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What Makes a Successful OCIO Pitch? A Growing List of Extra Services

By Aziza Kasumov

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Competition continues to grow in the outsourced CIO (OCIO) business — and so does the list of additional services providers offer prospective clients, research from Cerulli Associates found.

Roughly three quarters of respondents to a Cerulli survey said they help clients select a recordkeeper or custodian, gain access to co-investments, develop mission-related investment programs, and smooth transition management. Two-thirds of providers also said they give advice on regulatory issues and offer custom target-date fund glidepath management services.

Environmental, social and governance (ESG) integration was the most-widely offered service from OCIOs in the survey, with 87% saying that they could help with that. And those firms that weren't already offering that service said they were at least considering it. None of the respondents gave a flat-out "no" as a response to whether they have ESG on their menu.

"It's imperative for [OCIO providers] to have the capabilities in-house to do ESG investing, and right now, they're simply waiting for a lot of their clients to define what ESG means to them," says **Tony Johnson**, a senior consultant and director of midwest consulting at RVK's OCIO search unit.

"It's huge," adds **Brad Alford**, founder and principal of search firm Alpha Capital Management. "Every search we do has something on it."

For endowment and foundation clients, especially, help with ESG is key, both search consultants say. But for corporate defined benefit plans, which are one of the fastest growing client bases in the OCIO business, ESG is "not a must have," notes **Chris Swansey**, an analyst in Cerulli's institutional asset management group.

OCIOs are also touting non-investment support to lure clients.

"More and more, the back office and operational support to an asset owners' infrastructure is important," says Johnson. To some clients, that includes looking for audit support and collateral for donor development office work, he adds.

While the menu of services OCIO providers offer is growing, those firms have also tried to make existing offerings more accessible. Minimums for opening a separately managed and highly customizable account, for instance, have seen significant declines in recent years, researchers and search consultants say.

“They used to be $250 million, $200 million minimums,” Alford notes. Now, he says he’s seeing some firms lower that number all the way down to $100 million.

Despite the lower minimums on separately managed accounts, it can make more sense for smaller clients to stick with comingled vehicles, however.

“If you’re above $250 million, it’s a much better conversation for separately managed accounts,” says Johnson. But “below that, it’s going to be difficult to access some of those best ideas.”

Overall, 84% of OCIO providers surveyed by Cerulli said they offer such separate accounts for clients. Offering customized portfolios as comingled funds is also popular, as about two-thirds of firms said they have those vehicles on their menus. Allowing clients to customize asset allocation rather than underlying investments was less popular, as was using funds of funds. Least common was a single portfolio for all clients of a provider’s “best ideas,” with only one in 10 providers conducting business that way.

“There’s still a handful out there,” says Alford, on OCIOs offering the latter model. They have their "plusses and minuses, but they’re not growing as fast as they were.”

Slower growth for some OCIOs could also be attributed to the increasing competition providers face in the market. Last year the industry saw its first notable exit, with **TIAA** cutting its OCIO business — and while analysts said the move wasn’t indicative of an impending exodus, providers sure feel the pressure.

“In our conversations with providers, it’s clear that they’re definitely under scrutiny, from clients and from search consultants as well,” says Swansey.

While Cerulli found that only 28% of respondents had lowered their published fee schedule in the last three years, almost all firms said fee comparison with other providers was at least a moderate challenge.

Plus, published fee schedules don’t reflect the final fee after rounds of negotiation — and negotiated fees have come down significantly, search consultants say.

Alpha Capital’s Alford says his firm recently completed a search in the pension space that saw the final negotiated fee drop to a single digit. “You wouldn’t see that in endowments and foundations, but pension funds are becoming super competitive,” he adds.

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