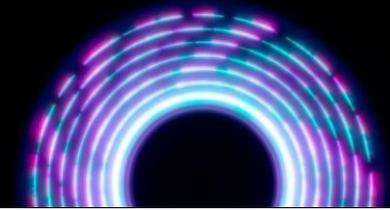


OCIO fees



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



What's included in your fees?

Fee standardization continues to be an elusive goal of the outsourced chief investment officer (OCIO) industry. Fiduciaries 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, trust and/or custody, travel for your client service team, 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

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

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. Fiduciaries 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 organization has with the OCIO provider – not just the amount of assets under management.

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.

	Strategic advice	How is strategic advice billed by the OCIO? <p>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.</p>
	Level of discretion	What is the level of discretion assumed by the OCIO? <p>Generally, the higher the level of discretion assumed by the OCIO, the higher the fees, since the provider is taking on greater fiduciary responsibility and risk.</p>
	Asset allocation	What types of strategies are included in the portfolio? <p>Strategies that may yield higher alpha, or that have capacity constraints, are generally 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.</p>
	Manager fees	Are the manager fees part of the OCIO's fee proposal or will they be charged separately? <p>In commingled funds, a change in underlying manager fees may impact the overall portfolio fees – or it may not. In a separate account structure, manager fees are generally passed through to the client directly.</p>
	Active and passive management	What blend of active and passive management is needed to achieve my investment goals? <p>An actively managed portfolio will 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.</p>
	Investment vehicles	What investment vehicles are the OCIO providers offering? <p>Separate accounts may incur higher total fees than a commingled fund structure. Mutual funds may incur higher fees than institutional funds. In addition to fee considerations, different investment vehicles can also pursue different investment strategies. For example, commingled funds may include strategies like dynamic management or cross-asset-class risk management within the fund. Separate accounts may not include those types of services as standard fund features, but instead offer them to investors for an additional fee.</p>

	Client service model	<p>Does the OCIO’s client-service model include travel expenses, client meetings, client conferences, research and educational materials?</p> <p>It is important to understand which of these services are included as part of the fee, which are charged based on usage and whether there are any per-year limits imposed by the OCIO.</p>
	Reporting	<p>Is customized reporting required or are standard reports sufficient?</p> <p>Standard reporting will typically be provided at a lower cost (or at no additional cost) compared to more sophisticated or customized reporting requirements – such as those for privately held assets, multiple sub-accounts or separate investment pools.</p>
	Conflicts of interest	<p>How does the OCIO provider identify and manage any potential conflicts of interest?</p> <p>Fiduciaries 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. Fiduciaries should also understand whether the OCIO provider has an ownership interest in any of the managers they recommend.</p>
	Manager negotiation	<p>Are there benefits from the OCIO provider’s scale?</p> <p>Understand how the OCIO provider’s size allows them to negotiate fee structures with underlying managers. Is the OCIO leveraging the scale of the entire firm? Or is it negotiating directly with managers using solely individual client assets as negotiating leverage?</p>
	Fee structure	<p>How are fees structured and how might they change?</p> <p>During the evaluation process, fiduciaries 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. Fiduciaries should also understand 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 organization in aggregate or separately.</p>

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 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 recognize what services are included in their OCIO fee... **”**

clients should be able to easily recognize 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 fiduciaries can make better informed decisions when comparing fees across providers.

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 organization'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 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' organization and team to really understand who they are, what drives their solution and how their approach can help you achieve your goals.



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