

OCIO MYTHS DEBUNKED

Fear of Outsourcing to OCIO

Do you have concerns about outsourcing your CIO? We review various myths and concerns that we observe institutions have about the OCIO model and how to effectively address these concerns to produce better outcomes.

Fear of Outsourcing to OCIO

EXECUTIVE SUMMARY

The outsourced chief investment officer (“OCIO”) model continues to expand in its adoption and complexity. PlanPILOT’s goal is to make this complex subject easier to understand and successfully implement. In this series, we review various myths and concerns that we observe institutions have about the OCIO model. Throughout, we offer suggestions on how to overcome the obstacles to a successful OCIO relationship.

In this paper, we review the objections to outsourcing. Items that give pause in this area include the fears of a loss of control and the belief oversight can be effectively handled internally. Thoughtful execution with the aid of a consultant as discussed below can lead an institution through these challenges to better outcomes.

FEAR OF OUTSOURCING

Many institutions have concerns about outsourcing. This can be seen in cases of choosing to outsource for the first time, as well as to convert an existing relationship with shared responsibility to one of full discretion.

These include:

- **Loss of Control** – there is a natural fear about giving up full discretion to a firm outside of the institution. These asset pools are typically strategically important to the success and sometimes survival of the institution. The risks of failure are significant to fulfilling the mission of the institution.
- **Fit** – institutions, especially in the non-profit arena, exist to serve specific missions. There is concern whether the OCIO will appropriately value and focus on furthering that mission. The OCIO and institution need to be aligned to achieve the desired results.
- **Cookie Cutter Approach** – institutions, especially those smaller-to-mid size, may be faced with a solution set that is off-the-shelf in its allocation, investment products and servicing approach. There is worry whether the solutions of a given OCIO will offer flexibility in their design and implementation or whether models and formulaic approaches will be used.
- **Fees** – there is also naturally a concern about how much it will cost. For many institutions carefully managing their budgets, consideration must be given to the potential benefits of this additional expense.

Another point of view considers:

- There are benefits to outsourcing, including engaging with specialized expertise in the areas of investments, risk management and administration. The benefits will likely outweigh the costs and risks.
- The discretionary control given can be defined in advance of and throughout the relationship. The institution always retains ownership and a level of control.
- Fit, approach and fees are all measurable in a search process and manageable in an on-going relationship.

I CAN DO IT MYSELF

Many institutions still perform the investment and administration functions internally. These institutions, especially not-for-profits and those smaller-to-mid-size, are carefully managing their financial situations and outlooks and needing to identify creative ways of managing these valuable asset pools going forward.

These include:

- **Resources** – oversight of these asset pools is often performed by personnel with full-time jobs, such as finance and development. The time and attention given to these tasks are often limited.
- **Expertise** – the investment and risk management tools available are increasingly becoming complex and specialized. Simply having a financial background may not be enough to make the best decisions.
- **Effectiveness** – it has been well documented that success in the active management and alternatives spaces is dependent upon selecting and retaining top-tier managers. These investment managers often have substantial advantages over the rest of their peers.
- **Administration** – various aspects of administration, such as charitable gift accounting, distributions and reporting to beneficiaries, pooled funds or donor restricted or advised accounts oversight and reporting, other internal and external reporting is often done in-house. Other services, such legal, compliance and tax, custody and brokerage, must be provided externally. Institutions may not have full grasp especially of the tax and legal matters this entails.



Taking a fresh look involves:

- Once again, there are benefits to outsourcing, including engaging with specialized expertise in the areas of investments, risk management and administration. The benefits will likely outweigh the costs and risks.

- Identification of the highly qualified investment managers requires having access to them, especially when they are private vehicles or closed to new investors. OCIO firms that manage at more substantial levels will have the access that an individual institution likely will not, and at more attractive levels of fees given their purchasing power.
- Engaging with specialized external resources frees-up the valuable and stretched internal staff to focus on more mission critical functions in the finance and development areas. This produces the win-win situation of employing expertise over the asset pools and allowing internal partners to do what they do best.

PRODUCING BETTER OUTCOMES

Constructive outcomes for an institution on addressing these matters can be further attained by:

- A **thorough search process for selecting an OCIO**, as well as effective on-going due diligence monitoring, can address most of these matters. Performing extensive analysis up-front to identify the various concerns, needs, goals and objectives is critical to success. Having the end in mind is key to good results.
- Having a **well-written investment manager agreement and investment policy statement** will properly define the roles and responsibilities of the OCIO and any limits placed on them. It is highly important to spend enough time early on with these documents and their contents.
- **Communicating and engaging effectively** internally with the various interested parties will achieve necessary buy-in with the program adopted. These persons can include board members, senior management, internal staff, donors and the persons who benefit from the institution's services. It is important to have everyone on the same page for moving forward.
- A **consultant skilled in search and due diligence oversight** can be an invaluable ally. A consultant with expertise in this area will develop in-depth knowledge of your institution, have broad familiarity with the firms and services available, and be effective at matching your goals and needs aligned with the OCIO you work with.

CONCLUSION

There are numerous objections to outsourcing that give pause, including the fears of a loss of control and the belief oversight can be effectively handled internally. Institutions benefit by adopting a formal due diligence process for OCIO selection and on-going monitoring. Effective oversight serves the institution in meeting its fiduciary responsibilities and being the best stewards of its valuable assets. This in turn can lead to better donor relations and development opportunities.

Having an independent consultant lead the oversight process ensures objectivity and expertise. Thoughtful process championed by an expert leads to better, intended outcomes.



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 managing your OCIO services or visit www.planpilot.com/ocio.

