

Key Considerations for Investment Oversight of Endowments and Foundations

Understanding Outsourced Chief Investment Officer (OCIO), Traditional Investment and Hybrid Services

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Endowments and foundations operate in a complex investment landscape, striving to balance the dual objectives of funding their missions and helping to ensure long-term financial sustainability. In this context, the choice between utilizing an Outsourced Chief Investment Officer (OCIO), engaging Traditional Investment Consulting services, or some combination of both, becomes crucial. Each approach offers distinct benefits and fits different organizational needs and priorities. This article explores these options by highlighting their benefits and differences, with the goal to assist nonprofit decision-makers in selecting the right fit for their particular organization.

OCIO Services – Benefits and Characteristics

Investment management services. Discretionary consulting. Outsourced CIO arrangement. All of these terms refer to Outsourced Chief Investment Officer (OCIO) services, a consulting arrangement representing a comprehensive investment management approach. With OCIO services, organizations delegate their investment decision-making responsibilities to external experts. This model has gained traction for several reasons:

Expediency of Decision-Making and Implementation

One of the most significant advantages of the OCIO model is the ability to be nimble in executing investment decisions. OCIOs have the authority to make quick decisions and act on them without waiting for committee approval. This agility is crucial in volatile markets where opportunities and risks must be managed swiftly with the goal of protecting and growing the portfolio.

Cohesive Portfolio Construction

An effective OCIO should construct a portfolio utilizing a mix of investment managers to meet the objectives of the entire portfolio's risk profile and return outlook. Unlike traditional consulting models where committees might simply select the best performers presented in each asset class, OCIOs design a portfolio considering how different investments interact and complement each other. This holistic approach aims to enhance overall portfolio performance by balancing asset classes and strategies to work in harmony, rather than in isolation.

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Reduced Time Commitments and Burden

For many endowments and foundations, especially those with limited staff, the OCIO model significantly reduces the time commitment and administrative burden on both staff and the investment committee. By freeing up these resources, the nonprofit and those who support the organization can concentrate more on strategy, oversight and the essential work of managing programs and initiatives, with a broader focus on its core mission, strategic objectives and overall organizational goals.

Focus Shifts to Education and Communication

Under an OCIO model, committees should still be engaged in robust investment related discussions. However, the focus can shift to understanding what happened in the markets, what it means for the portfolio and what next steps/actions will be. This should likely result in efficient and productive investment discussions and requires excellent communication from the OCIO.

Traditional Investment Consulting – Benefits and Characteristics

Traditional Investment Consulting (also referred to as non-discretionary or investment advisory services) keeps the investment decision-making process within the organization, with support from external advisors. This model is preferred by some institutions for several reasons:

Greater Involvement in Investment Decisions

Traditional consulting allows for greater participation from committee members in the investment decision-making process. This involvement is particularly appealing to members who have a keen interest in financial strategies and want to be actively engaged in selecting investments. It fosters a sense of ownership and helps ensure that the committee's expertise and perspectives are directly influencing the portfolio.

Robust Committee Discussions

This model promotes more robust discussions about the inner workings of the portfolio components in addition to the broader market-level information. Committee members and staff, along with the investment consultant, can delve into the details of each investment, understanding and debating the merits and risks. This can help lead to a deeper understanding of the portfolio and more informed decision-making, contributing to a culture of transparency and education.

Direct Control of Long-Term Outcomes

With traditional consulting, endowments and foundations maintain direct control over their long-term financial outcomes. This hands-on approach can be crucial for organizations that have specific investment philosophies or those that require close alignment of their investment strategy with their mission-driven goals.

Hybrid Approach: Combining OCIO and Traditional Consulting

While the OCIO and traditional consulting models offer distinct pathways, many endowments and foundations are discovering the benefits of a hybrid service approach. This strategy combines elements of both models to suit the organization's specific needs and preferences.

For example, a committee may choose to outsource the administrative and operational responsibilities and the decisions regarding more traditional investments (think stocks, bonds, and cash) to an OCIO, while retaining the ability to approve all private equity or marketable alternative/hedge fund investments. This approach allows the organization to benefit from the expertise and efficiency of an OCIO for certain aspects of their portfolio while maintaining direct control and involvement over the segments they feel require closer oversight. Benefits of a hybrid service approach include:

Tailored Involvement

Committees can engage deeply with specific investment categories where they believe their insight is most valuable, such as in alternative investments.

Operational Efficiency

The OCIO can manage the day-to-day administrative tasks and certain investment decisions, reducing the operational load on the organization's staff.

Strategic Focus

By offloading some responsibilities to an OCIO, the organization may redirect some of its internal resources on strategic areas where they believe they can add the most value.

Key Considerations in Choosing a Service Model

Decision-Making Speed vs. Involvement

Choosing between an OCIO, traditional consulting, or a hybrid approach often comes down to prioritizing speed and simplicity of decision-making (OCIO) versus requiring greater involvement and control (traditional consulting). Organizations that value quick, expert-led decision-making and want to reduce operational burdens often lean towards OCIO services. In contrast, those that value detailed involvement and direct oversight tend to prefer traditional consulting or a hybrid model.

Fiduciary Responsibility

A significant difference between the two models is the level of fiduciary responsibility that can be offloaded. With an OCIO, some of the fiduciary duties are transferred to the external manager, reducing the liability and

complexity for the board. However, it is crucial to note that the board will always retain a core level of fiduciary responsibility, regardless of the model chosen.

Organizational Size and Resources

The choice often reflects the organization's size and resources. Smaller endowments and foundations with fewer staff may find the comprehensive support of an OCIO invaluable. At the same time, larger organizations with more robust internal teams might prefer to maintain active engagement through traditional consulting or a hybrid model.

Making a Decision that Aligns with Your Nonprofit's Goals

The decision between OCIO and traditional investment consulting, or some combination of both, should align with the endowment or foundation's strategic priorities, operational capabilities, governance philosophy and the cost structure of the services. By carefully considering their unique needs and the benefits of each approach, organizations can help ensure that their investment strategy is aligned with their mission and long-term objectives. Whether through a fully outsourced approach, the engaged, detailed oversight of traditional consulting, or a tailored hybrid approach, endowments and foundations can enhance their ability to serve their missions effectively while working to help ensure financial sustainability.

Fiducient Advisors assists nonprofit organizations and committees/boards in selecting an appropriate consulting service arrangement following a robust diagnostic process. Ultimately, our goal is to help clients construct custom investment strategies to meet their objectives and goals while serving as a resource on a broad variety of topics. We understand that our work must help advance our clients' missions, as investing for the benefit of others has never been more important. Therefore, we commit to helping boards, committees and staff perform as responsible financial stewards for the organizations they care about most. Whatever the objectives, we view ourselves as our clients' "strategic partner," striving to help achieve their goals with less time, cost and burden.

If you would like more information, [contact](#) any of the professionals at [Fiducient Advisors](#).

About the Author

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Matt joined Fiducient Advisors in 1998. Matt is a Managing Partner and Senior Consultant. As a member of the Endowments and Foundations Business Council, Matt challenges firm members to think about and embrace innovation and knowledge development. As a Senior Consultant, he advises institutional clients on a variety of topics, including asset allocation, investment manager



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