INVESTMENT OUTSOURCING GUIDE

Tools and practical advice to help you select the right OCIO for your organization

Your OCIO. Your Way.

Russell Investments

russellinvestments.com

Contents

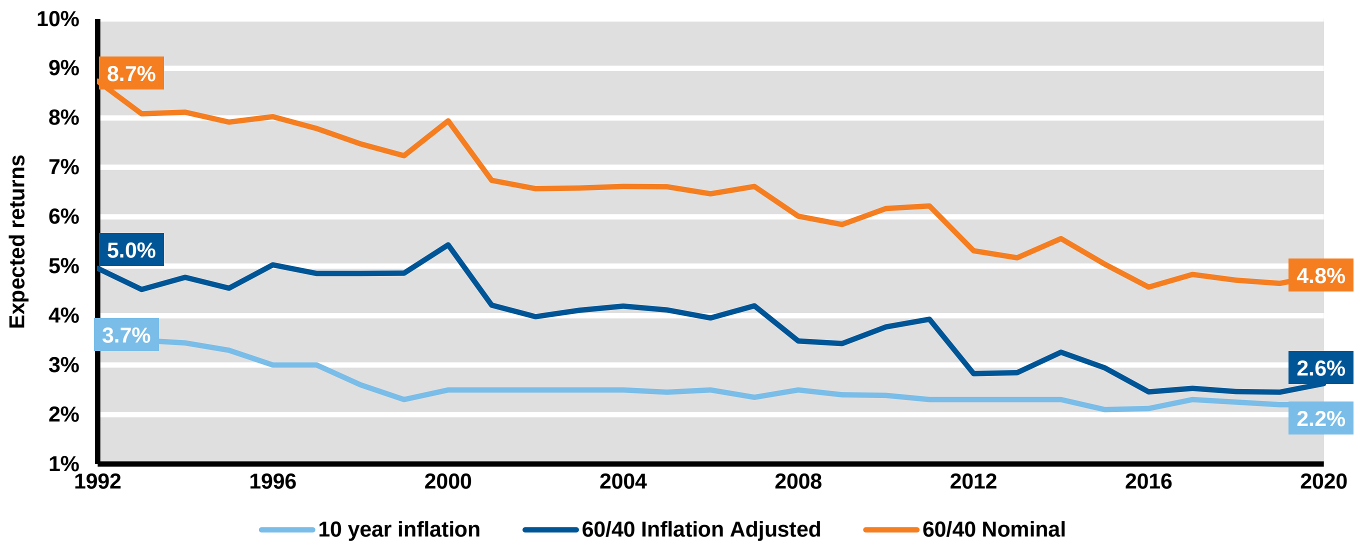
Why does outsourcing make sense for institutional investment portfolios?

Fiduciaries are facing some tough challenges. Market volatility, tighter budgets, slimmer staff resources and a heightened regulatory environment are all putting pressure on the ability of organizations to meet their investment objectives. All this adds up to mounting demands on institutional investors who are working hard to support the needs of their organizations with dwindling resources.

For many organizations, the investment program has served as a lever to grow assets - to fund a pension plan, to support charitable endeavors or to pay for capital expenditures, to name just a few. However, with interest rates at historic lows, building an investment portfolio that can meet organizational objectives is going to be challenging. Financial market complexity and volatility are gradually chipping away at the ability of most organizations to meet their long-term return goals. And the picture isn't looking any better for the future. Over the coming decade, the Survey of Professional Forecasters predicts that a 60% equity/40% fixed income, passively managed portfolio is expected to yield only 2.8% after adjusting for inflation, as illustrated in Exhibit 1.

This uncertain environment creates a predicament for fiduciaries. They are left to make hard choices about how to meet increasing needs with a shrinking investment portfolio. In fact, this adverse market environment fundamentally changes how non-profit organizations should be thinking about their investment program.

Exhibit 1: Survey of professional forecasters



Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters. Data as of October 2020. Expected returns on this chart are the expectations that the Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters had during the time period noted on the chart above. These are 10-year forward-looking forecasts. Data represents historical forecasts and is not indicative of future results. 60/40 = 60% equity, 40% bond portfolio. Equity returns were calculated using the Surveys' forecasts of the S&P 500 Index; bonds were calculated using the Survey's forecasts of the U.S. Treasury 10-year bond. Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

No longer can fiduciaries rely solely on market returns and strong manager selection to meet their return requirements. Indeed, fiduciaries should augment these elements, which they are already executing well, with strategies that can add incremental value over time – such as dynamic portfolio management. Many organizations are pursuing a dynamic portfolio management strategy by switching to an outsourced chief investment officer (OCIO) provider.

It's no secret that OCIO has been gaining traction over the past decade. Worldwide assets managed with full or partial discretion by outsourced CIOs for institutional investors rose 5.8% to $1.96 trillion in the year ending March 31,2020.[i]

In today's uncertain market environment, every basis point counts. Investors must incorporate investment strategies that may offer incremental returns, avoid risks for which they don't expect to get paid and ensure that their portfolios are implemented efficiently. And fiduciaries are realizing that they don't have the time, resources, access or budget to dynamically adapt their portfolios to the shifts taking place in the markets. This leaves fiduciaries with one big question:

If we only meet four times a year, where should I be spending my time?

In our experience, we have observed that most investment committees and senior staff spend two to three hours per quarter reviewing their investment programs.

Every investment committee we work with is convinced that they are focusing on the highest priority items. However, we have found that investment committees are spending far more time reacting to and looking at the past than making strategic decisions that can materially impact performance going forward.

This isn't to say that investment committees shouldn't spend time reviewing past performance or replacing underperforming managers – that still needs to happen. However, those time-consuming details shouldn't be the primary focus. With the help of an OCIO provider, investment committees can spend their precious meeting time on strategic decisions, which can account for up to 80% of their success. In this uncertain investing environment, it is critical to get the strategic decisions right, but don't discount the amount of value added by implementing those strategic decisions with the help of an experienced OCIO provider. That's why it is so important to find the right one for you.

No longer can fiduciaries rely solely on market returns and strong manager selection to meet their return requirements. Indeed, fiduciaries should augment these elements, which they are already executing well, with strategies that can add incremental value over time – such as dynamic portfolio management.

[i] Pensions & Investments Magazine. OCIO growth assisted by volatile times. June 2020.

Choosing the right model

As a fiduciary, trying to figure out how best to manage your investment program, you must choose whether to build or buy the necessary expertise needed to run your investment program. If you choose to build it – meaning you hire investment staff and invest in the right management tools to run it internally – you may only choose to outsource a portion of your investment portfolio to an OCIO provider. If you choose to "buy it", then you will need to find a provider whose skills, experience, investment philosophy and interests are aligned with yours.

Over the past eight years, the OCIO industry has exploded – in 2011, only 25 providers responded to CIO magazine's OCIO buyers guide survey.[2] Today, there are 83 providers who bill themselves as an OCIO, managing nearly $2.4 trillion in assets globally.[3] This breadth of providers allows investors a wide variety of options, but it also creates a lot of confusion in the market about what an OCIO provider is and does.

We, of course, have an opinion on the services an OCIO provider should offer and the model that works best for clients – as does each of our competitors. To help you better select the right provider, we have compiled the three general types of portfolio construction models that we see most consistently across the industry. We have also laid out the advantages of each model and additional nuanced considerations for you to think about in your search.

The manager with a single portfolio

Many of these firms are run by a leading manager or an ex-chief investment officer (CIO) and his or her team. Such firms typically cater to a specific type of organization (such as an endowment or a pension plan) and are ideal for institutions who want to invest in a single-portfolio solution with a highly qualified team, and whose objectives align with the investment philosophy and approach of the management team.

Advantages of this model include:

- High-touch customer service due to small client base
- One investment philosophy and portfolio solution offered to all clients equally
- Single business focus on OCIO services and nothing else
- Open-architecture portfolio construction approach
- Team dedicated to daily portfolio oversight and risk management
- Consolidated reporting on performance of the total portfolio

Considerations for this model include:

- Key person risk – a leading manager or ex-CIO's departure may impact the performance and focus of the investment pool
- Limited or no flexibility to customize your specific portfolio
- Capacity, liquidity and redemption constraints
- Outsourcing of manager research, transitions, custody, administration, etc. to third-party providers
- Total portfolio solution – all your assets or none
- A fully delegated model – meaning decisions regarding asset allocation, transitions, trading bands, etc. are all delegated to the OCIO provider

The consultant or asset manager with a separate account solution

Consultants and asset managers bring different strengths to their OCIO solutions. Consultants are skilled at advice, governance best practices, manager research and reporting. Asset managers tend to have deep market, portfolio construction, trading and execution expertise. These two types of entities bring different biases and experiences to the table, but what unites them is their approach to portfolio construction. They have built divisions of OCIO services that set up separate account structures for each of their clients and they then allow their clients the option of delegating a portion of their portfolio construction and management responsibilities to the provider. This solution is ideal for organizations that have hired dedicated investment staff, have an investment committee comprised of investment industry professionals and want to retain discretion over asset allocation strategy, manager selection and dynamic and tactical portfolio management.

Advantages of this model include:

- Full customization; every portfolio is custom built for each client
- Flexibility of choice – clients can choose to outsource all, or a portion, of the total portfolio
- Some ability to customize the amount of discretion delegated to the provider
- Strategic advice tailored to each organization's unique needs
- Ability to remain involved in the manager selection and contracting process
- Ability to customize the amount of liquidity in the investment portfolio
- Some providers offer a portfolio construction approach which leverages their relationships with third-party asset managers
- Strong manager research platform and insight
- Consolidated and customized performance reporting

Considerations for this model include:

- Lack of focus – outsourcing is a small part of the firm's overall business
- Management of multiple providers is left to the organization
- Some providers only offer proprietary funds, built and managed by the firm's investment professionals
- Oversight of total portfolio exposures is left to the organization
- Dependency of client results on the skills of the assigned portfolio manager rather than on firm-wide consistency in how portfolios are built
- Costs for separate accounts may be higher than with other models
- Fees may not be as transparent as other models
- Limited administrative support for the organization's staff

The consultant and/or asset manager with a commingled and separate account solution

This is the solution Russell Investments provides to our clients. We combine the strategic advice of a consultant with the portfolio construction and management expertise of an asset manager. We primarily offer commingled vehicles, but also offer separate account solutions for certain asset classes or types of clients. Our commingled solution employs dynamic management and allows smaller organizations, as well as organizations without dedicated investment staff or a highly sophisticated investment committee, to cost-effectively build an investment program that is similar to that of larger organizations with the necessary experience and extensive resources. Our solution is best for organizations with limited internal staff resources, a dedicated – but time-strapped – investment committee, and stakeholders who are comfortable focusing their energy at the governance level – while delegating portfolio construction, manager selection and management decisions to us.

Advantages of this model include all the advantages of the consultant or asset manager with a separate account solution already listed, *plus*:

- Skills and experience of a consultant and an asset manager in one holistic solution
- Choice of commingled funds and separate accounts
- Total portfolio oversight
- Flexibility in the amount of discretion delegated
- Daily dynamic portfolio management to capture short-term opportunities and/or mitigate risks
- Fee transparency
- Consolidated vendor management and reporting
- Full suite of administrative services to help ease the paperwork burden on your staff

Considerations for this model include:

- Not ideal for investment committees who want to meet with managers personally
- Most cost effective when using commingled fund structure
- Limitations on the types of commingled funds available if working with a smaller or newer OCIO provider
- Typically have a list of preferred providers (e.g., custodian) included in the overall fee, but offer flexibility based on client needs

The one constant across all the different provider models is that your investment committee and staff retain full fiduciary responsibility for your investment program. This means that the strategic direction and governance decisions driving your investment program are yours to make. All OCIO providers will take fiduciary responsibility for the decisions you delegate to them – but the solution they build, and how they charge, execute and report back to you on those decisions, varies greatly, depending on the type of model you've chosen.

[2] Source: aiCIO survey (2011).

[3] Charles Skorina (2020).

Defining the roles

As we mentioned earlier, it is critical to partner with the right OCIO provider in today's uncertain market environment. The right model for you depends on the roles that you need your OCIO provider to fill, and those roles are driven by the skills, experience, resources and time that your existing staff and investment committee have to devote to the investment program. When making decisions about which roles to outsource, you should keep two simple principles in mind.

1. Your fiduciary responsibility is non-transferable.

This means that no matter whom you choose, and no matter what types of skills and experience they bring to the table, your board and investment committee are ultimately responsible for meeting your investment program's goals. If your team cannot adequately fulfill the responsibilities of managing and servicing your investment program, it is your fiduciary responsibility to find professionals who can.

2. In order to effectively manage your investment program, you must have a robust governance structure in place.

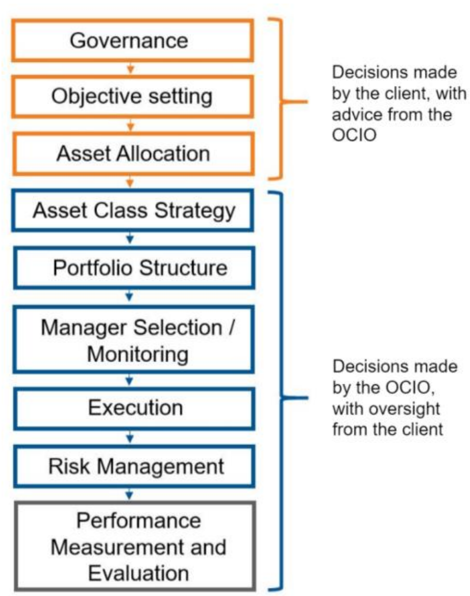
No OCIO provider will ever be able to replace your entire team; however, with the right partner, you can ensure that you have the right people, with the right expertise, managing and implementing decisions that have the potential for the best possible outcome for your investment program. In order to do this, you need to clearly identify the roles and responsibilities of each of the groups that are engaged in the oversight and management of the program.

Functional responsibilities overview: Steps in a well-managed program

One of the biggest questions facing organizations that choose to outsource aspects of managing their investment program is deciding which decisions to keep, and which to delegate. The overview in Exhibit 2 demonstrates the key steps fiduciaries must take for a well-managed investment program. The decisions fall into three broad categories: strategic decisions (in orange), portfolio management (in blue) and review and control (in gray).

The decisions in orange are those that tend to have the greatest impact on your long-term success. They include governance structure, objective setting (such as return target, liquidity levels and risk tolerance) and strategic asset allocation. Ultimately, you retain decision-making authority for these items as well as fiduciary responsibility for your entire investment program. Your OCIO provider's job is to advise you on these long-term strategic decisions, and then implement them on your behalf.

Exhibit 2: Key fiduciary steps



The decisions in blue represent the implementation of your strategic decisions, which include construction of the portfolio as well as the monitoring and daily portfolio management of each underlying investment strategy within your portfolio. Your OCIO provider will become a co-fiduciary and will take responsibility for determining which investment strategies best align with your strategic goals; for researching and selecting the managers and strategies; and for monitoring and managing them on an ongoing basis. The OCIO provider is responsible for everything in blue.

In a separate account structure, you have flexibility to retain asset class strategy, portfolio structure and manager selection – with the OCIO provider taking responsibility for monitoring managers, execution and risk management.

Lastly, those in gray are the evaluation of whether your OCIO provider is on track to meet your goals. They include customized reporting, performance evaluation versus your benchmark and peers and an assessment of portfolio positioning against your strategic targets.

We've included a checklist on the following pages to help you determine the model that best resonates with your organization's focus and goals, and which decisions you should keep, and which should be delegated to an OCIO provider. It's important that your entire team is clear on who has responsibility for which decisions in the relationship. You will need to have frank, sometimes uncomfortable, discussions with your team about what you have the time and expertise to manage, and what you should outsource to your OCIO provider.

Worksheets: Does your provider have the right set of skills?

Finding the right OCIO provider is a combination of finding the right model, appropriately defining the roles and then determining whether the OCIO provider has the right combination of skills and experience to do the job you're hiring them to do. Below, we have identified the primary skills, capabilities and experience we believe you should be looking for in an OCIO provider. Your investment program may not require all the skills we outline below, but we believe this list of questions will help you identify an OCIO provider who can customize a solution that best complements your skills and expertise.

Strategic advice

As we outlined in the previous section, no matter which model you choose, there are decisions you retain as a fiduciary. Your OCIO provider's job is to work closely with you to:

- Provide strategic advice
- Help set the overall direction for your investment program
- Help you identify your investment or spending, risk and liquidity policies
- Help you create or revise your governing documents
- Provide you with guidance on your decision-making structure
- Help you determine how your investment program will meet your intended outcomes.

To do this, your selected OCIO provider will need a specific set of skills, abilities and resources.

Your team should make sure the providers you are talking with have the skills and expertise outlined in Exhibit 3. In terms of delegation – YOU decide, and YOUR OCIO PROVIDER advise.

Exhibit 3: Strategic advice worksheet

DOES THIS OCIO PROVIDER HAVE EXPERIENCE	YES	NO
Providing governance advice to organizations like ours?		
Creating and/or revising governing documents such as the investment policy statement, or spending policy or liquidity policy?		
Providing strategic advice regarding investment strategy?		
Creating strategic and tactical asset allocation recommendations?		
Developing custom benchmarks?		
Performing capital markets research and analysis?		
Providing financial and risk modeling?		
Analyzing and providing advice on your total portfolio, not just individual segments?		

Portfolio management

There are certain portfolio construction and management skills your OCIO provider will need to have to effectively implement the decisions you make at the strategic level. Your OCIO provider should help you determine which assets and/or managers to use to populate your investment strategy, and meet your risk, liquidity and/or spending needs, as well as how often to evaluate your program and make changes. Your OCIO provider should have significant organizational resources focused on this area – it should be a critical part of their business and one of their competitive advantages.

Your team should make sure that the providers you are talking with have the skills and expertise outlined in Exhibit 4. In terms of delegation, in a separate account fund structure, you and your OCIO provider will need to determine which decisions are delegated, and which are retained by your staff and investment committee. In a commingled fund structure – YOUR OCIO PROVIDER decides, YOU supervise.

Exhibit 4: Portfolio management worksheet

DOES THIS OCIO PROVIDER HAVE EXPERIENCE	YES	NO
Building customized investment portfolios designed to meet your specific organizational goals and objectives?		
Researching, selecting, monitoring and replacing (if necessary) third party asset managers?		
Balancing active and passive investment strategies?		
Identifying new investment strategies or return sources?		
Managing and monitoring investment risk?		
Accepting discretion for day-to-day portfolio management decisions?		
Viewing the investments in your portfolio at the security level, in real time, every day?		
Dynamically managing investment portfolios to capture opportunities or manage risk?		
Capabilities needed in this area include:		
• **Ability to build completion portfolios**		
• **Tools to monitor and manage currency in the portfolio**		
• **Ability to design and implement tactical trading bands and rebalancing targets**		
• **Ability to perform cash securitization**		
• **Trading and implementation infrastructure, expertise and staff resources**		

Review and control

Your team should make sure that the providers you are talking with have the skills and expertise outlined in Exhibit 5. In terms of delegation, YOUR OCIO PROVIDER decides and performs these functions for you, YOU supervise and review.

Exhibit 5: Review and control worksheet

DOES THIS OCIO PROVIDER HAVE EXPERIENCE	YES	NO
Providing customized, comprehensive client service?		
Providing custody services as part of their administrative package?		
Providing customized account and performance reporting?		
Working with your auditor to provide all the necessary documentation and deliverables?		
Building and managing a secure, online client portal for all your reports and information?		
Creating customized risk, liquidity and/or spending reports?		
Providing regulatory updates, client education and cutting-edge research on investment topics?		
Providing donor-focused services? Such as: • **Donor accounting**		
• **Planned giving processing**		
• **Securities gift processing**		
Streamlining and automating time-consuming processes such as loan collateral administration and endowment accounting?		

Finding the right solution for you: The RFP

Russell Investments responds to dozens of RFPs every year. We'd like to share with you the best practices of those organizations that do it well.

Before you decide to go to RFP:

- Work with your staff, investment committee and/or board to identify your organization's goals and objectives, priorities and any challenges you are currently facing.
- Determine which model you think best aligns with the goals and objectives you're trying to achieve as well as your team's skills, experience and resources.
- Identify which decisions you are likely to retain, which you'd prefer to delegate and which you'd like to gather more information about.
- Identify the skills and capabilities you require from a provider to help you achieve your goals.

Once you have decided to go to RFP:

- Compile a list of questions that you feel will best address your organization's unique needs, including your goals, desired portfolio outcomes and any organization-specific challenges or issues.
- Select a list of organizations whose skills, capabilities and services match the needs you have laid out with your team and send them the RFP. Include:
    - Information about your organization's background, goals, objectives and challenges
    - Specific instructions including:
        - Contact person for questions
        - Deadlines for questions as well as for the final RFP
        - Response format (print or electronic)
        - Number of copies
- Additional information that can help providers customize their responses:
    - Your investment policy statement
    - Information about your current provider model, asset allocation and investments
    - Any preferences regarding services or delegation structure
    - Information about what spurred the RFP process

Reviewing and selecting a candidate:

- Have each team member independently review the proposals and rank the providers based on your goals, objectives, fee budget and any other criteria prioritized by your team.
- Review these findings as a group and select three to five finalists to present their solution and ideas to your team in person.
- Consider making site visits to your top one to three firms before making a final selection.
- Make your final selection and inform those providers who were not selected why they weren't chosen.
- Begin working with your selected provider to transition the relationship (if a new provider) or to enhance your existing relationship (if an existing provider).

Build an RFP

We'd like to provide you with a list of the questions we believe you should ask prospective OCIO providers during the RFP evaluation process.

CLICK HERE

Sample RFP scoring matrix

We recommend that you use a scoring matrix to help ensure that each member of your evaluation team is ranking each provider the same based on the goals and objectives you set out to meet at the beginning of the process. One note of caution: A matrix is used to make sure your analysis is complete, not to tell you the right answer. The right answer for you is often more nuanced than just the results of the weighted average alone.

Consider having each committee member score each provider individually – and then come together to discuss the results. This will help ensure that everyone on the committee, not just the most vocal members, has a voice in the decision. There may not be consensus among your investment committee members about which of these areas is most important, but those are great areas for more in-depth discussions to make sure the entire team is aligned before you select a small group of providers to meet with.

Your assessment should combine hard facts about the service providers with an analysis of how well the OCIO providers fit with your organization’s beliefs, culture and team.

For your just-the-facts analysis, you should include attributes like:

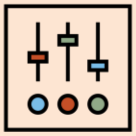
- How long has the provider been in business?
- How many people are dedicated to the OCIO practice?
- How many OCIO clients do they have and what is their average client size?
- Do they have investment strategies we’re interested in?
- What are their fees? And what do those fees include?

For your fit analysis, you should be looking at things like:

- How long has the team been in place?
- Are they knowledgeable and receptive to my needs?
- Do they answer my questions readily and transparently?
- Do they all subscribe to the same investment philosophy?
- And is this philosophy consistent with their process?
- Will I enjoy working with them?
- Do I feel like they “get” me?

Scoring matrix template

We have seen the benefit a well-defined scoring matrix can have on the process of selecting an OCIO provider. We’d like to share the template we have created.



REACH OUT

OCIO fees

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

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:

1. Overall structure

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

- 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

2. Services

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.

One provider's total fee may include everything … while another provider's total fee may only include some of those items, and additional expenses are then charged piecemeal throughout the year.

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 provider?** 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.
Level of discretion	**What is the level of discretion assumed by the OCIO provider?** Generally, the higher the level of discretion assumed by the OCIO provider, the higher the fees, since the provider is taking on greater fiduciary responsibility and risk.
Asset allocation	**What types of strategies are included in the portfolio?** 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.
Manager fees	**Are the manager fees part of the OCIO's fee proposal or will they be charged separately?** 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.
Active and passive management	**What blend of active and passive management is needed to achieve my investment goals?** 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.

Investment vehicles

What investment vehicles are the OCIO providers offering?

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.

Client service model

Does the OCIO provider’s client-service model include travel expenses, client meetings, client conferences, research and educational materials?

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 provider.

Reporting

Is customized reporting required or are standard reports sufficient?

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.

Conflicts of interest

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

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.

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, 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.

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 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.

> *Clients should be able to easily recognize what services are included in their OCIO fee…*

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 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’ organization 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.*

Five observations to help ensure a successful long-term relationship

As a fiduciary, you don't have to do everything, but you do have to ensure that everything is being done. Selecting your provider was just the first of many steps in a long, hopefully successful, collaboration. There are a few things you should keep in mind as you start working with your OCIO provider, so that your relationship and your investment program stay on the right track.

1. Monitor your OCIO provider's performance versus expectations and objectives

During the on-boarding process, your OCIO provider will have worked with you to outline the goals and objectives for your investment program and will have documented these in your investment policy statement. A successfully implemented portfolio means that your investment solution performed the way you expected it to, based on your goals and priorities. For example, if your team chooses to prioritize volatility management over pure returns, and your portfolio doesn't experience the high highs or low lows of market movements, that's a success. It is important to measure results versus an outcome-oriented financial goal in addition to any benchmark relative metrics that you have established.

2. Establish and review agreed-upon performance benchmarks

Your OCIO provider should build you a custom benchmark, reflective of the assets held within your investment program, and you should look at performance against that benchmark. If your portfolio is consistently performing contrary to expectations, it's time for a more in-depth conversation with your OCIO provider.

> *It is important to measure results versus an outcome-oriented financial goal in addition to any benchmark relative metrics that you have established.*

3. Make sure you're experiencing the amount of transparency you were promised

If your OCIO provider promised to provide you with monthly reporting at the security level, and you're only seeing high-level reporting each quarter, it's time to start asking questions. Your OCIO provider should be able to provide you with security-level details on your investment program, when requested, within a reasonable time frame.

4. Revisit your IPS to make sure it's still aligned with your organization's goals and objectives

It's good to review your IPS annually, or when there is a significant market shift, or when your organizational priorities or circumstances change. This is the guiding document for your relationship with your OCIO provider and it's a good idea to keep it up to date.

5. Ensure that the OCIO provider's investment process and philosophy remain the same as when you hired them

Firms change, manager styles drift, staff leave, and philosophies adapt over time. It's always good to periodically do some more in-depth due diligence with your current provider to make sure that the things you love about them are still the things driving your investment program.

You got this.

With a defined process, a carefully crafted RFP and a pre-determined scoring matrix, you will be able to understand each OCIO provider's experience, capabilities, strengths and weaknesses.

Please also leave room for the intangibles - these are people that will potentially become an extension of your organization. It's about trust. Experience goes a long way but also look at transparency, honesty and collaboration. How does the team interact with each other and with the committee? Do they answer your questions readily and transparently? Do you like and trust the people and believe that you will enjoy working with them?

There's no shortage of OCIO providers to choose from these days. We strongly recommend that you spend quality time with the OCIO provider's organization and team to really understand who they are, what drives their solution and how their approach can help you achieve your goals.

Finding the right OCIO provider for your organization takes time, energy and effort – but for those willing to put in the work, it can add a significant amount of value to your investment program.

Governance and oversight handbooks

To help you effectively work with your provider and oversee your investment program, we've laid out a useful governance framework which you can access:

DEFINED BENEFIT PENSION PLANS
DEFINED CONTRIBUTION PLANS
NON-PROFIT FIDUCIARIES
HEALTHCARE FIDUCIARIES

For more information, visit:
Russellinvestments.com/handbooks

We hope this guide has helped put you on the path to finding the right provider. If we can be of any assistance during that process, please contact us. We'd love to talk with you.

About Russell Investments

Russell Investments is a global asset manager with a unique set of capabilities that we believe is essential to managing your total portfolio and to meeting your desired outcome. At Russell Investments, we stand with you, whether you're an institutional investor, a financial adviser, or an individual guided by an advisor's personalized advice. We believe the best way to reach your desired outcomes is with a multi-asset approach that combines: asset allocation, capital markets insights, factor exposures, manager research and portfolio implementation.

For more information

Call Russell Investments at **1-800-426-7969** or visit **russellinvesments.com/institutional**

Important information

Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Russell Investments' ownership is composed of a majority stake held by funds managed by TA Associates with minority stakes held by funds managed by Reverence Capital Partners and Russell Investments' management.

Frank Russell Company is the owner of the Russell trademarks contained in this material and all trademark rights related to the Russell trademarks, which the members of the Russell Investments group of companies are permitted to use under license from Frank Russell Company. The members of the Russell Investments group of companies are not affiliated in any manner with Frank Russell Company or any entity operating under the "FTSE RUSSELL" brand.

First used: November 2020

AI-28527-11-23