Verus, SIS Merge to Create $380B Consulting Giant

By Michael Shagrin October 22, 2015

Verus Advisory and Strategic Investment Solutions (SIS) have agreed to merge their two consulting firms, resulting in an entity overseeing more than $380 billion with upwards of 100 employees.

The new company will retain the Verus brand.

Executives from both firms were complimentary of what the other would bring to the table and sober about their own shortcomings that would be addressed through the merger, which is expected to close on Jan. 1.

While Verus has an extensive traditional manager research operation and an innovative relationship with hedge fund consultant Aksia, SIS brings to the table a team of seven professionals dedicated to private equity due diligence.

Similarly, SIS's client base is primarily large public pension funds, a client segment with which Verus doesn't have a wide presence compared to its extensive relationships with non-profits and corporate plans.

The dynamic, however, is curious—Verus management will continue to run the new company even though SIS currently advises on more than double Verus' assets. But compared to Verus' 77 employees, SIS has just 23.

"We're larger in both revenues and infrastructure," says **Shelly Heier**, president and COO of Verus. "SIS operated a pretty lean organization from an overhead standpoint. We bring an IT department, a human resources department, which are things they would outsource."

Indeed, the discrepancy can be explained by the small handful of SIS clients, most of whom have vast asset pools.

"They have $267 billion in assets under advisement and less than two dozen clients. So their average and median client size is far larger than ours," Heier says.

Merger conversations between Verus and SIS started in late May and the two firms entered into an exclusive negotiating period at the end of August. Before beginning talks with Verus, SIS had been in conversations with a number of other firms, according to SIS CEO and co-founder **Barry Dennis**.

"All of our clients were aware that strategic discussions were ongoing, but those were all bound by non-disclosure agreements, so no individual firms were named," Dennis says. "Our clients knew something was coming."

The merger provides clarity for SIS' succession plan after **Mike Beasley**, the firm's other co-founder, retired in 2012. To be sure, Dennis has no plans whatsoever to leave, but it is an eventuality and he wanted the issue resolved sooner rather than later. At Verus, Dennis will hold the title of managing director and will be among the firm's shareholders.

Verus is using the integration of SIS as an opportunity to restructure the manager research team which will remain under the care of head of manager research **Ian Toner**, according to Heier. It will be split up into teams working in traditional asset classes, a hedge fund group and a team focused on private equity and real assets.

The private equity and real assets team will be led by SIS' **Faraz Shooshani** and will keep intact the seven-person team that he oversaw before the merger. SIS has just three professionals dedicated to traditional manager research, so their integration into Verus' manager research operation should be relatively easy, Heier says.

That low number is sure to raise eyebrows, but the firm developed that way in response to the needs of their large public pension client base. "Some of their consultants spend 30% to 50% of their time on manager research because the nature of their clients is that they do a lot of custom searches, so consultants have to roll up their sleeves," Heier says.

From the perspective of SIS management, their consultants are likely to continue wearing two hats once the merger is completed.

"We'll stick with that approach," Dennis says. "Consultants tend to research managers that are currently working with their clients. They do less research work on managers that aren't already in place. But part of their job is to understand the investment management community, so this practice should continue."

At the moment, SIS has a number of large plan clients for which it does only private equity consulting. Dennis says the prospect of turning those relationships into general consulting mandates was a major attraction on both sides of the deal.

"I think we see consulting firms like these merging in order to increase scale, achieve greater client diversification and achieve cost synergies given a backdrop of fee pressure facing consultants," says **Steven Levitt**, managing director and co-founder of investment bank Park Sutton Advisors.

The sentiment is shared by executives within the consulting industry.

"Regrettably, the economics in the consulting business remain weak and scale is basically the only way you can improve your margins," says **Russ Kamp**, managing partner at Kamp Consulting Solutions.

With the new entity's more than $380 billion in assets under advisement, the merger is arguably the most significant in the consulting space since the wave of M&A activity following the financial crisis. Within the span of three years, starting in 2009, Towers Perrin and **Watson Wyatt** combined to form Towers Watson, Mercer and Callan Associates each absorbed pieces of Evaluation Associates, Mercer also acquired Hammond Associates, the Aon Corporation joined with Hewitt EnnisKnupp to create Aon Hewitt Investment Consultants, and the **Segal Group** paired off with **Rogerscasey** to open Segal Rogerscasey.