

BlackRock Boosts Features Beyond Investments to Win OCIO Clients

By Mariana Lemann

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The growing demand for comprehensive outsourced investment services is driving BlackRock to emphasize features of its outsourced CIO (OCIO) business that go beyond investments.

“When people hire you, they spend a lot of time on the I, the investment part of OCIO, and that is where we spend hours and days of meetings and due diligence... It’s what we do for a living,” says Jeffrey Saef, head of Americas region and global head of platforms team within BlackRock’s Client Portfolio Solutions (CPS) unit.

Yet, he adds, in assessing the factors that drive asset owners to choose an OCIO, BlackRock increasingly sees aspects of the relationship beyond investments influencing their decision.

“There is a whole set of ‘O’ things that I am starting to realize really resonate with clients,” Saef says, adding that strong investments coupled with services supporting investments lead to “happy clients.”

While some of the aspects of the OCIO relationships seem intangible, they can be translated into being “an extension of staff” for clients, Saef says.

The renewed focus on the firm’s \$130 billion OCIO business comes in response to the increasing demand for full outsourced solutions by institutional investors.

One of the dynamics of the transforming asset management business “is the increased demand for total outsourced solutions,” says Sarah Melvin, head of the institutional client business for the U.S. and Canada at BlackRock. “We’ve seen a definite uptick in that demand from clients.”

In response to this growing demand, the firm created in March a new portfolio construction and asset allocation unit named Client Portfolio Solutions (CPS), which focuses on multi-asset strategies and includes expanded investment, research and client service capabilities.

BlackRock's push into the OCIO market, which is currently estimated at \$2 trillion in assets spread across about 125 providers, according to the Investment Management Institute (IMI) is fueled by its sheer scale, says Russ Mason, president of the IMI.

"BlackRock is one of the larger asset management firms that is on the OCIO world," he says. "They have enormous amount of resources including people." In fact, the firm boosted the team with three new hires from Russell Investments and Goldman Sachs Asset Management (GSAM) over the past couple of months, as reported.

While the OCIO market has developed over the past two decades, it sprung up over the past six or seven years, Mason says. And while in the early days, providers were seeking new clients looking to outsource investment decisions, more recently it has become a takeover game, leading providers to boost efforts to differentiate themselves.

Indeed, BlackRock replaced Perella Weinberg Partners in June 2017 in managing Arizona State University's \$600 million endowment.

The intangibles are now making a difference for OCIO providers, Mason says.

Beyond providing basic monthly and quarterly reports, which are generally expected, the OCIO relationship at BlackRock can extend into helping clients conduct year-end asset valuations, working with custodians to streamline operations and transitioning into improved governance models, Saef says.

"These are complex things that are not really investing the money, but they make or break how clients experience a BlackRock relationship," he says.

Yet, those are common services offered by OCIOs, says Bradley Alford, founder and CIO of Alpha Capital Management, which provides consultant and OCIO search services for institutional investors.

Still, a new client at BlackRock reinforced simple aspects of the relationship that stand out.

A very senior executive from a new client, Saef says told him, "when I call you, you pick up the phone. This is the little tiny data point ... but those little things really matter." In many instances, he adds, clients are not well versed in describing what they need, but they recognize what they need once they see services and other intangibles being offered. "They've come to rely on us for that part of the relationship beyond just building and managing the portfolios."

For Alford, whereas multiple features of OCIOs are scrutinized when providers are considered, mitigating conflicts of interests and finding OCIOs that are compliant with the Global Investment Performance Standards (GIPS) are priorities.

The proliferation of OCIO providers over the past couple of years, with asset managers and banks entering the space, has raised concerns about the potential for conflicts of interest among consultants that specialize in the OCIO market.

“It is very hard to fire yourself,” Alford says. “We have to get our arms around the conflicts of interest of using your own products versus practicing 100% open architecture.”

The consultant would not bypass strong OCIO providers that might be affiliated with asset managers, banks or large global investment consulting firms, but it focuses its due diligence on identifying potential conflicts of interest and mitigating them.

“We want to make sure that OCIO is not a distribution channel for some of these firms,” Alford says. In its efforts to prevent those situations, he conducts reference calls with existing clients to find out the percentage of assets managed in proprietary strategies. Alpha Capital Management usually requests reference calls with five existing clients.

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