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From Philosophy to Fees: Considerations When Choosing an Outsourced Chief Investment Officer (OCIO) Partner

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As an institutional investor, venturing into the realm of outsourcing investment management responsibilities to an Outsourced Chief Investment Officer (OCIO), the decision carries significant weight and must align with the institutional investor's overarching goal: ensuring the sustainability of long-term promises to beneficiaries or constituents.

Here are five questions that the institution may ask during the selection process of an OCIO provider. It is important for an entity to answer from their unique perspective. These questions not only reflect the depth of due diligence required but also encourage alignment with a fund's strategic objectives and risk appetite.

What is Your Investment Philosophy and How Do You Approach Asset Allocation and Manager Selection?

Understanding an OCIO's investment philosophy is crucial. It reveals their foundational beliefs about the markets and forms the critical principles that drive asset allocation design and investment implementation. Do they prioritize long-term growth over short-term gains? How do they balance risk and reward? Their approach to selecting investment managers, including due diligence processes, criteria for selection, and ongoing monitoring, also needs to be transparent and align with your standards.

What are you communication preferences, needs, and requirements?

Effective communication is key to a successful partnership. Inquiring about the frequency and format of performance reporting, the availability of the OCIO team for meetings and discussions, and how they plan to keep the fund informed about significant market events and their implications for your portfolio. Transparent and regular communication ensures that you remain fully informed and in control of the strategic direction of the investments.

Can You Provide a Detailed Account of Your Performance Track Record?

A proven track record of managing assets similar in scope and size to your pool of capital is non-negotiable. Look for specific examples where the OCIO has added value through their asset allocation decisions and manager selections. It's important to understand their performance in different market conditions, particularly during downturns. Performance should be benchmarked against relevant indices and adjusted for risk to ensure an apples-to-apples comparison.

How Do You Manage Risk, Particularly in Volatile or Declining Markets?

Risk management is paramount. Probe into the OCIO's strategies for mitigating various types of investment and operational risks. Their ability to protect assets during market volatility is of particular interest. This includes asking about their experience with stress testing, scenario analysis, and how they adjust asset allocation in response to changing market dynamics.

What is the Fee Structure, and How Does It Align With the Fund's Interests?

Fees can significantly erode investment returns over time. Understanding how the OCIO's fees compare with the potential value they bring is essential. Additionally, how an OCIO examines and negotiates underlying investment management fees is vital: net of fee returns are all that matters for the long-term sustainability of an organization.

Selecting an OCIO is a decision that requires careful consideration and thorough due diligence. The answers to these questions have the potential to provide a comprehensive view of a OCIO's capabilities, investment philosophy, and how they align with the needs and objectives of your plan.

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