Ex-Cornell Official Launches Outsourced CIO Biz

By Paul Menchaca
July 13, 2011
With the launch of their new asset management firm on July 1, co-founders John Regan, a former investment officer at Cornell University, and Joseph Steinberg, president of holding company Leucadia National Corporation, have joined the increasingly competitive market for outsourced CIO (OCIO) offerings.

Although the New York City-based firm, called Permanens Capital Advisors, will not be exclusively offering OCIO services, the outsourced line likely will make up a significant portion of its business. Permanens thus far has one client, an undisclosed university endowment, and has $300 million under management. The firm will also serve as a family office for Steinberg.

The firm's bottom-up approach to building an investment platform for a client will include assistance from the firm's own internal investment committee, Regan says, adding that this is among the things that will differentiate Permanens from competitors. This committee, which is still being organized, will feature "a number of prominent investors," Regan says.

Regan, who will serve as CIO of Permanens, also touts the combined experience that he and Steinberg bring to the table. Besides overseeing Cornell's hedge funds and private equity portfolio, Regan's background also includes stints on other investment committees and working in the hedge fund world. Steinberg, who is taking on the role of chairman of the firm, has been president of Leucadia since 1979. The two men have worked together before: they helped restructure the $21 million endowment of Poly Prep Country Day School in Brooklyn, N.Y., over the past few years in response to the financial crisis.

Permanens' approach to building a client's investment platform will begin with establishing a governance structure, Regan says. This includes drafting an investment policy, establishing an asset allocation, going through cash flows, establishing a liquidity model and even putting an investment committee in place.

"It is a very labor-intensive thing, because if you prepare the governance aspect before you get into the investments, it can have a positive impact on the performance of your investments," Regan says.

The co-founders have decided a good size for an investment committee is six people.

As Regan says, "There have been some studies that show six to eight is the right limit." As for the process of approving investment committee members, that will be a governance issue that will be different with each client, Regan says.

Though the firm comes into being with a decent book of business already, Regan says he and Steinberg will not begin seeking out new clients until "we and our first client are happy" with the investment model that they build.

"Joe and I want to make sure that we get the infrastructure right," Regan says. "Asset gathering is not something we are going to do right out of the box. We are fully engaged with what we are doing so we get the right architecture in place."

In an OCIO arrangement, an institutional investor will hire a firm to make all of its investment management decisions, including manager research and portfolio decisions. The model is now one of the hottest topics in the consulting world, as more firms launch their own version of the service in an attempt to capture a possibly lucrative piece of the revenue pie. NEPC, which had been a rare holdout among the bigger consultants, announced last month that it, too, will now offer so-called "discretionary services" - another term sometimes used to describe the OCIO business.

How big the market will grow, however, remains in question. In 2008, management consultant Casey Quirk and Associates released a report in which it estimated the OCIO business would grow to $510 billion by 2012, representing 13% of assets and 25% of investors.

But the firm has recently updated the data and forecasts a slightly slower pace of growth - to $480 billion by 2015.

Those new figures include the OCIO market among U.S. nonprofits, which the firm expects will grow from $105 billion as of 2010 to $216 billion by 2015; and the $153 billion OCIO corporate defined benefit space, as of 2010, which is projected to grow to $263 billion by 2015. The firm says there are "at least 45 players" in the OCIO market and the number is "increasing rapidly."

As for Regan, his departure from Cornell at the end of June came almost two months after Michael Abbott suddenly stepped down as CIO of the $5.2 billion endowment. Regan's departure was made even more significant by the fact that he was one of two senior investment officers for Cornell.

While he declines to discuss Abbott's departure, Regan says his own departure had been planned before that, and adds that he and his colleagues in the investment office "helped bring very positive changes for the school," and that he enjoyed his time at Cornell.

"It was such a fabulous experience being able to go into Cornell - a school like that and an institution like that," he says. "When you fix an endowment or a foundation and do it the right way, it will last for 20 or 30 years. But that was one school, and even though it was fantastic, I have the chance to impact a larger number of institutions, and that's a special thing."