

# OCIO fees

What's included in your fees and how are they presented?

## What's included in your fees?

Fee standardisation continues to be an elusive goal of the outsourced chief investment officer (OCIO) industry. Organisations seeking outsourced investment services continue to endure the often-confusing challenge of evaluating OCIO providers based on varied and inconsistent fee proposals. One provider's total fee may include everything (e.g., strategic advice, manager fees, manager change fees, reporting, etc.), while another provider's total fee may only include some of those items, and additional expenses are then charged piecemeal throughout the year. It's important to understand the **total cost** of outsourcing your portfolio, so we've created a list of questions to help you fully understand what's included (and what isn't) in an OCIO solution.

There are two things to keep in mind when it comes to fees:

### Overall structure

Organisations should have a clear understanding of the structure of the fee agreement they are negotiating with the OCIO.

1.

- Whether or not the OCIO fee is broken out separately
- What that OCIO fee includes
- How fees for things like third-party asset managers or custody are quoted
- How OCIO fees are calculated for additional portfolio management or administrative services

### Services

2.

The services received under an OCIO relationship vary by provider. Organisations should have a clear understanding of what services are included in the fees as quoted by the provider, and what services are billed separately. These services should be driven by the overall relationship the organisation has with the OCIO provider – not just the amount of assets under management.

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## OCIO fee considerations

In the table below, we've listed what we view as key considerations when evaluating fee proposals from OCIO providers and the questions to ask around each consideration.

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### Strategic advice

#### How is strategic advice billed by the OCIO?

Every OCIO provider will include strategic advice as part of its overall service; however, some providers will quote an OCIO fee that solely covers strategic advice, while other providers include additional services in their fees. Since these tend to be quoted differently across providers, understanding the underlying components can help compare apples to apples.

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### Asset allocation

#### What types of strategies are included in the portfolio?

Strategies that may yield higher alpha, or that have capacity constraints, can be more expensive than those that do not. There are many reasons to invest in higher-fee strategies – alpha, diversification or some other rationale – but part of understanding whether it's worth paying for higher-fee strategies is understanding the role those assets will play in the total portfolio.

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### Manager fees

#### Are the manager fees part of the OCIO's fee proposal or will they be charged separately?

Have a clear understanding if investment management fees form part of the total OCIO platform fee by which the OCIO provider pays directly to underlying investment managers or if this is an additional layer.

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### Active and passive management

#### What blend of active and passive management is needed to achieve my investment goals?

An actively managed portfolio may incur higher fees than a passively managed or an active/passive hybrid portfolio. And, different passive approaches have different cost implications. For instance, a passively managed investment portfolio could be priced very differently than an ETF.

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### Investment vehicles

#### What investment vehicles are the OCIO providers offering?

Different investment vehicles can pursue different investment strategies. For example, some funds may include strategies like dynamic management or cross-asset-class risk management within the fund. Others may not include those types of services as standard fund features, but instead offer them to investors for an additional fee.

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### Client service model

#### Does the OCIO's client-service model include client meetings, client conferences, research and educational materials?

It is important to know what services are also included as part of the fee, which are charged based on usage and whether there are any per-year limits imposed by the OCIO provider. Some examples of these services are client meetings, client conferences, research and educational materials.

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### Reporting

#### Is customised reporting required or are standard reports sufficient?

Reporting may not be included in the overall fee proposal. In addition, standard reporting will typically be provided at a lower cost (or at no additional cost) compared to more sophisticated or customised reporting requirements.



### Conflicts of interest

#### How does the OCIO provider identify and manage any potential conflicts of interest?

Organisations should understand whether the OCIO provider is allocating to proprietary products or charging for the provision of other internal services – and whether that activity results in additional revenue to the OCIO provider. Organisations should also understand whether the OCIO provider has an ownership interest in any of the managers they recommend.



### Manager negotiation

#### Are there benefits from the OCIO provider's scale?

Understand how the OCIO provider's size allows them to negotiate fee structures with underlying managers. Is the OCIO provider leveraging the scale of the entire firm? Or is it negotiating directly with managers using solely individual client assets as negotiating leverage?



### Fee structure

#### How are fees structured and how might they change?

During the evaluation process, organisations should ask about whether the OCIO fee is fixed over the course of the relationship or if it might change based on an increase or decrease in overall assets. Find out if there is a performance fee being charged on any portion of the assets. And finally, understand whether fees are being combined together and charged to the organisation in aggregate or separately.

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## Fee transparency

No matter the answer to each of the questions provided in the table, we believe that any OCIO provider should be committed to complete fee transparency with its clients. Historically, certain OCIO fees could be presented in a “bundled” format, allowing for ambiguity around how much remuneration the OCIO provider was receiving and how much was getting paid to third parties. Potentially, that ratio could even change without the client knowing.

Today, however, we are driven by a need for increased transparency and believe fees should be reported. This is to ensure that OCIO clients are able to clearly understand all layers of fees and the services included with each layer. For example, clients should be able to easily recognise what services are included in their OCIO fee, how much is being paid to third-party investment managers and whether the OCIO provider is receiving any additional fees for investments in proprietary products and/or internally managed solutions. Additional third-party costs, like custody and/or fund administration, should be clearly detailed as well.

It is critical to understand what is included in all layers of fees so that organisations can make better informed decisions when comparing fees across providers.



*Clients should be able to easily recognise what services are included in their OCIO fee...*

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## Looking beyond fees

While top-line fees are undoubtedly important, it is unlikely that fees will be the single determining factor in a successful OCIO relationship. Rather, we believe that selecting a firm that is best tailored to support your organisation's needs and helping you achieve your investment objectives (net of all fees) is paramount. Yes, fees are an important component in determining whether an OCIO provider is a good fit to help you achieve your goals and objectives, but it is important not to evaluate fees in a vacuum. We strongly recommend that you spend quality time with the OCIO providers' organisation and team to really understand who they are, what drives their solution and how their approach can help you achieve your goals.



*...it is important not to evaluate fees in a vacuum.*

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