

## Authors

**Ravi Venkataraman, CFA**  
Managing Partner

**Amanda Tepper**  
Managing Partner

Chestnut Advisory Group is a boutique, practitioner-led management consulting firm dedicated to asset managers and investment solutions providers

*In our recent conversations with over 100 solutions industry business leaders - including OCIOs, multi-asset solutions providers, consultants, sub-advisory asset managers and search consultants - we confirmed the enormous growth opportunity facing the industry and uncovered several critical challenges we believe are hindering that growth.*

**Investors of all types are increasingly seeking holistic solutions to achieve their investment goals** while effectively addressing the ever-more-complex investment landscape. This investor demand is driving rapid growth today across a wide range of investment solutions businesses (including multi-asset products, OCIO businesses, wealth platforms and other solutions products and services).

**Both solutions providers and investors are struggling with the industry's current lack of standards, norms and transparency**, creating major hurdles to the right investor easily and confidently finding the right solution provider. While other, more mature investment industry segments enjoy standards and norms creating clarity and investor trust, the investment solutions industry's current range of models and capabilities are poorly defined and even more poorly understood today.

**It is apparent to us that everyone has a different definition of investment solutions today**, from what models are available, the capabilities represented, the value it brings, to how it should be priced and who is best placed to deliver (and receive) it.

To address these issues, we are launching the Chestnut Solutions Institute™ as an independent research forum designed to help the solutions industry establish and promote strong standards and norms, and to educate all stakeholders about the capabilities and benefits of investment solutions.

*In this article we shed light on these issues by tracking the evolution of solutions from its early days to the current as it is poised for further complexity and growth.*

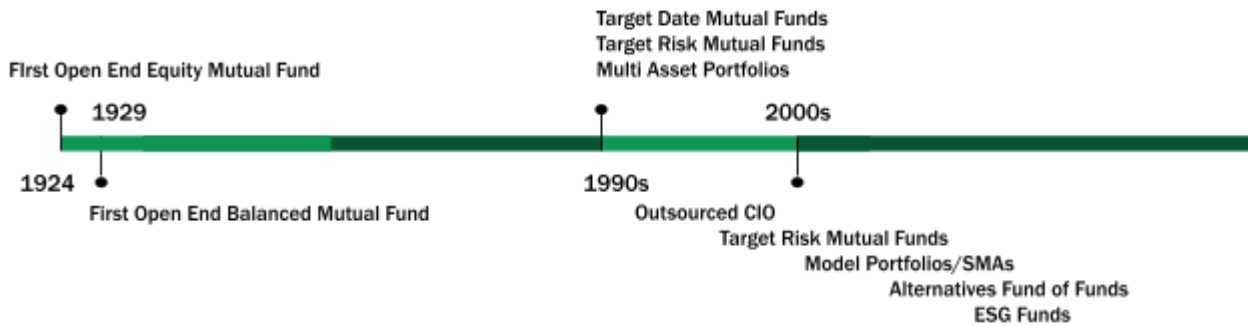
# Defining Investment Solutions

## The Solutions Industry's Story Began 100 Years Ago

While many firms claim credit for 'inventing' the OCIO business, we trace today's OCIO business back almost 100 years, to the first balanced mutual fund. As the capital markets have evolved and gotten more complex in the years since then, at every step investors have searched for holistic solutions and providers have developed products and services to meet those needs.

The earliest investment solutions available to the general public go back almost to the advent of the first open end equity mutual fund created in **1924, the Massachusetts Investors Trust**. Soon after, the first balanced mutual fund called the **Vanguard Wellington fund was created in 1929** and could be considered the first "solution" that was readily available to any member of the public. We believe it to be the first solution because it consisted of both stocks (mostly dividend paying) and bonds, thereby addressing a balance of growth and income objectives, in addition to sector and security level diversification.

### Evolution of the Investment Solutions Industry



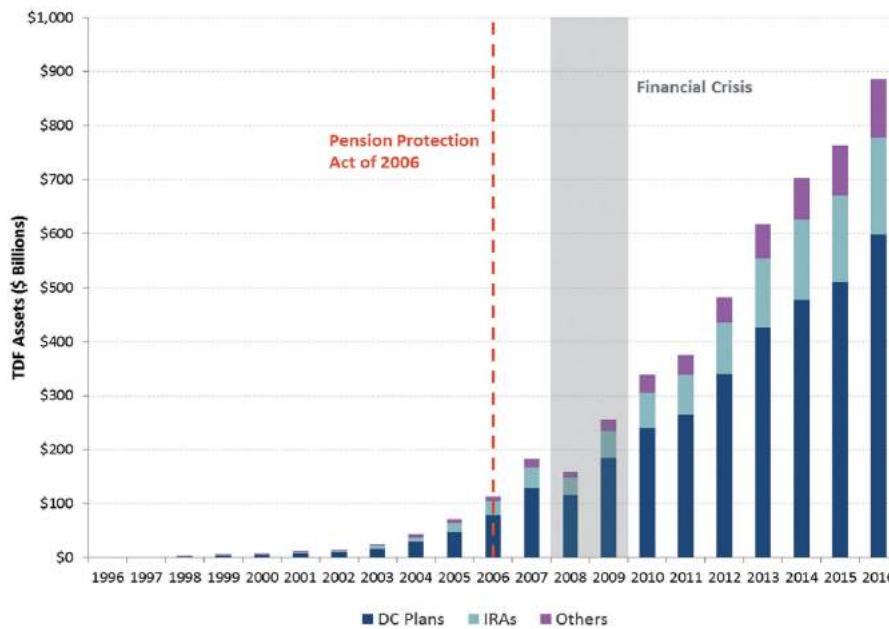
Source: Chestnut Advisory Group

We view it as a testament to the fund industry and the power of the concept that many of the funds created almost 100 years ago are still around and thriving today. Currently, balanced funds in general are the rock solid foundation of many individual and institutional portfolios, serving millions of investors across the world exceedingly well.

## The Second Solutions Generation: Target-Date Funds

The next major innovation in mass market investment solutions was the creation of the first target date fund by **Wells Fargo and Barclays Global Investors in 1994**. The target date fund acknowledged that the average investor had neither the interest nor the skill to adapt their investment portfolios over time as their circumstances and time horizons evolved, and that they would be well served by a "do it for me" approach managed by professionals. This too, (along with their simpler target risk brethren), turned out to be a revolutionary innovation, has been endorsed by regulation and has improved the financial outcomes for millions of people globally. As we know, there are now a massive array of target date options available with different "glide path" asset allocation strategies, active and passive approaches, and more recently alternative assets.

## Target Date Mutual Fund Assets, 1996-2016



Source: Target Date Funds, Brattle Group

In parallel to the growth of these mutual funds, the institutional version of investment solutions also evolved, with early OCIO providers offering whole-portfolio management with a range of discretion over investment decisions, as well as the first “manager of managers” products in both registered and private vehicles.

The “fund-of-funds” range of products featured a mix of proprietary and third party “sleeves” in various asset classes featuring specialist investment managers and capabilities. The value in this innovation was that the resulting fund of funds could a) employ “best in breed” managers; b) easily swap out underperforming sleeves or managers; and c) add other asset classes or components as necessary.

### Investment Solutions Today: Let a Thousand Solutions Flowers Bloom

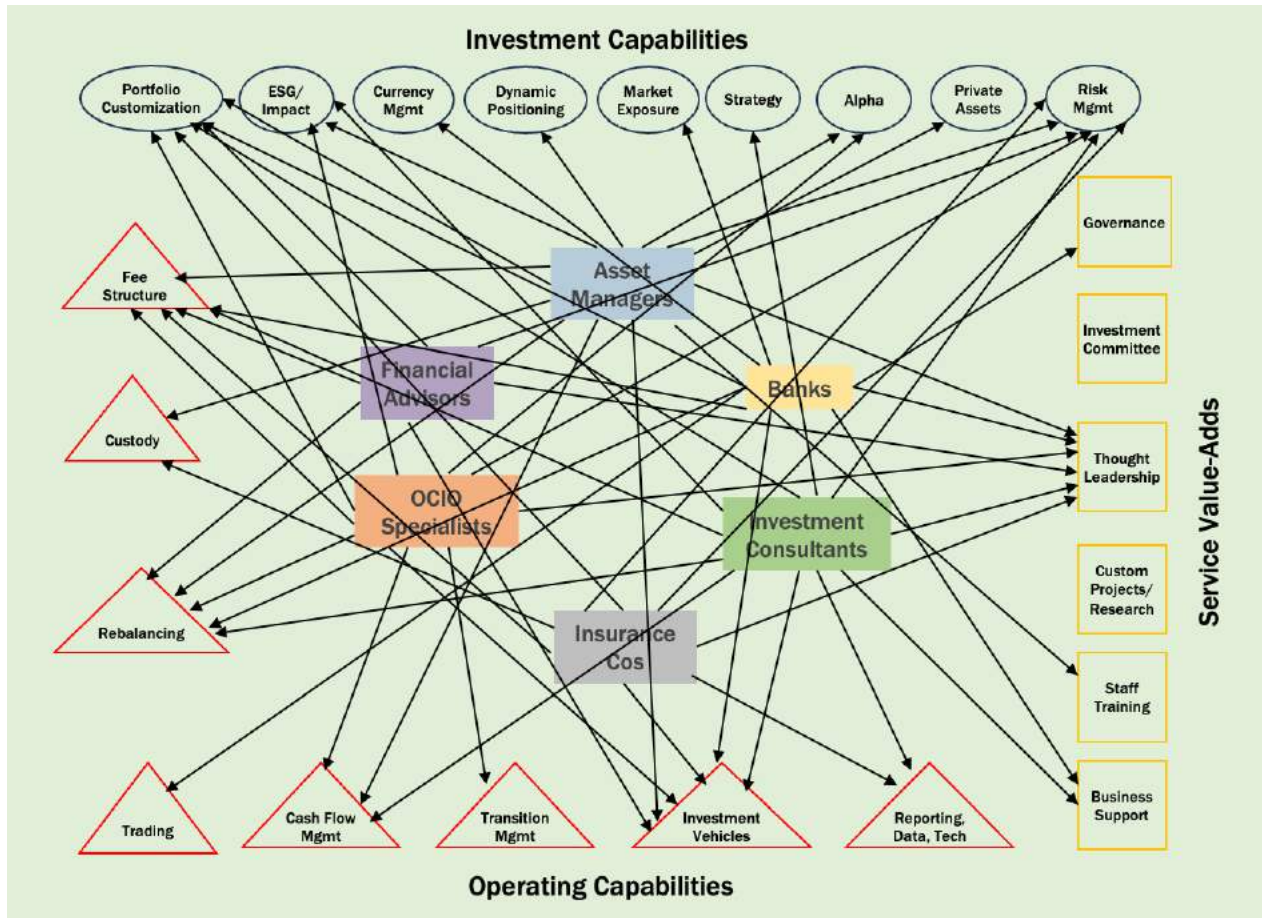
The wide variety of models and capabilities offered by today’s third generation of investment solutions providers has been driven by a massive **increase in the complexity of investor objectives**. A critical change in the third generation of investment solutions is the move beyond a two dimensional (risk/return), product-led solution to addressing complex investor needs via multi dimensional solutions.

The aging of defined benefit (“DB”) pension plans provides a good example of the rising **complexity of investment solutions**. DB Plans have increasingly demanded one holistic investment solution combining asset liability management, outsourcing, de-risking strategies and liability driven investing, use of derivatives such as swaps, and pension risk transfer capabilities and tools. A large part of the modern OCIO industry has grown from solutions designed to meet the complicated new needs of this one investor segment.

# Defining Investment Solutions

As a result, investment solutions buyers today must evaluate providers across an ever-growing range of important hiring factors in order to confidently select the optimal product(s) and service(s) that best meet their specific needs. The graphic below illustrates just some of the increasingly wide range of investment solutions features and hiring factors facing the marketplace today.

**Investment Solutions Capabilities Available Today**



Source: Chestnut Advisory Group

The ever-increasing complexity of investment solutions models and capabilities creates an equally large challenge to solutions providers. OCIOs, asset managers and a wider range of other solutions providers and their partners are struggling to effectively diagnose an ever-wider array of investor needs (across different investor types and sizes), to clearly articulate their unique set of capabilities, and, most importantly, to successfully deliver the best solution to each client.

Intermediaries have evolved to help clients buy and monitor investment solutions providers, generally applying the traditional investment consultant manager research search approach, which relies heavily on accepted

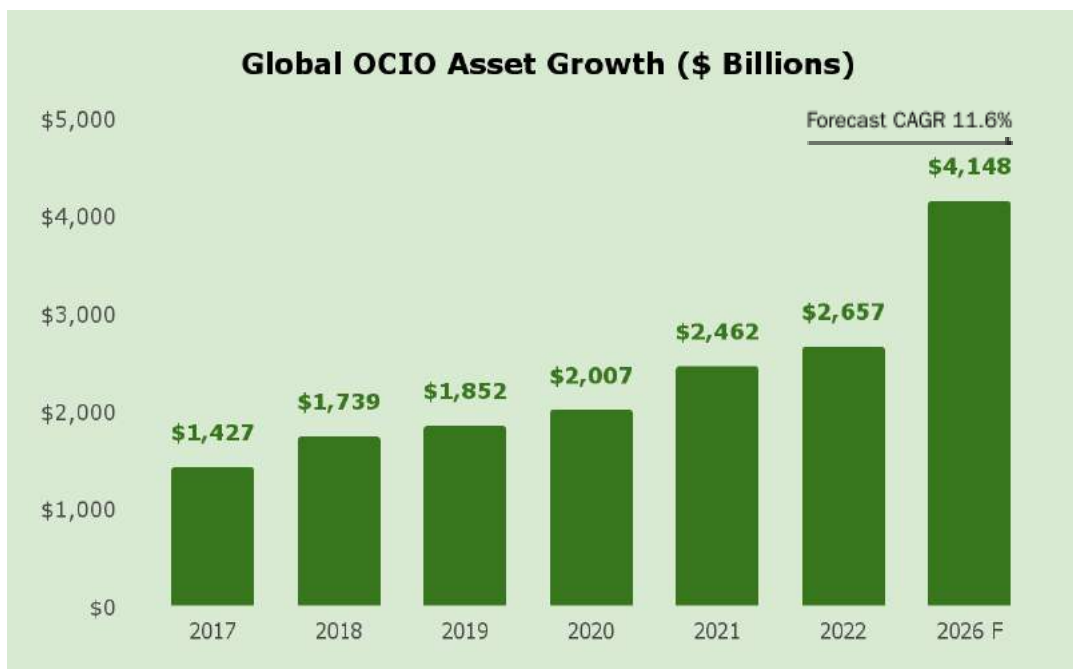
# Defining Investment Solutions

standards and norms that do not exist - and in many cases are not even relevant - in today's investment solutions marketplace.

OCIO fees are an excellent example of this issue. The all-in fees any investor pays any one OCIO today can cover an incredibly wide range of underlying services, as illustrated in the chart above. Each OCIO today offers its own unique set of services, and will propose a customized set of those services for each new client to best meet that client's needs. Due to the current lack of definition or common understanding of these underlying services, an intermediary evaluating the fee/services packages of several OCIOs involved in any given client RFP today faces a daunting challenge.

## Unpacking the Complexity of the Solutions Marketplace Today

Although the adoption of solutions and OCIO has grown rapidly, we believe that we are still in the early innings of what we call the Third Solutions Generation. As we have discussed before (most recently in [The Widespread Impact of OCIO Growth](#)), we forecast continued strong investor demand for holistic solutions for many years to come.



Source: Pensions & Investments and Chestnut Advisory Group

# Defining Investment Solutions

To us, it is apparent that the complexity of objectives and **available capabilities and tools have grown faster than the industry's ability to articulate, educate, differentiate**, and prescribe the appropriate solutions to investors. Investment solutions market participants today have widely differing definitions and understanding of the models and products offered to investors today. There are many unintended results of this current lack of common solutions definitions, hurting investors and providers alike, such as:

- **Low investor awareness** - and even lower understanding (!) - of solutions products and services that can effectively meet their needs
- Solutions providers have become largely (opaque) **standard takers rather than makers**
- Both providers and their partners (notably asset managers) are **struggling with how to access, partner and compete** with the right investor/allocator stakeholders
- Providers are frustrated by the incorrect or **incomplete understanding and interpretation of their value** proposition, performance, fees and competitive advantages

The downstream effect of the current state is a misalignment of interests with investors, leading to excessive turnover, higher fees and conflicts.

In order for the investment solutions industry to reach what we believe is its very large and important potential, the industry needs greater clarity, transparency, articulation and standards so that investors can make the best possible decisions.

**To address these issues, we are launching the Chestnut Solutions Institute™**, a membership-based independent think tank designed to help the solutions industry establish and promote strong standards and norms, and to educate the entire solutions and OCIO ecosystem about the capabilities and benefits of investment solutions. We aim to do this using a three pronged approach:

- **Market research and thought leadership** into key solutions business issues such as provider models and capabilities, fees and conflicts, value and holistic performance measurement, etc.
- **Peer-to-peer forums** promoting industry transparency and best practices. Interactive discussion topics will serve to enhance the understanding of the solutions industry by promoting dialog and debate
- **Effective public communications, visibility and impact**, to help educate and inform investors and solutions partners, and to influence burgeoning new solutions industry standards

To learn more about the Chestnut Solutions Institute and Chestnut Advisory Group, please visit [www.chestnutadvisory.com](http://www.chestnutadvisory.com)

# Defining Investment Solutions

## About the Authors



### **Ravi Venkataraman, CFA**

Managing Partner and co-owner of Chestnut Advisory Group

Prior to joining Chestnut, Ravi was the Global Head of Investment Solutions at MFS Investment Management, where he led a team that delivered bespoke investment advisory and consulting services to clients. His team was also responsible for investment thought leadership and education for MFS's client facing teams. He was previously responsible for global consultant relations and institutional defined contribution at MFS.

Before moving to MFS, Ravi was the President and Chief Investment Officer of Mercer Investments, having founded Mercer's OCIO business and one of the industry's earliest leaders in the fiduciary management space. Prior to creating the OCIO business, he was a Worldwide Partner and region head where he served as senior investment consultant to multinational corporate and public retirement plans, sovereign wealth funds and endowments and foundations.

Ravi holds a Masters Degree in Economics from Tufts University and is a CFA charter holder. His past Board memberships include being the Chair of MFS's Retirement Investment Committee, Chair, Steering Committee of the Active Managers Council and Chair of Generation Citizen, a non-profit organization focused on civic education in middle and high schools in Massachusetts.

---



### **Amanda Tepper**

Managing Partner, founder and co-owner of Chestnut Advisory Group

Prior to founding Chestnut Amanda served as Global Director of AllianceBernstein's senior portfolio management team, a group that crafted and delivered the firm's investment insights to institutional and retail clients and consultants. Previously, Amanda developed deep experience in sell-side equity research as Associate Director of Equity Research at Bank of America and as an *Institutional Investor* All-America Team - ranked equity analyst at JPMorgan.

Before moving to the sell-side Amanda was an investment banker in JPMorgan's retail industries group. She began her investment career on a corporate bond trading desk.

Amanda holds an MBA from Wharton and a BA from Brown University. Her past Board memberships include the Investment Advisory Committee for the Endowment of the Art Students League of New York, The Global Advisory Council for 100 Women in Finance, Girls Inc. of New York, and the Andover Development Board of Phillips Academy.

All content and material contained in this document is protected by United States copyright law and is the exclusive property of Chestnut Advisory Group, LLC and may not be reproduced, distributed, transmitted, displayed, published or broadcast without its prior written permission. © 2023 Chestnut Advisory Group, LLC. Chestnut's logo is a registered trademark of Chestnut Advisory Group, LLC.