

# University Foundation: A Case Study

A foundation considers whether to hire an Outsourced Chief Investment Officer (OCIO) or use a consultant

## Key Considerations for Moving to the Outsourced Chief Investment Officer (OCIO) Model

### Lack of Internal Resources

The foundation relied on an investment committee and a small internal finance staff to manage the endowment. Their resources were thinly stretched across the many disciplines required to effectively manage the foundation.

### Desire for Additional Fiduciary Oversight

The foundation was facing increased regulatory and donor scrutiny concerning investment performance and the overall management of its endowment. The heightened attention resulted in more onerous reporting requirements.

### Need for Better Risk Management

The increased complexity of the portfolio made risk measurement and analysis challenging. Given that risk taking is integral to investing, the foundation needed to place greater focus and attention on managing risk in order to achieve its objectives.

### Absence of Fast Decision Making and Implementation

The traditional framework of quarterly investment committee meetings was leaving potential investment opportunities on the table. With the rapid pace of change in financial markets in recent years, meaningful opportunities were being overlooked.

## How Does an OCIO Differ from a Consultant?

| Taken on by a Consultant? | Institutional Responsibility | Taken on by an OCIO? |
|---------------------------|------------------------------|----------------------|
| Committee                 | Asset Allocation             | Committee            |
| Committee                 | Rebalancing                  | Yes                  |
| Committee                 | Manager Selection            | Yes                  |
| Committee                 | Trade Execution              | Yes                  |
| Yes                       | Reporting                    | Yes                  |
| Committee                 | Intra-Quarter Decisions      | Yes                  |
| Committee                 | Mission-Related Strategy     | Committee            |

## The Potential Benefits of an OCIO Solution

### **1** An OCIO brings resources and expertise across many aspects of endowment management in a cost-effective way.

Focused Investment and Operational Expertise:

- Asset allocation
- Spending policy
- Manager selection
- Portfolio construction
- Ongoing portfolio and manager monitoring
- Execution and reconciliation of trades
- Review and reconciliation of cash activity and performance
- Assistance with the institution's monthly, quarterly, and year-end accounting processes

### **2** An OCIO takes accountability for performance and helps an institution meet its fiduciary responsibilities.

Governance Support:

- Assistance in investment policy statement creation to ensure that an institution's financial goals are reflected in its investment portfolio
- Process-oriented execution that allows for checks and controls around operations, trading, accounting, and compliance
- Timely reporting to enable an institution to make informed decisions
- Provides the investment committee with more time to devote to strategic, mission-related issues

### **3** An OCIO brings an integrated risk management infrastructure to help manage risks and tail events.

Risk Management Expertise:

- Risk evaluation at every stage, from defining asset allocation targets to ongoing asset monitoring and rebalancing
- Aggregated risk monitoring and reporting at the total portfolio level
- Liquidity management to balance long-term goals with short-term needs
- Diversified asset allocation to help weather market volatility

### **4** An OCIO uncovers alternative and traditional investment opportunities and executes on them quickly.

Timely Response to Market Changes:

- Vigilance over day-to-day markets
- Ability to execute on market dislocations and opportunities
- Streamlined connection between investment decisions and implementation

## Key Variables to Consider When Hiring an OCIO

### Outsourcing Critical Success Factors

|             |   |
|-------------|---|
| Investments | <p><b>Total Portfolio Management</b></p> <ul style="list-style-type: none"><li>▪ Strong asset allocation capabilities</li><li>▪ Employs tactical opportunities when appropriate</li><li>▪ Sophisticated risk management</li></ul> <p><b>Breadth of Capabilities</b></p> <ul style="list-style-type: none"><li>▪ Capable of covering the universe of potential investments</li><li>▪ Access to a broad range of investment tools and vehicles</li></ul> <p><b>Solutions Development</b></p> <ul style="list-style-type: none"><li>▪ Strong understanding of a client’s objectives and challenges</li><li>▪ Consistent view on solving investment issues</li><li>▪ Appropriate building blocks to develop solutions</li></ul> |
| Service     | <p><b>Flexible Implementation</b></p> <ul style="list-style-type: none"><li>▪ Ability to customize solutions</li><li>▪ Asset classes</li><li>▪ Investment vehicles</li></ul> <p><b>Consultative Delivery</b></p> <ul style="list-style-type: none"><li>▪ Consultative, customized delivery to the client</li><li>▪ Sophisticated knowledge of the investment universe</li></ul>   |
| Operations  | <p><b>Institutional-Quality Infrastructure</b></p> <ul style="list-style-type: none"><li>▪ Strong business management to oversee operations and compliance</li><li>▪ Standard and customized reporting</li></ul>  |

**Disclosures and Notes**

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