



OCIO (Outsourced Chief Investment Officer): Compelling Model but Opaque Results

- **OCIO Model Continues Strong Baseline Growth**
- **Service, Mission Investing and Diversity Are Key Priorities for Clients**
- **Fees Decline and Few Report GIPS Compliant Track Record**

Bottom Line for Fiduciaries:

- ***Evaluate your OCIO's performance, ask about fees, and check-in with peers***

OCIO Model Continues Strong Baseline Growth

Institutional investors (corporate and public pension, healthcare, endowment, and foundations) continue to embrace the OCIO model. The OCIO market for discretionary investment services has grown to \$1.74 trillion worldwide¹ with providers coming from global financial institutions, dedicated boutiques, and investment consulting firms. Endowments and foundations are expected to drive this growth as well as those in traditional consulting relationships that move either partially or totally to OCIO services.

The Interviews and What We Learned

Godeke Consulting completed an OCIO industry review in late 2018 for a client seeking a refresher on services available and industry developments since hiring an OCIO a decade ago. As with traditional investment consulting relationships, OCIO clients periodically go out to the market to learn about innovations, trends, and how their current services compare. Even though an OCIO has discretion over the investment management process, the asset owner retains responsibility for oversight. We conducted structured interviews with nine OCIO providers from three primary industry segments: global financial institutions (4), dedicated boutiques (2), and investment consulting firms (3). We discussed a range of issues from product offering, client services to investment performance and ongoing monitoring.

¹ Pensions & Investments, "OCIO Managed Assets Leap 23%", June 25, 2018.

<https://www.pionline.com/article/20180625/ONLINE/180629956/ocio-managed-assets-leap-23>

OCIO Offerings Increasingly Robust

- All asset classes available. Institutional investors can find discretionary services available across asset classes, including public and private markets.
- Off-the-shelf to customized solutions. Investors will find many implementation approaches, from one-stop shopping to fully customized solutions. Smaller clients are typically invested in commingled products, whereas larger clients have the capacity for separate accounts. OCIOs seek to create economies of scale for smaller or less sophisticated clients with fund of funds where clients can adjust asset class exposures based on risk appetite.
- Mission related investing (MRI) and ESG options emerging. Increasingly, clients seek MRI/ESG capabilities in RFPs, yet investors remain slow to allocate. Few OCIOs have built out full MRI/ESG platforms, and many are learning the space in tandem with their clients.

“[While] ESG/SRI... is more talk than action, that is going to change, no question about it.”

Client Service and Diversity Are Key Differentiators for OCIOs

- Succession planning critical. Most boutique OCIOs are partially or 100% employee owned while many of the large, global firms are publicly traded. Regardless of ownership structure, succession planning is fundamental and grows more important as the industry matures, and founders retire. With new entrants and mergers and acquisitions, few firms have teams with long-term tenures.
- Compensation creates concern. Aligning clients’ interest with OCIO staff compensation is a concern. Although most employees are paid salary plus bonus, we heard differing views on incentive compensation. Some OCIOs felt having pay tied to investment performance can create an opportunity for conflict and unnecessary risk taking.
- Gender and racial diversity becoming prerequisites. Clients and prospects want to see gender and racial diversity throughout firms, particularly within leadership and investment teams which have been dominated by white men. Questions about diversity are now included in almost all RFPs. All things being equal, prospects are likely to choose a diverse firm.
- Client service driving OCIO searches. Client service has become a driver for new OCIO search activity, whereas performance had been the leading trigger in the past.

“When we ask why are you going to RFP - it’s not performance driven, it’s client service driven. Historically it was bad performance...some providers have had a lot of turnover, so depth of team needs to be front and center.”

Fee Compression and Cloudy Performance Data

- Fees continue decline. Some OCIOs are concerned that there is a ‘race to the bottom’ as fees have dropped notably over the last several years. Yet, lack of standard fee structures and transparency cause confusion for clients who may not be getting apples-to-apples comparisons across OCIOs.
- Helpful performance comparisons remain elusive. Very few OCIOs have created GIPS (Global Investment Performance Standards) compliant composites to demonstrate their track record



despite broad GIPS compliance in the institutional segment. Most OCIOs use a representative client's track record as indicative of their success.

- Periodic monitoring needed. Surprisingly, very few OCIOs that we interviewed said clients conduct any periodic reviews of their relationships. OCIOs were also surprised by the lack of on-site due diligence typically done during the RFP search process.

“We definitely see fee compression. [With] different types of providers...[and] different models, [there is] no consistency and standardization. We spend a lot of time with clients on how our fees work, so...they can make good decisions.”

Fiduciary Oversight of OCIOs: Where Do We Go from Here?

- Schedule oversight. Start with a simple annual review. It can be structured based on your annual work plan with the OCIO, or you may ask the OCIO for a self-assessment. Consider an on-site visit every other year and an industry review every 5-7 years.
- Analyze fees. Approach your OCIO and ask for a fee analysis. Also revisit your service agreement to understand exactly what you're paying for and what would constitute an additional project or service not covered under your current fee arrangement.
- Seek out collaborators. Your peers are often your most valuable resource; so check in with your industry association to verify anecdotal information.

Godeke Consulting connects foundations, endowments, families and investment managers to the right impact investing resources and partners.



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Our team brings together a deep understanding of financial markets and philanthropy with expertise in impact investment, organizational change management and strategy development. Our independence combined with our deep networks make us strong partners for strategy development, advisor searches and evaluations.

