OCIO Perspectives

MAR 2022

OCIO Momentum Continues

One of the most significant evolutions in our business over the last decade has been the growth of our Outsourced Chief Investment Officer ("OCIO") services platform. What at first seemed like chance requests over a decade ago from a handful of clients looking for additional help managing their portfolios has become increasingly mainstream. More than half of our prospective client engagements last year inquired about OCIO services. Our experience is certainly reflective of a broader industry trend as OCIO assets under management have grown from $90 billion to an estimated $2.7 trillion over the last fifteen years.[1] Given the industry growth and increased interest in OCIO services from our client base, we thought we'd share our experience as to why institutions are asking about OCIO and what the major challenges are that Marquette has helped these clients solve.

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Senior Vice President,
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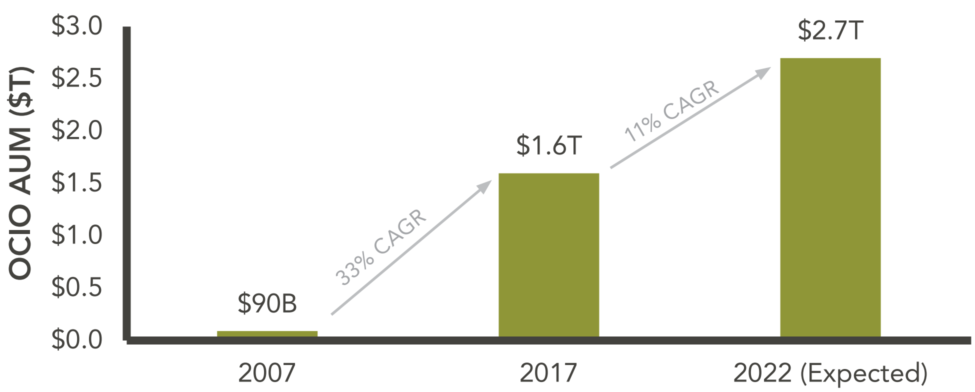
Exhibit 1: The Substantial and Growing OCIO Market



Source: Pensions and Investments, Cerulli Associates

THE GREAT RESIGNATION (OR RETIREMENT!)

Every boardroom has a different dynamic but often there are a few key decision-makers that institutions rely on, especially when it comes to investments. Whether they are board members or dedicated staff, many organizations have seen these key individuals retire or resign over the last few years. When these individuals depart, the institutional knowledge and experience with the investment portfolio are also walking out the door, creating a vacuum for decision-making going forward. It takes a tremendous amount of know-how and expertise to run an investment program in today's complex environment, which makes transition planning all that more important. Oftentimes, OCIO can be an effective solution to this problem. It allows experienced investment professionals to seamlessly take the reins from the outgoing decision-makers and leaves the organization and remaining board members well-positioned to tackle the other critical items on their plate.

INCREASED ALLOCATIONS TO ALTERNATIVES

As forward-looking assumed rates of return on public market investments have fallen over the last 10 years, many institutions have increased their investment allocations to private markets, such as private equity, credit, real estate, and infrastructure, which offer the higher expected returns that institutions need to meet their actuarial or return targets. These private asset classes require a higher degree of investment acumen and research due diligence, that many institutional trustees simply do not have time to undertake. As any controller or administrator will attest, new allocations to alternatives are also accompanied by a significant administrative burden. The added paperwork associated with subscription documents and direction letters to invest and meet capital calls can quickly become a daunting exercise. The pivot towards an asset allocation with private markets may be a timely opportunity to explore OCIO services, where the provider can assume these critical but at times overwhelming functions. OCIO providers have dedicated research and operational personnel as well as systems specifically designed to handle these administrative challenges, saving you and your staff time and stress.

MARKET UNCERTAINTY

In periods of heightened volatility, OCIO services offers a compelling solution for fiduciaries trying to navigate market uncertainty. The volatility seen in March 2020 amidst the arrival of the COVID-19 pandemic caused many institutions to take a step back and reassess the speed of their decision-making and implementation process. Over ten trading days, the market declined nearly 26%,[2] which certainly does not align with the traditional quarterly or monthly meeting schedule employed by many institutions. The in-house tools and experience that OCIO providers bring to the table allow for more frequent monitoring, quicker decision-making, and real-time implementation. Disciplined rebalancing in times of market distress allows a portfolio to maintain the desired risk and return profile, without introducing unintended volatility. Today's environment has no shortage of uncertainties across the geopolitical, climate, and monetary policy spectrums. Whether it's disciplined rebalancing or taking advantage of tactical opportunities, OCIO providers can add value — and peace of mind — during volatile times.

ESG IMPLEMENTATION

Institutions are increasingly looking for ways to invest their assets with managers and mandates that share their core values. The topic of impact investing has been around for years, but many organizations have struggled with the implementation piece. From our perspective, the discussion has recently shifted from a "Yes, we should" one to more of an "Alright then, let's do it already!" one. A discretionary program can be a great solution for entities struggling with this implementation piece. OCIO providers have built-out screening and monitoring tools for ESG and SRI mandates. Marquette has clients who opted for an OCIO model specifically to assist with the implementation of their impact investing mandates. Some focus on traditional ESG principles, others on religious, labor, or diversity goals. We customize each client's investment policy to address their specific goals and objectives, and then build a custom portfolio to meet their needs. We expect to see a continued emphasis on "values" investing in the marketplace with many institutions turning to OCIO models to help implement the values-based portfolios that are important to their mission.

ENHANCED FIDUCIARY OVERSIGHT

As markets and portfolios become more complex, clients are increasingly looking for an additional layer of fiduciary oversight. One way to help board members and counsel sleep better at night is to move many, though not all, fiduciary responsibilities to a third party OCIO provider. This risk transfer requires OCIO providers to build out dedicated processes, internal infrastructure (be it personnel or technology), and sufficient insurance coverage to safely assume the liability that comes with these critical responsibilities. Those newfound responsibilities are clearly defined through an investment management agreement as well as an investment policy statement executed by both the provider and the client. These mutually agreed-upon documents serve as the guardrails for OCIO providers to effectively manage the portfolios, all under the client's watchful eye and oversight.

Whether it be replacing institutional knowledge, freeing up administrative time, navigating through volatile markets, or implementing values-based investing, Outsourced CIO is an increasingly attractive option to many institutional fiduciaries. If you think this may be a fit for your organization, talk to a Marquette consultant today and learn how we can add more value to your institution in an OCIO capacity.

NOTES

[1] *Pensions and Investments*, Cerulli Associates
[2] Dow Jones Industrial Average (March 9, 2020 – March 20, 2020)

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About Marquette Associates

Marquette was founded in 1986 with the sole objective of providing investment consulting at the highest caliber of service. Our expertise is grounded in our commitment to client service — our team aims to be a trusted partner and as fiduciaries, our clients' interests and objectives are at the center of everything we do. Our approach brings together the real-world experience of our people and our dedication to creativity and critical thinking in order to empower our clients to meet their goals. For more information, please visit www.MarquetteAssociates.com.