

OCIO MYTHS DEBUNKED

More Than Asset Management

Many institutions still perform many of the administrative functions over their asset pools 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 administering these valuable asset pools going forward.

More Than Asset Management

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 case study, we review what additional services an OCIO may be able to assist with than the investments themselves. Items to consider in this area include the narrow belief I can do it myself versus considering the potential added benefits available of outsourcing to specialists. Thoughtful execution with the aid of a consultant as discussed below can lead an institution through these challenges to better outcomes.

I CAN DO IT MYSELF

Many institutions still perform many of the administrative functions over their asset pools 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 administering these valuable asset pools going forward. This includes:

- **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 administrative tasks are often seriously limited.
- **Expertise and Tools** – the administrative tools available are increasingly becoming sophisticated in subject matter expertise and technology. Simply having a financial background and a good grasp of spreadsheets may not be enough to make and execute the best decisions.
- **Effectiveness** – administration, such as charitable gift accounting and treating beneficiaries properly, as well as tax reporting and compliance, is often done in-house. Institutions may not have full grasp of the specialized tax and legal matters this entails.

Another point of view considers:

- There are benefits to outsourcing, including engaging with specialized expertise in the various areas of administration. The benefits will likely outweigh the costs and risks. They are worth considering versus an internal solution.
- 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 administrative expertise over the asset pools and allowing internal partners to do what they do best.
- OCIO firms that embrace a larger solution set than the investment management itself will likely provide additional services or have access to specialized providers that an individual institution may not, and at more attractive levels of fees given their purchasing power.

BENEFITS OF OUTSOURCING

There are any number of services outside the investment management over an asset pool that an OCIO provider can assist with. The firm may provide the service itself, or have existing relationships with providers it can readily offer to an institution for consideration. Activities in this area include:

- **Administration** – there are a number of administrative functions that need to be performed for asset pools. These can include charitable gift accounting, distributions and reporting to beneficiaries, pooled funds or donor restricted or advised accounts oversight and reporting, as well as other internal and external reporting.
- **Legal, Compliance and Tax** – foundations, endowments, encumbered reserves and charitable trusts entail various legal, compliance and tax obligations and reporting. These are highly specialized and require expertise.
- **Donor Relations and Development** – obtaining gifts requires extensive build-out and maintenance of a donor network. Relationships are built, education provided and gifts are obtained and acknowledged. Internal staff may benefit from at least networking with firms that have extensive background with this.
- **Custody and Brokerage** – assets need to be custodied somewhere. Custodians process transactions and provide reporting at a minimum. Gifts need to be deposited with and either managed or liquidated by a brokerage firm. While brokerage firms, such as Schwab or Fidelity, often provide these services, specialized custodial institutions are of greater value when dealing with separately managed accounts and private assets. Transitioning an OCIO provider involves greater scrutiny and work if the custodian is also changing.
- **Credit** – many OCIO providers are financial institutions with banking entities. They can provide credit and treasury management services.

Taking another look involves:

- There are multiple administrative, non-investment tasks that experts can efficiently provide. They will have the specialization and technology to do so effectively. The benefits will likely outweigh the costs and risks.

- Some services cannot be provided within the institution, such as legal, custody, brokerage and credit. Firms that provide these services must be thoughtfully selected and monitored.
- OCIO firms that embrace a larger solution set than the investment management itself will likely provide these services or have access to these specialized providers that an individual institution may not, and at more attractive levels of fees given their purchasing power.
- Carefully selecting the OCIO is necessary to increase the chances of accomplishing the goals of using these services.

PRODUCING BETTER OUTCOMES

Constructive outcomes for the institution on these matters can be attained by:

- Selecting and working with **an OCIO who is capable of addressing these other services** is an important consideration. An institution, especially not-for-profits and those smaller-to-mid-size, needs an OCIO who can get them access to qualified service providers at reasonable levels of fees.
- **Assessment and selection of third-party service providers** needs to be carefully managed. Agreements need to be thoughtfully crafted to address the services and fees. It is highly important to spend enough time early on with the contracts and define the nature and extent of the relationship.
- **Communicating and engaging effectively internally** with the various interested parties will achieve necessary buy-in with the services selected for outsourcing. 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 with these additional relationships.
- A **consultant skilled in OCIO 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 their services and be effective at matching your goals and needs aligned with the OCIO you work with.

CONCLUSION

A robust OCIO may be able to assist with the provision of administrative services or the selection and monitoring of external firms that provide them. This will more effectively provide specialized services at reasonable costs than the narrowly held belief I can do it myself. Institutions benefit by adopting a formal due diligence process for selection and on-going monitoring of its service providers. 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.

[Learn More](#)

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

