



BENEFITS OF OUTSOURCED CHIEF INVESTMENT OFFICER (OCIO) SERVICES

An increasingly complex investment landscape makes delegation of investment management in an OCIO relationship essential for many institutions.

Angeles pioneered the Outsourced Chief Investment Officer (OCIO) service model in 2002, giving us unusual perspective on the benefits of OCIO for institutions. Our investment officers have more than 25 years of experience building investment programs for leading institutions. Working as a seamless extension of our clients, our investment office offers a tested investment process, world class research, customized portfolio implementation, and full back office support. Partners of the firm utilize state of the art technology to run operations and trading, overseeing strict compliance controls and risk management to safeguard client capital.

WHAT IS OCIO?

Outsourced Chief Investment Officer (OCIO) is a model of investment management that involves an external advisor/manager having delegated authority to allocate capital within an institution's portfolio within a set of policy parameters approved by the institution. In other words, with an OCIO relationship, an institution decides to "buy" investment management and allocation capability, rather than "build" it. The OCIO manager executes the delegated investment management decisions, rather than those functions being delivered by staff employed by the institution or by a fiduciary governance committee. Institutional OCIO assets, according to an estimate by The Skorina Letter, totaled near \$2 trillion as of June 2018 up 17% from the prior six months.

OVERVIEW OF TYPICAL ‘DIVISION OF LABOR’ IN AN OCIO RELATIONSHIP

The following schematic provides an overview of the typical “division of labor” in an OCIO relationship. At Angeles, our OCIO relationships with clients are customized to the needs of each client, but the following parameters describe the components of most OCIO relationships.

	ANGELES AS AN OCIO	
INSTITUTIONAL FIDUCIARY (E.G., BOARD/INVESTMENT COMMITTEE)		
Asset Allocation Policy	Approves	Recommends
Spending Policy	Approves	Recommends/Evaluates
Investment Policy Statement (including allowable ranges and benchmarks)	Approves	Recommends
Portfolio Construction	Monitors	Implements
Rebalancing and Other Cash flows (e.g., capital calls and distributions)	Monitors	Implements
Manager Selection and Oversight	Monitors	Implements
Manager Termination	Monitors	Implements
Reporting on Portfolio Holdings, Exposures, and Performance	Monitors	Implements
Ongoing Fiduciary Education	Monitors	Implements
Selection and Monitoring of OCIO	Approves	N/A

OCIO MANAGEMENT COMES IN MANY FORMS, INCLUDING:

- A firm’s OCIO clients all get the same portfolio, with the same managers, so clients own a “slice” of the OCIO’s multi-asset class portfolio pool. This can make it difficult to accommodate an institution’s legacy positions, existing illiquid holdings, or unique objectives or risk tolerance of the institution such as in mission-related investing. Exiting the pool can be costly or lengthy in some cases.
- Clients invest in asset class “sleeves” offered by the OCIO, so they get the same manager and portfolio construction within various asset classes as other clients, but asset allocation target variations can be accommodated.
- Clients are invested in fully customized portfolios that the institution owns directly. These can include separate accounts, commingled funds, institutional mutual funds, or funds managed by the advisor. This is the form of OCIO management that Angeles offers. In addition to directly held holdings, Angeles offers its own funds by asset class (currently in public global equity, fixed income, hedge funds, and private equity and private real assets). Angeles waives its management fee for these funds, removing a conflict of interest. Angeles’ funds offer the benefits of scale for diversification and cost control, better access to high quality managers (several of which are closed to new investors), as well as administrative simplicity.

Critically, one thing that OCIO is not is a delegation of fiduciary responsibility by an institution's fiduciaries. Committees and Boards cannot shed their responsibility for setting policy and for oversight of investment policy and of the OCIO. Committees can delegate implementation authority, but they must retain responsibility for monitoring and investment policy-setting.

ADVANTAGES OF OCIO

Governance:

OCIO relationships allow fiduciaries to focus on what they do best – governance and strategy. With an OCIO in place, fiduciaries can focus on the institution's investment objectives, risk tolerance, spending needs, and how the assets integrate with overall institutional strategy and mission. These areas are the primary responsibility and, more importantly, the primary source of investment impact and institutional value add by fiduciary overseers. Freed from day to day management, manager selection, and portfolio construction, trustees can focus on policy and oversight. A concentrated focus on the oversight of the portfolio's asset allocation and risk objectives is, in most cases, the best and highest use of the committee's time. The OCIO manager can guide fiduciaries in this process, and implement portfolio management decisions considering the institutions policy-setting.

Expertise and Discipline:

Hiring an OCIO gives the institution access to a proven investment decision-making process, capital market research, and investment manager due diligence. This capability would be difficult, time-consuming or cost-prohibitive for many institutions to assemble on their own. Angeles has an investment committee of 6 senior investment officers that vets and approves all important decisions on allocations (and terminations) to managers as well as portfolio construction decisions, before they are implemented for clients. This in-depth, rigorous, and iterative process is led by our Chief Investment Officer, Michael Rosen, who has 30+ years of investment experience as a currency trader, economist, portfolio manager, capital allocator, and academic. Half of the Angeles Investment Committee members have worked together on the Committee since 2001 when Angeles was founded, resulting in a time- and market-tested long-term process. In addition, the Angeles Investment Committee is supported by 7 other senior investment professionals devoted to manager due diligence, including on operations. Establishing capability such as this is likely to occur only over an extended period. Many institutions lack the resources (or desire) to build comparable teams, especially when market-rate compensation for internal investment staff can sometimes spark controversy among stake-holders.

Accountability:

An OCIO is fully accountable for the portfolio management decisions that are delegated to it; the more that is delegated, the greater the accountability. This is attractive relative to traditional consulting, where "advice" comes from the consultant but final decisions are made and implemented by the institution, thereby blurring lines of accountability. This accountability is even more attractive when investment committees are subject to term limits or experience turnover, undercutting long term oversight.

Scale:

An OCIO can use its scale and influence in the market to get greater access and lower fees for its clients, some of whom may lack the scale to extract these benefits or who do not wish to invest the resources necessary to attract and retain the in-house expertise to garner those benefits. For example, Angeles has used its collective client assets to gain fee savings from managers and access to managers. Pooling assets under the management of an OCIO also offers diversification benefits for smaller clients.

Responsiveness:

In fast-moving capital markets, it can be important to make timely decisions, e.g., on an asset class tilt in response to unusual market opportunity. An investment committee usually only meets quarterly or at most monthly. Committee members, even if informed, experienced and engaged, can dedicate only a limited portion of their attention to the oversight of the investment portfolio, usually one of the institution's primary assets. The OCIO manager can make delegated decisions more nimbly, without relying on a committee meeting schedule or the sometimes time-consuming process of reaching committee consensus. Nimbleness can also be an advantage in gaining access to manager capacity (e.g., in private assets) that may require a short window for decision-making in capacity constrained funds.

ADVANTAGES OF OCIO (CONTINUED)

Cost:

Depending on an institution's scale, OCIO management can be cheaper and faster than "building" an investment office with the requisite talent. However, it can be more expensive, given greater responsibilities, than "traditional" consulting.

Execution:

OCIO like Angeles can serve back office functions such as managing cash flows for spending, contributions, capital calls, and distributions. This reduces the institution's execution risk and shifts responsibility for execution to the OCIO.

Reporting:

An OCIO can provide in-depth and timely reporting to ensure fiduciaries are kept informed on the portfolios holdings, exposures, and performance versus benchmarks. Angeles reporting to clients provides detailed transparency on holdings, compliance with investment policy, and progress in meeting performance and other investment objectives. We can customize reporting for client needs, and provide materials that are clear and effective, focusing on the issues where fiduciaries need clarity.



Angeles' investment experience and commitment to high-touch client service is a robust and adaptable solution for institutions to consider in managing their investments. We have an audited, GIPS-compliant track record of our performance that dates to 2002 and provides 16+ years of evidence of ability to exceed benchmarks and provide strong risk-adjusted returns. In addition to performance, Angeles has delivered consistent and high-quality client service, working closely with our clients on all aspects of their investment programs, from fiduciary education on emerging investment topics, to providing back office functions and supporting audit and other reporting needs.

We would be delighted to assist your institution in further evaluating OCIO and its benefits generally, and Angeles' management in particular. For further dialogue, please contact Howard Perlow, Principal, Angeles Investment Advisors, hperlow@angelesadvisors.com or (310) 393-6235.