutter Practice:



Public Funds



Operational Strategy

long-term business case, quantifying the benefits of internal management, principally in terms of savings in management fees paid to external managers

Cutter/Funston defined a roadmap outlining a phased approach to bringing investment management in-house. The roadmap laid out a sequencing of initiatives, the resource requirements and costs involved in the transition.

With a full picture of the current state environment, Cutter/Funston was quickly able to provide an optimized target operating model.

We made recommendations of vendor solution options including middle office outsourcing, two organizational structure options, a more competitive compensation structure, more rigorous governance process and legal/regulatory considerations that would be needed to support internal investment management.

Within a short timespan, the client was able to get a clear understanding of the steps needed to manage investments in-house and reduce inefficiencies and operational risks in the current environment. They also had the business case needed for legislative and board approvals.