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Ready or Not: the OCIO Benchmark Is Coming

By Aziza Kasumov

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Institutional investors will soon have a new way to evaluate how their outsourced CIO (OCIO) provider stacks up to peers.

Search firm Alpha Capital Management and **Nasdaq** have been working on a suite of indices that benchmark OCIO performance by client type, size and risk profile, the two firms announced Thursday. The first benchmarks, analyzing performance during the quarter ending Dec. 31, will likely be released around March, says **Brad Alford**, founder and principal at Alpha Capital.

Nasdaq and Alpha Capital hope the effort will increase transparency across the OCIO industry.

"Investors are demanding this," says Alford. "They want a way to judge their OCIOs. They just don't have any way to measure how their firms are doing."

Performance will be reported by the OCIO firms net of fees to Nasdaq. Neither the providers nor their clients will be identifiable individually. Only full discretionary portfolio numbers will be included, Alford adds. All included accounts must have at least $50 million in assets under management, and all clients must be based in the U.S., according to methodology materials for the indices.

Nasdaq and Alpha Capital are currently beta-testing the indices with data from several OCIO providers which helped develop the platform. The list of providers includes Commonfund, Mercer, NEPC, Vanguard, Verus, Russell Investments, and several more.

Every firm Nasdaq and Alpha Capital contacted so far – except for one OCIO shop – agreed to submit data, Alford says. The two firms also want participating OCIO providers to eventually send in all historic performance data they have, which might vary greatly from firm to firm, given the rather young age of the industry.

The total number of OCIO firms in the U.S. market is difficult to capture, but Alford, citing data from Charles Skorina & Co. estimates that there are about 100 in the U.S. market, controlling more than $2 trillion in assets. He hopes all will eventually join the benchmarks.

The first tranche of benchmarks released by Nasdaq and Alpha Capital will be free to see for the public. Sometime next year, however, the two firms plan to add a feature for paying subscribers to create customized indices selecting, for instance, only endowments between $500 million and $1 billion with a 30% allocation to private equity for their benchmark, Alford says.

The OCIO firms that have helped developing the benchmark cite hopes for better transparency and comparability across the industry as reasons for their involvement.

“The industry needs a way to better… measure client results in a way that’s consistent from firm to firm,” says **Steve Charlton**, partner and director of consulting services at NEPC. With a benchmark, he hopes “you’re getting the full picture instead of … some of the things that have been happening in terms of firms using select client performance,” Charlton adds.

Some say they also hope the benchmarks will allow organizations to make better choices when picking a new OCIO.

“We think Alpha’s indices will help institutions evaluate OCIO providers and provide them an important tool in assessing performance, which today is a challenging task,” says **Tim Yates**, president and CEO of **Commonfund Asset Management**.

Other industry observers, however, while optimistic about the potential for more OCIO data, say caution is warranted.

“Our industry loves reporting on who came in first and who came in last,” says **Amanda Tepper**, founder and CEO of consulting firm **Chestnut Advisory Group**. “But it’s all just a picture at a point in time, and all of these different endowments should be being managed for the long run.”

While having additional data can be useful, clients vary on how much weight they put on performance – especially on short-term numbers, Tepper adds.

“Any index has its pros and cons,” says **Valter Viola**, managing director and principal at search firm Cortex Applied Research. “You have to see how things are constructed.”

“People don’t hire and fire OCIO providers for monthly or quarterly or annual performance,” says Tepper. Viola adds that some institutions would put “zero weight” on past performance for a variety of reasons, including the lack of long-term data. “Other funds, however, will put a lot more weight on it,” he says. At Cortex, “we are in between,” Viola notes.

Alford posits that the benchmarks may be useful beyond an OCIO-only search.

They may also allow clients to see whether an OCIO is “better than a non-discretionary provider, or what they’re getting with their investment committee picking their own managers, or having a consultant giving them advice,” he says. A few institutions, for instance, have recently started reconsidering whether moving toward an OCIO was the right step for them, as reported.

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