

EFFECTIVE OCIO OVERSIGHT

**Practical Keys to Finding
the Right Provider &
Other Considerations**

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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.

In other papers, we explored the importance of [starting with the end in mind](#) with upfront information gathering and goal setting, [defining the search process](#), and weighing the specifics of the definition and [implementation of the investment approach](#). Let's consider some specific applications and other matters to make this process work efficiently in reality.

OCIO SEARCH & OVERSIGHT IN REAL LIFE

Here are several pearls of wisdom for approaching this process in a highly productive way.

How many questions to ask? What information to gather?

Good construction of an RFP or RFI involves asking not only good questions, but in the appropriate quantity. Of course, you want to ask questions tailored to the primary areas of interest. On the other hand, requesting too much information can become cumbersome to review and digest.

- We suggest an **RFI have 15-20 questions**, while a full **RFP have 60-80 questions** at most. Those numbers strike an effective balance between thoroughness of information gathering and the usability of that information.
- It's also useful to employ some behavioral analysis. We typically ask for a **sample asset allocation and portfolio line-up** to see what all the narrative provided is likely to look like in application. We ask for **sample performance of a composite** or representative account(s) of a like nature. The firms also provide sample reporting, and if available, a link to a demo of their on-line reporting capabilities.
- We generally encourage firms to respond with brevity and use case studies and/or other illustrations to **provide proof statements** of the claims made. Again, it's helpful to see the responses versus simply reading a lot of words.
- We want to see **full detail on the fees** to determine exactly who is getting paid what and from where. This includes indirect fees, such as commissions, soft dollars on trading and referral bonuses. There can be no excuses to providing this full disclosure.

Checking References

Like samples of work product, references provide another reality check on the information being provided. We usually request **at least three references** and make sure to follow-up with them. References are only helpful if you actually speak with them and ask some good probing questions. This is no time to be shy.

- It's better to **ask for a client list** from which we can select the references. This avoids the firm cherry picking the references.
- We also like to have references that have been clients for a longer time. They will have likely experienced more of the ups and downs that do occur and be able to provide a more complete picture.

How many people should be involved in the evaluation & whom?

As we have noted in other papers, there are many interested parties in this search process. Practically speaking, more than a modest number will make reaching a consensus more difficult.

- **5-7 members** making up a search committee seems to work best. Much more than 10 increases the difficulty.
- The committee should be **cross-representational** of the groups that have decision rights and influence. This often includes members from the board, the investment or finance committee(s), management and other interested parties (e.g. donor support and giving team). This group can then report back to the various other groups.
- If any firm being reviewed has a connection with members of an institution under review, it is better if that connected and **potentially conflicted internal party** not be part of the core evaluation team.
- It's also important to have persons involved who are going to **actively participate in the process**, including sharing ideas and asking questions. This is too important a matter for anyone to be a silent partner.

Review the transition plan and contract

The OCIO will provide a plan for transitioning existing assets to its discretionary control. Some firms will accept most or all of the existing assets and make changes over time, while others will want to liquidate most or all of the current portfolio. It's important to understand the process and timing, including the institution's role in implementing it.

- Most transitions can probably occur over no more than one quarter.
- The OCIO should be able to provide a project schedule, including roles and responsibilities, timing and deadlines.
- Probably the biggest role for the institution during this stage will be in reviewing the investment policy statement. This is the last call before the OCIO takes over and exercises its discretion. It's very important to document the institutions goals carefully.
- There will also be a contract or management agreement. The fees and any performance standards and guarantees should be included. As with any legal agreement, this should be reviewed by counsel.



What about the custodian?

A key ancillary consideration is that of the custodian. This is more important when there are separately managed accounts, direct and illiquid investments versus a portfolio made-up of funds.

- Roles of the custodian include possibly making trades, especially of funds, settling trades, collecting income, proxy voting and reporting. The custodian may also prepare and/or execute fund documentation, particularly for direct and illiquid investment vehicles.
- The OCIO may have a preferred or required choice of custodian, or may be flexible to the institution's choice. The institution may require the OCIO to use a custodian of its choice. In either event, the institution should be comfortable with the custodian. It is possible that a separate RFI or RFP is appropriate to review the custodian.

- A change in custodian may be a complex process that needs to be carefully managed. It also results in a change in the directions for gift stock processing.
- If there are separate security holdings of an adequate size and type, it is possible for the portfolio to participate in securities lending. This involves the lending of a security to a 3rd party on a temporary basis in exchange for collateral, usually Treasury instruments. The goal is to generate additional income for the portfolio. This does create additional risks though, especially around the monitoring of the counterparty risk of the borrowers and their agents.

What ancillary services are available?

An institution is likely to have multiple goals, including some that are separate and distinct from the investments. These may include donor solicitation support and with the gifting process itself, educational support, endowment accounting and tax form preparation.

- These services can also be of great importance and benefit to an institution with limited resources. To the extent desired, these should be included in the search process, but are of a lesser importance than the investments and servicing.
- Some firms will provide these either directly or by partnering with another entity, while others will not offer them at all. It's useful to decide upfront whether to include firms that do not provide them if they are considered important.
- We should also keep in mind that these services may be an extra charge or embedded in the firm's advisory fee. That's necessary to ensure an apples-to-apples comparison.

CONCLUSION

In addition to the importance of upfront information gathering and goal setting, defining the search process, and weighing the specifics of the investment approach, a number of specific, practical applications can serve to make this process work efficiently in reality. Again, a thoughtful application of the process works wonderfully to produce a great result. 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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