

What Every Board Should Ask About OCIO



The number of Outsourced Chief Investment Officers or OCIO providers has exploded in recent years as institutions have come to recognize the value of an outsourced investment management solution. Institutions seek OCIOs for many reasons including co-fiduciary oversight, risk management, access to sophisticated models and alternatives, and more. This is good news since the proliferation of providers increases the chances of finding a suitable OCIO. But at the same time, having more choices can make an already challenging selection process even more onerous, stressful, and time consuming.

To help, we have put together a list of questions that we believe are important for board members engaged in the search process to ask of OCIO prospects. Although the list is not exhaustive, it highlights key areas that our experience suggests are important differentiators in choosing the right OCIO provider.

Question #1: Is the OCIO independent and objective?

Many OCIO providers offer proprietary investment products, including internally built funds of funds with multiple fee levels, as all or a significant part of their portfolio allocations. Some also accept various forms of compensation, such as 12b-1 distribution fees or soft dollars from third-party investment managers for using specific products. Given these potential conflicts of interest, it is essential to fully understand an OCIO's process in selecting investments and investment managers, including whether the OCIO can be objective and free to choose the best the market has to offer.

Question #2: Does the OCIO have a history in the business along with a competitive investment track record?

In recent years, there has been a proliferation of investment firms claiming to provide OCIO services. Now more than ever, it's critical to ensure potential providers have a meaningful history operating as an OCIO in service to institutions like yours. It's also critical that you and your board members are provided with the investment track record of firms under consideration. Such track records should include documented, historical, net-of-fee returns with the appropriate risk measures for the types of portfolios that are likely to be suitable for your organization. OCIO prospects that are unable or hesitant to share their track record should be required to provide clear and compelling reasons for their lack of transparency.

Question #3: What distinguishes an OCIO's investment approach?

Understanding an OCIO's investment approach and how it generates expected returns can build your confidence in that OCIO's ability to meet your investment goals. Key process steps to understand may include: how an OCIO allocates assets; whether it takes a long-term strategic approach to allocation or relies on shorter-term tactical allocations; at what frequency and under what conditions the OCIO rebalances portfolios; and the process for selecting investments and investment managers and in retaining or replacing them. In soliciting answers to these questions, it may also be helpful to probe whether an OCIO has been a thought leader in managing investments for institutions like yours, and how that thought leadership has informed and defined its investment process.

Question #4: Extra services – How comprehensive is the solution?

The best OCIOs offer services that help to deliver on the promise of a truly comprehensive outsourced solution by extending beyond investment management. Such services may include enhanced education for board members and interested stakeholders, assistance with donor development, and/or more sophisticated reporting and data aggregation. All else being equal, a set of robust and practical ancillary services can be an important point of differentiation when looking for a long-term, truly collaborative partner.

Question #5: Does the OCIO have broad market experience?

Non-profit institutions are not all the same. Community foundations, educational endowments, arts and cultural organizations, and healthcare entities are all very different types of organizations with distinct goals and investment management needs. It is vital to know whether an OCIO has the necessary length and breadth of experience to work with your organization. Does the OCIO understand your operations and have the capabilities to “hit the ground running” as your outsourced partner?

Question #6: How much does the OCIO service cost?

There has been an encouraging trend toward greater transparency in OCIO fees. But, at times, it's still difficult to determine which services are covered in the fee quote and which may be charged as an addition. This may make it challenging to arrive at an “apples to apples” fee comparison across potential providers. When addressing the fee question, it may be helpful to ask potential OCIO providers to itemize or unbundle their fees and indicate the cost for services not included in the OCIO fee but necessary to meet your organization's needs, such as the fees for underlying investment managers. It also should be considered a red flag if a provider is not willing to take the steps necessary to make their fees clear and understandable.

Question #7: Is the OCIO flexible?

Your organization may be interested in transitioning to a fully discretionary OCIO relationship, but your investment committee may not be ready to relinquish all decision making to an outside organization. In such instances, it would be helpful to know whether an OCIO prospect is willing to offer a trial run where the OCIO makes the client aware of all trading determinations but allows them discretion on these decisions until they reach a sufficient comfort level with the process to “hand over the keys” to the OCIO.

Asking the right questions is an important step in finding the best OCIO for your unique organization. This is especially true in a marketplace where the number of OCIO providers and the variability in the focus, quality, and breadth of their service sets have grown so dramatically.

It is our hope that the brief list of questions offered above helps set key guidelines as you work through your current or future search processes and that they make your overall selection process more productive and less onerous.

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

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