

# ELEVATE YOUR INVESTMENT PROGRAM WITH AN OCIO PARTNER



## 4 THINGS TO LOOK FOR IN AN INVESTMENT OUTSOURCING PROVIDER WHETHER YOU USE IT HOLISTICALLY OR SELECTIVELY

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Amid an ongoing rise in costs and a challenging labor market, having the resources necessary to build the ideal investment management program may seem like a pipe dream. But imagine you had more resources at your disposal. How would you improve upon the management of your current program? What sort of implementation enhancements might you add? What about a manager research function? Or a transition management program? And let's not forget about enhancing reporting.

As far-fetched as this exercise may seem, the truth is it doesn't have to be that way. In fact, we believe these types of additions can become reality when you think beyond what you can accomplish with internal resources and assemble a dedicated team that maximizes your ability to get stuff done.

The key is often to shift more of the responsibilities of managing your investment program externally to an outsourced chief investment officer (OCIO) provider—especially if you find the right partner who is open to customizing deliverables to meet your precise needs.

While there are nuances in OCIO for a foundation, public pension, endowment, DC plan, or family office, there are many traits common to exceptional results for all. The ability to customize to each organization's needs are key to overall success.

In this article, we look at what we believe are the must-haves when selecting a skilled OCIO provider. But first, let's back up a step and review the case for turning to investment outsourcing in the first place.



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### Why OCIO? Because it takes a village.

It's no secret that a high bar of expertise is necessary to design and oversee a top-notch investment program. We believe this includes specialists who can couple strategic advice with daily oversight, manager researchers that offer improved access to best-in-class money managers, and experienced operations staff who execute back-office functions.

As cliché as it may sound, just as it takes a village to raise a child, it really does take a village to [manage an investment program](#). In most cases, it makes sense for this village to be comprised of individuals both within and outside the investor's organization—in other words, a mixture of in-house talent and third-party expertise.

Simply put, for all but perhaps the largest institutional investors, the sheer amount of work required in managing an investment program dictates that some tasks must be delegated beyond the walls of an organization. As a former CIO at a publicly traded California utility company, I can attest to this. During my 20-year tenure, I constantly tapped into a network of external resources in order to hire, among other things, consultants for risk modeling, specialists to help with transition management and asset managers to trade stocks, bonds and overlays.

Perhaps most importantly, what I realized was incremental strategies that can increase return, control risk or reduce costs become possible when you're not limited by the bandwidth of your internal resources. In other words, an OCIO provider should serve as a virtual extension of your capacity to get stuff done. Striking the right balance is situation-dependent. Where staff is especially lean, this can mean the OCIO takes on most functions. In other cases, the external provider acts in a capacity that is more complementary, akin to an extension of your existing team.

## What are the key features of a skilled OCIO provider?

With so many firms to choose from, what distinguishes one OCIO provider from the next? While there are nuances in OCIO for a foundation, public pension, endowment, DC plan, or family office, there are many traits common to exceptional results for all.

We see the following four features as setting an investment outsourcing provider apart from the rest of the pack.

### 1. OCIO is a core component of the provider's business

We've seen some very large asset managers entering the OCIO space. However, OCIO is really just a fraction of their focus. Make sure you're working with a provider that is fundamentally focused on OCIO. At Russell Investments, for example, OCIO represents 86% of our total firm revenue and nearly all of our institutional revenue. That's where we spend our time and focus on developing and retaining talent.

For some of our key competitors, that OCIO revenue number may drop as low as 2%. Ask them: If OCIO is only 2% of their business, why should you believe they allocate sufficient resources to meet your specific needs? Do they offer the full range of services you might need, and are they flexible enough to provide these functions in either a comprehensive or a la carte fashion?

This is why we believe it's paramount to partner with a firm where OCIO is their bread and butter, rather than a mere side dish. Furthermore, when investment management outsourcing is a central component of a provider's business, you can rest assured there are no cross-motivations at play, as both of your business interests will be in alignment. In short, there will be no daylight between what drives success for your plan and success for your provider.



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### 2. A lengthy heritage and record of success

As more institutional investors increasingly rely on an outsourcing model to satisfy their investment management needs, we've seen an increasing number of firms toss their hats into the OCIO-provider ring. But there's a big difference between a service offering and service quality—and we believe that when it comes to something as complex as full investment outsourcing, the more experience the provider has, the more likely the service will be of higher quality.

Speaking frankly, anyone can improve returns over time by taking more risk. That doesn't take skill nor reflect any insight. What separates skilled OCIOs from the rest is having a framework that allows them to track performance against a client's organizational objectives, along with the flexibility to respond to changes in market conditions or the organization's circumstances. This requires having individuals on the team with deep expertise who are focused on developing investment strategies to meet an organization's investment objectives—even as they may morph over time.

This is why we contend that firms with a long heritage of guiding institutional investors through both good and bad markets have a leg up on other providers. When selecting an OCIO partner, consider how many years of investment outsourcing it has under its belt—and whether that tenure comes with a proven track record of success. Has the firm offered OCIO services for decades, or did it only recently dip its toes in the water? How long is its average client tenure?



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### 3. The right tools and systems

Third on our list are proper tools and systems for the job at the hand. Most internally managed investment programs lack the ability to see across an entire portfolio on a frequent basis, making a robust system with visibility at the total-portfolio level a must-have when fully outsourcing. In addition, we believe it's critical that the investment management platform be both scalable and customizable—as there is no one-size-fits-all solution to an investment strategy. But whether it's a piece of the investment program or the whole enchilada, transparent risk management should be part of the package.

Perhaps most importantly of all, we think the platform should be mature yet flexible and representative of years of insight. The right platform will have been adapted to encounter and anticipate a myriad of challenges, allowing you to benefit from decades of experience managing investment programs. After all, who wants their OCIO provider to be learning with their money?

### 4. Superior implementation capabilities and operational excellence

Last but not least, we see enhanced implementation capabilities and operational excellence as a must. The right OCIO understands that even the best-designed investment strategy can be derailed by poor execution. Put another way, it's one thing to offer great investment advice—but it's another thing to implement investments successfully.

A skilled OCIO handles critical risk management functions on an internal basis: overlays, hedging, transitions, enhanced portfolio implementation, cash management, etc. These end-to-end implementation capabilities naturally translate into a single point of accountability for more holistic outsourcing clients, but should also be available for more narrowly focused, extension-of-staff assignments.

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#### The bottom line

Operational excellence, robust and flexible systems and processes, lengthy record of success, and a core OCIO business model are the key components that we believe set the top OCIO providers apart. Selecting a partner that checks the box for each of these features can go a long way toward designing and implementing the investment program of your dreams. Let us know how we can help.

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# QUESTIONS?

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

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