

Call in the Bench

In Times of Trouble, Special Project Consultants Offer a Second Opinion

Against a backdrop of unstable capital market conditions and a growing and increasingly complex real estate market, some institutional decision makers have chosen to augment the traditional consulting services provided by a primary real estate consultant by adding a “bench” of one or more specialty real estate consultants that can be called upon on an ad hoc basis as needs arise.

Special project consultants (often known as independent fiduciaries) can be used in a variety of circumstances, but generally their work will fall into one of the following five general categories: 1) when the investor needs specialized investment expertise, 2) when the primary real estate consultant may have a conflict, 3) when timing issues necessitate the use of a firm other than the primary real estate consultant, 4) when the investor would like to look at an issue from a fresh perspective, or 5) so the investor can get a second opinion.

The California State Teachers' Retirement System (CalSTRS) was one of the first pension funds to form a bench when it issued an RFP for independent fiduciaries in 2002. According to Mike DiRé, director of real estate, the initial reason for expanding the pool of consulting talent was to mitigate potential conflicts of interest. He says CalSTRS' board felt the primary consultant that was making investment recommendations shouldn't be the same firm that was then reporting and opining on performance.

“While the original intention was good, the unintended benefit was the access to specialized expertise at our fingertips,” says DiRé. “We have been able to

Executive Summary

- ◆ **Special project consultants, also known as independent fiduciaries, supplement in-house staff and act as additional advisers.**
 - ◆ **CalPERS, CalSTRS and MassPRIM are examples of funds that use special project consultants.**
 - ◆ **Fees generally are paid on a project basis and not a retainer.**
 - ◆ **Special project consultants can be solicited through a standard RFP process.**
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get thorough analyses of issues quickly, and we also have the ability to pick the most qualified consultant from our pool, which can be critically important when issues ‘outside the box’ arise.”

The California Public Employees' Retirement System (CalPERS) likewise installed a “bench” of specialized consulting expertise in 2005.

“We were interested in opening up opportunities in the international markets and exploring alternative investments not available through our existing relationships,” says Judy Alexander, a CalPERS portfolio manager. “We had a resource problem given the limited staff. The solution was to create a pool of specialized consultants to conduct the due diligence and provide recommendations.”

The State of Massachusetts Pension Reserves Investment Management Board (MassPRIM) also uses special project consultants. According to Tim Schlitzer, senior investment officer at MassPRIM, “We felt there may be projects falling outside the scope of the general real estate consulting assignment that required a level of resources or skill sets that we do not have in-house.”

According to John Baczewski of Real Estate Fiduciary Services, special project consultants leverage existing staff resources, providing the ability to independently evaluate manager recommendations. “Special project consulting tends to be more tactical in nature,” he says. “Clients may be facing a specific fund, venture or asset-related investment or asset management decision. Our assignment is often to help evaluate a proposed solution and, where appropriate, develop alternatives for consideration.”

TYPES OF PROJECTS

Special project consultants can be utilized for a wide variety of research and analysis. Several examples are summarized below:

Troubled investment analysis:

Any plan sponsor with a current real estate program can look at its portfolio and see investments that are underperforming expectations for any number of reasons. Special project consultants can augment often limited staff resources by helping plan sponsors understand the nature of a fund's underperformance and suggesting courses of action that might be appropriate. Such assistance might be useful even for those investments managed by investment advisers simply by providing additional resources to the plan sponsor to deal with numerous

advisory relationships or in the cases where the advisers may have conflicts in recommending certain courses of action.

Transfer values: Assets may be transferred between advisers, between accounts managed by a single adviser, or from an operating company into a fund managed by that operator. Conflicts of interest may arise if the parties involved in the transfer establish the transfer value. Special project consultants, often acting in a fiduciary capacity, can either opine directly upon the transfer value or, alternatively, can structure a process through which the reasonableness of a transfer value can be established and documented.

Working with unique assets or investment strategies: Special project consultants can provide specialized expertise to deal with the problems unique to certain property types, such as agriculture, infrastructure, land for development and hotels.

Debt program analysis: Both MassPRIM and CalSTRS have opted to use special project consultants to evaluate their debt programs, the former choosing Real Estate Fiduciary Services from Boston, while the latter is using David L. Bonuccelli & Associates and Beekman Advisors.

Real Estate Consultants

Below is a partial list of special project consultants:

- Bard Consulting
- Capital Hotel Management
- Courtland Partners
- David L. Bonuccelli & Associates
- Partners Group
- Real Estate Fiduciary Services
- The Situs Companies
- Westwood Consulting Group

International: During the past several years, there has been a clear and accelerating trend toward the internationalization of real estate investment programs. While primary real estate consultants can address international real estate investment, some firms, such as Partners Group and Courtland Partners, tackle the issue both as primary and as special project consultants.

Emerging managers: A plan sponsor may wish to invest with emerging managers that may be difficult to underwrite because the manager lacks an institutional track record or a history of operations or because the manager is starting a new investment strategy. Special project consultants have assisted clients in underwriting numerous of these types of investments.

Asset management: Special project consultants can provide assistance in monitoring certain investments, such as those made with emerging managers, which might need more time and thought. In such cases, the consultant can act almost as an extension of staff. In addition, the special projects consultant may provide asset management tools, such as calculations to determine the impact of certain fee structures or investment document abstracts, which allow the plan sponsor to quickly determine its approval rights or when certain deadlines occur in a specific investment.

Manager reviews: Occasionally, a pension fund might want to review the performance of an existing individual manager or investment. These reviews may be due to the rapid growth or scaling back of a manager's organization, because the manager is investing in a new strategy, or because the investment no longer fits in with the pension fund's current overall investment strategy. Once again, special project consultants can provide the expertise to identify any issues.

HOW TO START

Some plan sponsors may find that they can simply hire a special project consultant when needed.

Others, however, may find that the creation of a special project consulting bench will require board approval, particularly public plan sponsors. Fees generally are paid on a project basis and not a retainer, so the appropriate expen-

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diture approval procedures per project will have to be established. For MassPRIM, the real estate investment committee of the board approves the project. For CalSTRS, the CIO must approve the project and fee. At CalPERS, the assignment is approved by the senior investment officer, real estate.

Special project consultants can be selected through an RFP process. For funds not already using these consultants, there may be a problem in locating firms to respond. "The universe of smaller, niche-oriented project consultants can be harder to get your arms around," says Schlitzer of MassPRIM.

In today's fast moving real estate environment, additional expertise and the ability to analyze investments in a timely manner can assist institutional investors in making informed investment decisions. Special project consultants can provide the expertise and manpower to perform these analyses in the timeframe required. ❖

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