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ESG Concerns Dog Commingled OCIO Model

By Alyson Velati July 13, 2017

Outsourced CIO (OCIO) Investure has recently come under scrutiny again from clients as they seek to better align their investments with their missions.

One of Investure's clients, the $286.8 million **Barnard College Endowment**, is evaluating its relationship following its announcement to divest from fossil fuel, says **Rob Goldberg**, chief operating officer of the college, via email. "Barnard College's endowment is managed by Investure and has been for more than a decade," he says. "Following a unanimous vote by the Barnard College board of trustees in early March, the college will divest from fossil fuel companies that deny climate science; the college is currently assessing how to implement this unique divestment approach. At the same time, we are reviewing our long standing relationship with Investure as part of good due diligence and anticipate making a decision soon on an outsourced chief investment office."

The college has about $18 million invested in fossil fuel companies linked to private equity commitments through Investure, as reported in March. Some of Investure's clients have previously ended ties with the firm for similar reasons.

The $830 million **Rockefeller Brothers Fund** fired Investure in 2014 due to its frustration with the firm's commingled styled approach and its inability to customize its portfolio to its liking. The fund ultimately hired **Perella Weinberg Partner**'s OCIO arm Agility, as previously reported.

The $740 million **Commonwealth Fund** also parted ways from Investure in early January and teamed up with Agility for similar reasons as the Rockefeller foundation, according to **Jeffry Haber**, controller and senior director of finance for the foundation.

"The reason for the change is because we decided we wanted a little more control," he says. "We wanted more of a direct relationship with our managers or have some ability to include some sort of screen [ESG, mission-related] if we needed to. In Investure's fund, there was no ability to implement that."

Still, the foundation had a "good" partnership with Investure, he says.

While it makes sense for institutions with more than $500 million in assets to stray away from commingled models, smaller asset owners may not have the same option. Smaller funds thrive in a commingled structure since they can get access to managers more efficiently, whereas they may not be able to create direct relationships with managers like larger funds, says **Michael Chase**, partner and senior consultant at Fiduciary Investment Advisors. But that doesn't mean smaller funds are left to buy off the rack as some shops are tweaking their models to make more room for customization, he says. More and more firms are adding environmental, social and governance, socially responsible investing and mission-related capabilities to their models.

And with so many firms entering the OCIO space, it's crucial for these firms to offer customized solutions says **Brad Alford**, founder and CIO at Alpha Capital Management, who offers consulting search services for investors. "It's not enough to simply run a one-size fits all model; competitors are allowing clients different levels of involvement and more active roles in investments, as desired," he says. "The socially responsible [and] impact investing space is a great example of this. Firms need to evolve into more of a hybrid consultant [or] OCIO in this new reality."

As for Investure, this is not the first time it has been subject to close examination by its clients. Last September, the $412.6 million **Dickinson College Endowment** partnered up with the $684 million **Colonial Williamsburg Foundation** and the $986 million **University of Tulsa Endowment**, of which Investure manages $452 million, to review the firm's performance, confirmed by a spokeswoman for Dickinson. While the college is no longer partnered with the foundation and the university – all clients of Investure – Dickinson's review is ongoing and is expected for completion in October, says the college spokeswoman.

"The board reviews vendor relationships as a matter of general practice and due diligence in carrying out its oversight responsibilities," she says in an emailed response to questions. "After 10 years with Investure, it was an appropriate time for a review."

And back in 2015, Dickinson, Barnard and Middlebury College reviewed the firm, as reported by *MandateWire*. Middlebury is not reviewing the OCIO shop at this time, says a spokeswoman for the college.

The shop manages about $13 billion in assets as of March 31, 2017, according to the firm's website. **Alice Handy**, CEO and president of Investure, did not respond to *FundFire*'s call for further comment about the reviews prior to publication deadline.

But the firm has been pumping out positive performance for some of its clients and some are satisfied with Investure.

Dickinson's five-year annualized returns were 9.2% and had a 12.4% annual return as of May 2017, according to the college.

Middlebury had the same annual return as Dickinson and reported 9.1% for its five-year return as of May 31, 2017, according to the college.

Although the $2 billion **Smith College Endowment** lost 5.9% in its last fiscal year – according to a fiscal year 2016 report – the college remains committed to its partnership with Investure, according to a college spokeswoman.

The firm is also not taking on any more clients, which confirms the OCIO firm's success, says Chase. "I would say it's healthy to kick the tires and conduct a review every three to five years to see if a provider is in line with the policy and that everything else is in place," he says.