

# THE VALUE OF WORKING WITH AN OCIO PROVIDER THAT CAN DO IT ALL



## THE IMPORTANCE OF FINDING AN OCIO PROVIDER WHO DOES IT ALL. EVEN IF YOU'RE PARTIALLY OUTSOURCING.

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### Some do some. Few do all.

For institutional investors, a large part of a CIO's job description is marshalling a virtual org chart. A CIO's team likely includes money managers, trustees, custodians, risk management specialists, portfolio performance specialists, trading desks, overlay services, asset liability modeling pros and more. It's a lot to handle. Which leads me to this question: If all those capabilities are the responsibility of a CIO, then shouldn't they all be the responsibility of outsourced CIO?

They should. An OCIO provider should have the capability of handling all those tasks—the complete job description. But most cannot. Most OCIO providers are forced to tell their clients that they, the provider, can manage some—or perhaps even most—of those tasks, but the client will still have to manage some parts on their own. So, in reality, what they call OCIO—outsourced CIO—is really just partial outsourcing. And really just a partial solution.

## How a successful CIO operates

As a former CIO of one of the larger corporate asset owners in North America, I know how the process works successfully in the real world. If I needed emerging markets exposure in my portfolio, I needed to find the best emerging markets manager for that job. If I had a risk management problem that required solving, then I had to find the risk management capability to solve that problem and bring it online. If a portfolio transition was required, I needed to ensure I had the right transition management services lined up. If I needed to equitize cash, I had to bring overlay services to play.

Now I sit on the other side of the table and work for a leading OCIO provider. And now I see that OCIO, when done correctly, actually can work in the same way—and even better.

As an example, Russell Investments built their capability set the same way a CIO would:

- We began, way back in the 1960s, as an investment consultant, helping to find the best money managers around the world for specific assignments.
- Then, in 1981, we began managing assets directly to fill a client need. And the firm saw the power in that holistic portfolio approach.
- Then we saw how portfolio transitions often suffered from a limited understanding of the entire portfolio, so we built our own best-of-breed transition management capability.
- In the early 2000s we observed inefficient foreign exchange execution and developed a unique multi-venue agency foreign exchange (FX) approach to improve currency trading results.
- The same happened with trading capabilities, trustee services and with using overlays to equitize cash, assume FX management, oversee risk exposures and more.
- The final result happens to be a firm where the complete solution set—the complete job description of a CIO—is handled holistically, in-house, by one firm.

Interestingly, this breadth isn't universal in the OCIO marketplace. I see certain of our outsourcing competitors outsourcing to Russell Investments. Again, some do some, few do all.

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## What if you don't need a complete OCIO solution?

This holistic approach sounds great if total CIO outsourcing is needed. But what if an institutional investor only needs risk management? Or only transition management? Or seven out of 10 services? What if they still want to keep significant functions in-house? Are holistic OCIO providers still better at partial assignments? I believe the answer is hell yes.

When I was a CIO, I heard all the pitches. I heard providers tell me why it was actually in my best interest that they didn't build a 360-degree set of capabilities in-house. I get that argument, but isn't there always a flip side? If a single provider has the experience of performing all the necessary functions, they have to understand the connections between the functions.

Here's one example: the crucial importance of coordination between a [transition manager](#)<sup>1</sup> and an [overlay provider](#)<sup>2</sup>. Managing market exposure when changing managers, or even more importantly when shifting or rebalancing your asset allocation, is critical to avoiding costly slippage from unmanaged risks. How costly? It's very possible that a year's worth of hard-earned alpha can be lost in just a few hours of exposure mismanagement using [uncoordinated transition and overlay activities](#)<sup>3</sup>.

I'd argue being competent in both transition management and overlay services makes you a better partner than a player who only does one or the other. The same holds for synergies between strategic investment consulting and implementation practices. Because we implement, we can offer more practical consulting advice. Because we see our clients' real-world problems firsthand as consultants, we can develop practical solutions to address client challenges as they emerge.

Let's say, as CIO, I don't need to completely outsource. Instead, I'm just trying to slot in an alternatives solution. Imagine hearing from a standalone alternative investment provider that they truly understand how alts fits into a total portfolio, even when you know their firm has never actually managed a total portfolio. How can they possibly understand the nuances of all the different aspects of exposure? How can they recognize the gaps and overlaps their alts recommendation might create? On the flipside, how can a generalist asset manager give recommendations on alternatives if they are not also alts experts? How do they understand the ramifications of their recommendations? In my experience, the same was true with standalone risk management, standalone overlay services, or standalone trustee services. I'm not arguing that specialists don't have a role, I'm just saying that a specialist that is part of a firm with a broad set of capabilities is more likely to add value beyond their mandate. How? By helping a CIO manage how that mandate integrates with the balance of the investment program.



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## The power of proximity

The OCIO team I am part of now is all part of the same wide and deep org chart. I can easily talk to my colleague Tom Fletcher and the rest of the overlay services team to discuss how they might help make a client's investment strategy walk and talk. Or I can ping Greg Nordquist about cash equitization and risk management. I can call up Travis Bagley and the transition management team to discuss the nuances of an upcoming portfolio transition or a request for outsourced trading. Or I can step into a conference room and video conference with Roger Ellestad and his team to talk about trustee services, performance reporting and many other ways we might improve operations for an institutional client.

How can a network of independent providers possibly match that power of proximity? While some of my team members may be in different offices, we all still have daily phone calls, deep, decades-long relationships, and, most importantly, a shared mission of meeting clients' needs together, as part of one actual team under one actual name. It's a rare situation. It takes decades and decades to build this kind of capability set. But it exists.

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So, it doesn't matter if an institutional investor needs full, holistic outsourcing or just a partial set of services. In both cases, I believe the best choice is a best-in-class OCIO operation that performs all of the necessary functions. Many may claim they have a good reason why they shouldn't do everything—why, as they will tell you, they choose not to. But we believe the real reason is because they simply haven't invested in a full capability set. Their DNA consists of the services they've built in-house. The other services—the ones they push back onto institutional investors or outsource to third parties—those skills are outside of their genetic makeup.

**The bottom line: Find an OCIO firm that does it all.**

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<sup>1</sup> Transition management solutions and services. *Russell Investments*. Available at: <https://russellinvestments.com/us/solutions/institutions/customized-portfolio-solutions/transition-management>

<sup>2</sup> Overlay services. *Russell Investments*. Available at: <https://russellinvestments.com/us/solutions/institutions/customized-portfolio-solutions/overlay-services>

<sup>3</sup> Bagley, T., Nordquist, G. (2023, November 6). Q4 2023 update: Real-time risk report. *Russell Investments blog*. Available at: <https://russellinvestments.com/us/blog/q4-2023-update-real-time-risk-exposure-report>

## QUESTIONS?

Call Russell Investments at **855-771-2966** or visit [russellinvestments.com/OCIO](https://russellinvestments.com/OCIO)

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