

OCIO Fees Shouldn't be Complex: A Guide to Transparent Pricing



Most institutions searching for an Outsourced Chief Investment Officer, or OCIO, would agree that fees are an important consideration when choosing an investment partner. But most would also agree that:

- Fully understanding providers' pricing can be a challenge
- Doing an “apples to apples” comparison of OCIO provider fees is more difficult than it should be

To help you evaluate OCIO fees, we have created this guide to transparent pricing, discussing what you should expect to see in an OCIO fee proposal and what to look for when comparing the offers of different providers.

“You Get What You Pay For”

Before assessing the OCIO fee itself, it is essential to be clear about the services the fee covers.

In theory, OCIO service models are comprehensive, covering your institution's needs for outsourced money management. Core elements typically include investment and spending policy reviews, portfolio construction, manager search and selection, portfolio monitoring and rebalancing, and performance reporting.

At Mason, however, we add valuable ancillary services such as donor development support, investment committee education and training, marketing support, and multi-advisor data aggregation.

It is important to fully understand what is included in your OCIO fee and what services your provider considers “extras” that may be charged on a discrete basis. Properly aligning service packages will enable easier fee comparisons across providers when you examine the relative merit of providers' fee proposals.

What's in Your “Bundled” Fee?

In recent years, there has been a trend toward increased transparency in OCIO fee disclosures. This has led many OCIO firms to abandon providing an all-in “bundled” fee in favor of breaking out the specific components that go into the overall charge. At Mason, we strongly approve of this approach and the added clarity it provides to institutions trying to fulfill their fiduciary duty of prudent oversight over the cost of investment management.

OCIO fees are typically itemized as follows:

- **OCIO Provider Fee:** This is the fee that covers the costs related to portfolio construction, management, and reporting that are provided by the OCIO firm itself. It may also include a range of ancillary services such as donor development and investment committee education.

Most OCIO firms have a stated fee schedule that sets the provider fee level as a percentage of the assets being managed. Typically, the larger the asset base the lower the percentage fee.

- **Investment Management Fees:** To build portfolios, most OCIO firms utilize investment vehicles such as mutual funds, ETFs, and separate accounts that are provided by unaffiliated or third-party investment management companies. These investment vehicles have their own expenses that are typically passed through to OCIO clients as an additional expense, in addition to the OCIO Provider Fee.

Not surprisingly, investment management fees can vary significantly based on the products/managers selected and the composition of investment types included in an institution's overall portfolio. For example, a portfolio constructed of actively managed funds may come in at a higher price point than one employing mostly passive managers. Higher still may be the cost of portfolios with greater exposure to alternative products like hedge funds and private equity that may add on performance fees to their expense mix.

Investment management fees account for a significant share of an OCIO's "all in" fee. In selecting an OCIO provider it is important to understand what, if any, steps are taken to manage the costs of the investment managers and the products that are recommended. At Mason, we have included cost as an essential factor in our search and selection process for traditional managers. Regarding private equity, we have identified specific vehicle types and providers that offer products that we believe meet return expectations but are also cost effective. Finally, when possible, we use our size as a buyer to negotiate lower fees and access to lower-cost share classes.

- **Transaction Fees:** In building and managing portfolios, endowments and other institutional investors incur transactions fees from custodians. Depending on who manages the custodian relationship, transactions fees may be included in a fee wrap program or may be passed through to the client as they are incurred. Transaction costs usually represent a relatively small share of the "all in" fee for OCIO services but it is important to be aware of them and have a reasonable idea of what they are expected to be.
- **Custody:** Arranging for custody is a key part of the OCIO relationship and may include fees. Does the OCIO help with custody or is that the responsibility of the staff/committee of the client? While it is rare to pay a custody fee today, it is important to ask a prospective OCIO about its role in the custody process.

Final Thought

At Mason, we believe that full transparency in fees is beneficial for both OCIO providers and the institutions they serve. When selecting an OCIO, institutions should expect potential providers to be clear about the breadth of their service package and the fees associated with each service. Institutional buyers should also expect to be provided with reasonable and fair estimates of the costs of underlying investment managers and an indication of the steps OCIO providers take to contain these costs.

Fees are an important consideration in selecting the right OCIO provider for your institution. We hope that this brief guide will help you more effectively navigate the RFP process when it comes to fees and gain clarity in interpreting the fee proposals of potential OCIO partners.

For information about Mason's OCIO services, please contact [Will Thorpe](#) or [visit our website](#).

Institutional clients appreciate the exceptional level of service and attention Mason's credentialed professionals provide, our flexible approach, and the range of options offered.

Get personalized attention from a team that understands your organization.

[Connect with an institutional consultant.](#)

Proprietary and Confidential