FUNDfire

# TIAA Gives Up on OCIO Business in Surprise Move

By Aziza Kasumov November 6, 2019

*A shorter version of this story first ran yesterday as a breaking news article.*

**TIAA** will wind down its outsourced CIO (OCIO) business housed under **TIAA Endowments** – a move that came as a surprise to some industry gatekeepers after it was announced by a spokeswoman Tuesday.

“We have them in a search right now, [that] tells you how much of a surprise it is to us,” says **Brad Alford**, founder and principal of outsourced CIO (OCIO) and consultant search firm **Alpha Capital Management**. He adds that the news came as “kind of a shock” to him and principal **Anna Dunn Tabke**. **Chris Cutler**, founder of search firm **Manager Analysis Services**, was also surprised by the announcement, although his firm doesn't have TIAA in any searches now.

Both search firm founders say they had positive views on **TIAA Endowment and Philanthropic Service** (TEPS), the TIAA subsidiary housing the firm's endowment and foundation services. TEPS is split into TIAA Endowments, which will wind down in the next nine to 12 months, according to the spokeswoman, and **TIAA Kaspick**, whose planned giving, asset management and endowment clients will not be affected by the decision.

TIAA Endowments has less than 10 clients and manages roughly $3 billion in OCIO assets, according to a source familiar with the organization.

The announcement concludes a monthslong internal review during which the company concluded it will exit the “increasingly crowded and highly competitive OCIO business,” the spokeswoman wrote in a statement. Upon concluding its review, TIAA found that it was best equipped to serve endowments and foundations in the future through its asset management arm **Nuveen**, the spokeswoman wrote. Nuveen does not have an OCIO offering, but managed more than $1 trillion in assets as of June this year, according to its **website**.

The decision to cease OCIO operations came from TIAA management and was not performance related, the source familiar with the organization says. The TIAA Endowment team has “outperformed peers in most trailing periods,” the source says.

Some people within TIAA Endowments will be laid off as part of the decision, according to the spokeswoman, who declined to say how many roles will be affected. TEPS recently had around 160 employees, according to another source familiar with the organization, at least 30 of whom worked in the firm's OCIO business.

Overall, TEPS oversaw roughly $10.5 billion in discretionary assets at the end of last year, according to regulatory filings. Combined, TIAA Endowments' and TIAA Kaspick's OCIO assets stand at around $4.5 billion, sources familiar with the organization say. TEPS also managed $1 million in nondiscretionary assets by the end of last year, according to regulatory filings.

Increased competition, which TIAA cited as one of the reasons for its decision, has been a force of pressure for many OCIO firms. Almost half the providers surveyed by **Cerulli Associates** last year cited heightened competition as a “major challenge.” In its report, Cerulli projected that the business would get even tougher “as more firms are faced with significant fee pressure.”

But while pressure is rising across the OCIO landscape, industry observers say they're still seeing plenty of new players entering the market.

“The requirements from clients are going up, the standards are going up,” says **Amanda Tepper**, CEO of **Chestnut Advisory Group**. But “it's still a rapidly growing marketplace, [and] I'm not seeing any OCIO providers yet that are struggling to grow,” she adds.

In fact, OCIO assets have continued to grow significantly from June 2018 to June this year alone, research by executive search firm **Charles Skorina & Company** shows, **as reported**. Still, much of the industry growth has been dominated by the largest players. Some of the largest providers in the market, such as **BlackRock** and **State Street Global Advisors**, have seen a 30% to 50% jump in assets over that time period.

## Related Content

November 5, 2019

TIAA to Shut Down Endowments & Foundations OCIO Biz

June 17, 2019

'Getting Married and Talking Divorce': Investors Prioritize OCIO Exit Strategies

“We're seeing people coming into the OCIO space from every angle,” says Alpha Capital's Alford.

Yet despite continued growth, Tepper says she's seeing the market enter a second inning – where many institutional asset owners are in the process of switching out their first OCIO to a new provider and taking a closer look at what they want. That trend has made some clients painfully aware of the fact that switching their assets over to a new OCIO firm can be quite complex and take months, if not years, to complete, as reported.

TIAA Endowments' clients will have to switch to a new OCIO provider too, and the firm said it will assist institutions with finding one and transitioning assets. The company also pledged to continue meeting its fiduciary duties for clients “through the end of the fiscal year, or longer, if needed,” the spokeswoman wrote.

“With respect to TIAA: They have a reputation to protect in the marketplace on how they treat their clients, so I doubt they're just going to drop [them],” says Cutler, from Manager Analysis Services. For a smaller, boutique OCIO, the story could look quite differently, he adds. “That could be a disaster,” Cutler says.

Though some firms that want to enter the OCIO business have a hard time gaining traction, it is rare to see an established OCIO firm completely exit the business, search consultants say.

“We've seen managers of many types try to become OCIOs, and then they back off,” Cutler notes. However, even those attempts haven't yielded “any catastrophes,” he adds.

“We're not yet seeing the shakeout” of the OCIO industry, Tepper says.

*Contact the reporter on this story at akasumov@fundfire.com or (212) 542-1209.*