

EFFECTIVE OCIO OVERSIGHT

**Importance of Starting
with the End in Mind**

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EXECUTIVE SUMMARY

An institution working through its board, investment and finance committees and staff has a significant challenge in meeting their fiduciary role and responsibilities in overseeing the selection and monitoring of their OCIO provider. This is becoming more difficult given the growth in the number of firms providing OCIO services and the complexity of their solutions.

A tool to make this oversight process more effective is to start with the end in mind. A thorough analysis of what the institution is trying to solve for, its goals, its decision makers and influencers, and any political considerations helps guide the process before getting into the specifics of the search itself. Setting decision criteria and scoring in advance are key. Let's look at these in more detail.

WHAT'S IMPORTANT HERE AND WHY?

A journey is all the more difficult if one does not have a clear vision of the destination. There are various sources of information and knowledge that are better captured in advance of a search to act as a guide through the process. This includes capturing and assessing the following.

What are we trying to solve for?

An institution is likely to have multiple goals. It's useful to know clearly what these are and their relative importance.

- **Investment goals.** The institution may be looking to review its asset allocation especially if it has been in place for a number of years. Perhaps indexing more assets to manage risk and reduce costs is a goal. A fresh review of alternative and illiquid assets may be due. The institution may have ESG or impact objectives that need to be incorporated more fully.
- **Institutional goals.** Each institution is going to have a spending goal from these asset pools to support scholarships and other spending needs. It may be time to consider the formula for calculating that, including adjustments for periods of significant up/down markets. The institution may also have limited resources that need to be assisted by carefully outsourcing some oversight functions.
- **Administration goals.** While OCIO tends to focus on investments, there can be other goals. An institution may welcome support in soliciting and supporting donors through the gifting process and the liquidation of gifts. Some institutions may also benefit from support services, such as endowment accounting and tax preparation. Many OCIO providers will provide market intelligence and educational support to assist the institution.
- **Fees, fees, fees.** While everyone's goal is to pay lower fees, understanding the various layers of fees both explicit and implicit is often lacking. Transparency around fees especially in fund-of-funds and alternatives vehicles is usually missing. Getting a complete picture of the existing fee structure and then assessing the comfort with that is a necessary first step before soliciting proposals.

Who has decision rights?

An oft-used expression is to understand who is driving the bus. It's useful to know that before the journey begins moving forward.

- **Board.** Either the board of the institution itself or a separate board of an endowment is likely to have the ultimate say. They may choose to delegate their decision rights in part or in full. Whether that's already clear or needs to be defined, it's useful to have a clear understanding.
- **Committees.** There is likely to be a finance and/or investment committee with a level of authority ranging from making recommendations to the board to having full discretion. Again, it's beneficial to know that upfront.
- **Management.** Senior staff of the institution and/or of its endowment will also carry a lot of weight. We should have a clear understanding of these people and their roles.



Who has influence?

While we may more readily and clearly identify decision makers based on their roles, there are other people who may possess significant influence.

- **Insiders.** There may be other people within the institution who play sizable roles. These can include the donor support/gifting team and members of the finance group who do the accounting and reporting. Should they have a seat on the bus in this process?
- **Donors.** OCIO services is about more than managing returns, risks and fees. It's about good stewardship of assets that are often donated. Being able to represent the exercise of good stewardship is both a fiduciary responsibility and a support to marketing efforts. Checking-in with some donors to get their impressions can be useful.

CASE STUDY / APPLICATION

PlanPILOT begins its searches with an extensive gathering of information and knowledge. In addition to gathering some information that is easily provided – current investment policy statement, recent quarterly report, history of cashflows and spending targets, current fees (to the extent known) – we also walk-through a survey with our clients. This is not a test, but is meant to foster thinking and getting concerns and issues identified. Sitting down together with our clients and walking through our survey together captures the following.

- **What is working?** No need to fix what isn't broken.
- **What isn't working?** Let's get as specific as possible.
- **Discuss** the investment, institutional and administration goals.
- **Capture** the fees and where the gaps in knowledge exist.
- **Create a decision tree** of the decision makers and key influencers. We want to know everyone who has a say.

With that knowledge, we develop a set of decision criteria.

- The best client outcomes flow when the criteria are specifically identified. No more than a handful or so of key items should be agreed upon.
- It's usually beneficial to assign a weighting to those criteria. Better to spend 80% of the time and effort focusing on the top 2-3 most important goals.

We find the best outcomes come from investing this time and effort upfront.

CONCLUSION

Starting with the end in mind serves to make the oversight process much more effective. A thorough analysis of what the institution is trying to solve for, its goals, its decision makers and influencers, and any other political considerations helps guide the process before getting into the specifics of the search itself. Setting decision criteria and scoring in advance are key. This serves the institution to improve the management of its fiduciary roles and be the best stewards of its valuable assets.



Let PlanPILOT guide you through the time and effort-consuming process of selecting or evaluating an OCIO provider.

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Call (312) 973-4911 for more information or guidance on OCIO consulting services or visit www.planpilot.com/ocio.

