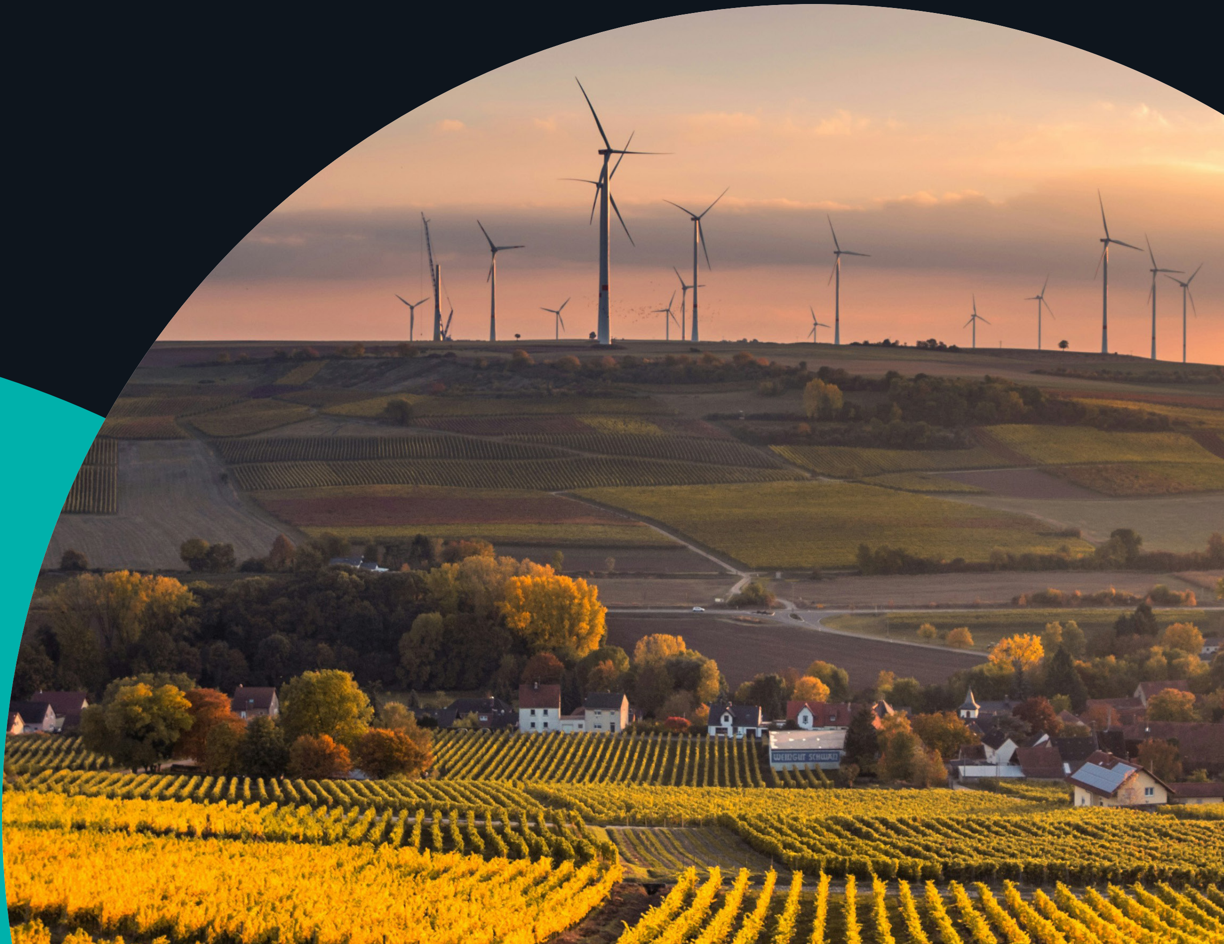
HIGH MEADOWS
INSTITUTE

Sustainability in Capital Markets

Financing the transition to a sustainable low-carbon economy

Investment Consultants Sector Profile



Introduction

This sector snapshot is part of the High Meadows Institute report, *Sustainability in Capital Markets*. It is designed to provide a high-level overview of how key sectors in the financial system are supporting the transition to a sustainable low-carbon economy (SLCE). The sector evaluation is based on a literature review of studies on each sector's role in the SLCE transition, as well as a more detailed analysis of how 10 of the largest institutions in the sector are supporting the transition. Further details on the purpose of the report, the sectors being assessed, and the methodology for the assessment can be found in the Methodology publication here.

Sample size: Mercer, Callan, Aon, Willis Towers Watson, RVK, Meketa, NEPC, Wilshire Advisors, PPCmetrics, Verus[i]

Total AUM of sample size: $42.9 trillion (89.6% of sector AUA)[1]

As the investment management industry has grown in scope and scale, investment consultants have taken on an increasingly important role as an intermediary between asset owners and asset managers. While exact estimates of the total institutional assets under advisement (AUA) for investment consultants are hard to come by, a 2024 report by *Pensions & Investments* put the figure at around $48 trillion.[ii] By comparison, global assets under management are up to $100 trillion and counting,[iii] which suggests that investment consultants play a critical role in directing capital flows across much of the investment management industry.

This massive influence reflects the growing complexity of the investment management industry and the mounting challenges that many asset owners (e.g., pension funds, insurers, family offices, foundations, endowments, etc.) face in conducting thorough due diligence of fund managers.[iv] Within the U.S., recent research shows that 85% of institutional investors work with an investment consultant, with the 20 largest investment consultants claiming about 85% market share, an increase from 66% just a decade ago due to ongoing consolidation in the industry.[v]

1. Given the focus of the research is on institutional investing, we are specifically measuring institutional assets under advisement rather than total assets under advisement to determine the ten biggest investment consultants for the research sample.

Given the similarities in the services and offerings that many investment consultants extend clients, it's no surprise that firms would seek to benefit from the advantages of scale. Indeed, there have been several notable mergers in the investment consulting industry in recent years, with the number of consultants worldwide falling from a peak of 108 in 2015 to just 61 in 2023. This consolidation has resulted in the ever-greater concentration of assets among just a handful of players, with the five largest investment consultants overseeing 69.5% of sector AUA versus just 2.2% for the smallest consultants. Similarly, the ten largest firms have 69.5% of the total number of institutional retainer clients (35,000+), which includes many of the world's largest asset owners and allocators.[vi]

In most cases, investment consultants work with asset owners and allocators to help streamline the process of identifying asset managers according to a predetermined set of criteria, typically based on a combination of financial performance, investment strategy, investment size, and other factors. The goal of these engagements is not necessarily to find the best-performing managers but rather the ones that are best positioned to address a client's specific needs and objectives, whether those objectives are primarily focused on financial returns, sustainability outcomes, or both. In many cases, investment consultants may even operate as an outsourced chief investment officer (OCIO) and be responsible for making some or all investment decisions on behalf of the client.

While there is limited research on how investment consultants are approaching the climate crisis, this sector profile explores how and why consultants can play a more meaningful role in supporting the transition to an SLCE.

Opportunities to advance an SLCE

Our research on the ten biggest investment consultants showed a broad interest in issues related to climate change and sustainability:

- 8 of the 10 biggest investment consultants are part of a working group related to sustainability under the banner of the Investment Consultants Sustainability Working Group (ICSWG-UK for UK-based consultants, ICSWG-US for US-based consultants).
- 7 say they offer ESG and sustainability consulting services or research, but only 2 provide climate reporting (both based outside of the U.S.).
- 7 comply with PRI guidelines, and 5 have internal net-zero commitments.
- 4 are part of the Net Zero Investment Consultants Initiative (NZICI).[2]

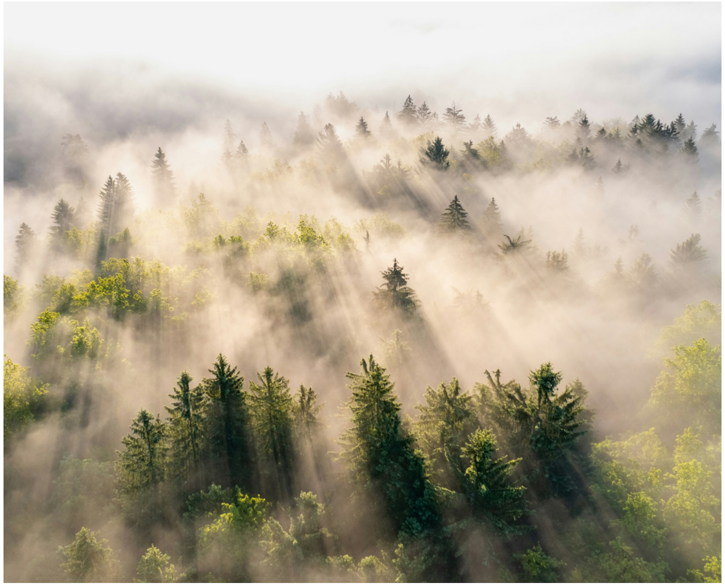
Many investment consultants also regularly publish research and thought leadership that explores how asset managers and asset owners are addressing climate risks and opportunities in their portfolios. Here are a few recent examples that stood out in our analysis:

- **Cambridge Associates:** 2025 Outlook Diverse Manager & Impact Investing (December 2024)
- **Mercer:** Transition today: a progress update — How investors can support climate transition across portfolios (November 2024)
- **Willis Towers Watson:** Risk & Resilience Review: Green Algorithms – AI and sustainability (October 2024)
- **Callan:** 2024 ESG Survey (October 2024)
- **Segal Marco Advisors:** 2023 Survey of Investment Managers on Internal ESG Policies (January 2024)
- **Redington:** Sustainable Investment Survey 2023 (December 2023)
- **Callan:** 2023 Asset Manager ESG Study (November 2023)
- **Wilshire Associates:** Expanding the Climate Investor's Toolkit (March 2023)

These and other investment consultants also offer a wealth of research and insights exclusively for clients, as well as a variety of tools, platforms, and other resources to help clients better understand how to structure and manage an SLCE-oriented portfolio.

Perhaps the largest effort undertaken by investment consultants in pursuit of an SLCE is the launch in September 2021 of the NZICI with PRI as the original host. The 12 founding signatories to NZICI, who collectively advise institutional asset owners on approximately $10 trillion in assets, made a public pledge to work towards halving global emissions by 2030.[vii]

2. Meketa and Wilshire were originally members of NZICI, but were not included in the most recent progress report



We are a group of twelve investment consultants committed to supporting our clients in achieving the goal of global net zero greenhouse emissions by 2050. We help our clients prioritise real economy emissions reductions, reflecting the interim target of 50% global emissions reduction by 2030 or sooner, in alignment with objectives set out in the Paris Agreement. Advising on assets of more than USD 10 trillion, we are committed to implementing a series of bold actions to develop our advisory services and reduce operational emissions. In coming together to make this commitment, we recognise the crucial role of investment consultants as a group within the asset management ecosystem, advising asset owners on strategy and connecting investors with investment managers.

The pledge also included 9 distinct commitments related to best practices, such as advising clients on net-zero alignment, collaborating with peers to address shared challenges, engaging with regulators and policymakers to facilitate the transition to net zero, and regularly reporting on progress via public disclosures.

As NZICI described it in their theory of change: *"While investment consultants do not necessarily have discretion over investment decisions, they can have a catalytic impact on net zero progress by enabling clients to navigate the complexity of this dynamic topic. For instance, they can help asset owners think through why and whether to adopt a net zero approach, and then assist them to determine what strategy is right. This can accelerate progress by enabling clients to have the impact they want faster and more ambitiously than might have been the case without informed advice."* [viii]

The emphasis here on "accelerating progress" and helping clients "navigate the complexity" are important signals about how investment consultants can use their influence to supercharge the SLCE transition.

However, as of the 2023 Progress Report, NZICI membership had shrunk to 11 members after the relatively high-profile departures of two of the largest members – Meketa and Wilshire Associates. In reporting about the departures, Wilshire pointed to a disagreement about changes to the governance structure that may have required members to make all default advice aligned with net-zero objectives.[ix]

It is likely not a coincidence that these departures coincided with similar departures at other net-zero groups (e.g., the Net Zero Asset Managers initiative, the Net-Zero Asset Owner Alliance, the Net-Zero Banking Alliance, and the Net-Zero Insurance Alliance), mainly in response to political attacks and disagreements over the groups' long-term viability. However, it remains clear that many investment consultants understand the importance of helping clients with their sustainability investments, with several consultants still committed to working together to develop best practices for the sector.

Pain Points

Investment consultants are ultimately in the client service business, so they are most likely to recommend SLCE-focused managers and investments if that is a stated priority for their clients. However, many of these clients may require education on SLCE-related investment opportunities and challenges before they are ready to commit a significant share of their capital. Investment consultants can play an important role as educators for asset owners and allocators, given their multiple touchpoints with clients. Still, consultants have an obvious incentive to only produce educational materials that position their services as solutions. A consultant without much expertise on SLCE-related topics is not likely to dedicate resources to producing data and insights on SLCE-focused investment opportunities.

A related issue is that investment consultants may have conflicts of interest in their investment and manager recommendations. Part of this has to do with the shift among most of the largest investment consultants towards proprietary asset allocation and asset manager recommendations, which led to many institutional clients being pushed towards actively managed funds across both traditional and alternative asset classes. However, it is unclear if this complex portfolio mix is really in clients' best interests versus low-cost index funds or other types of more passive funds with lower fees. To make matters worse, relatively few investment consultants will voluntarily provide a third-party assessment of their fund manager recommendations, likely out of fear of what the assessment may show about the value of their services. Effectively, this leads to a situation where *"consultants are unaccountable for proving whether their recommendations offer any value."* [x]

Investment consultants also don't face the same expectations around transparency and disclosure as asset managers or owners, making it difficult to decipher exactly where they stand on the SLCE transition. While efforts are underway to bring investment consultants together around topics of shared interest—in particular, climate change and net zero—these efforts face a prisoner's dilemma in that individual firms may be hesitant to share their insights or experiences with their competitors for fear of losing their competitive advantage.

Given the similarities between the major investment consultants, this lack of collaboration represents a major barrier to further progress. For asset owners to make well-informed decisions on the right consultant, they need evidence that consultants are taking the issue seriously and are committed to industry best practices. Unfortunately, there are currently few mechanisms for holding investment consultants accountable beyond firing one and choosing another.

Neutral parties, such as research organizations or industry experts, can play a role in ranking and categorizing which investment consultants are best-positioned on SLCE-related issues. Asset owners and allocators can also be more forthcoming about their own experiences using investment consultants. But investment consultants bear much of the responsibility for continuously refining their approach to sustainability in response to market forces and then communicating those changes to clients, thereby helping bring asset owners and asset managers – and the broader investment landscape – closer together.

Summary

Opportunities

- Investment consultants are among the most important intermediaries in the investment management industry, helping streamline the flow of capital from asset owners to asset managers.
- This role as matchmaker provides consultants with an opportunity to educate both sides of the transaction about climate-related risks and opportunities, ultimately helping to optimize capital flows towards an SLCE.
- Investment consultants have shown a willingness to work together on shared industry challenges, although competitive pressures may dissuade some consultants from sharing any proprietary tools or frameworks.

Challenges

- Investment consultants are in the client service business, which limits their ability to push their clients towards SLCE-oriented investments, especially if they lack the requisite internal expertise or experience.
- Some consultants also have to navigate potential conflicts of interest as more consulting firms move towards proprietary asset allocation and asset manager recommendations, which may or may not be in their clients' best interests.
- There is a lack of transparency on the practices and policies of investment consultants, making it hard for asset owners to know which ones are credible and to hold them accountable.

Endnotes

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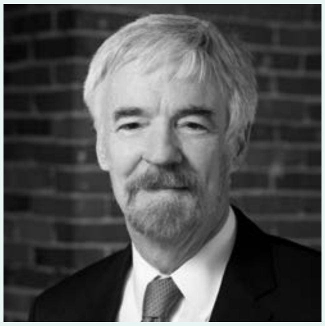
About the Authors

High Meadows Institute is focused on the role of business leadership in society. Our mission is to contribute to sustainable economic and social progress in a global economy and society. High Meadows Institute was founded in 2013 by a small group of senior business and finance leaders with deep experience in the private and non-profit sectors. The Institute works in close partnership with other leading think tanks and academic and business organizations to advance its mission.

17 Communications is a mission-driven marketing and communications consultancy specializing in the ESG, impact investing and sustainable finance sectors. We are committed to catalyzing the flow of capital towards sustainability and impact-oriented investments and solutions through a combination of communications, advocacy, research and education.



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