Welcome to OCIO 102

If you haven't taken our OCIO 101 class, you may wish to start there. It covers what OCIO stands for (outsourced Chief Investment Officer), what its namesake Chief Investment Officer does, and what kinds of investment firms offer OCIO services.

Today, we're diving a little deeper into the OCIO landscape. Deciding to hire an OCIO is one important decision an Investment Committee can make, but it is not the only one. Once an organization has chosen to move to an OCIO model, it must select between the myriad options that bear the "OCIO" label. The three OCIO models we will discuss today, which we think of as a spectrum, are:

This class, OCIO 102, is dedicated to helping you make sense of those labels to find the OCIO model that best fits your organization's needs. We also offer some tips to organizations embarking on a search for each model.

By the way, these are terms that Alpha uses to describe the OCIO models, but like many things in OCIO, there isn't an industry standard. More important than the terms themselves are the characteristics of the models. Here we go!

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ABOUT ALPHA CAPITAL

Leading provider of OCIO and investment consultant searches for institutions. Co-creators of the Alpha Nasdaq OCIO Indices and creators of the Alpha Peer Universes. Mission to improve the outcome for investors.

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First Lesson: What is a custom OCIO?

CUSTOM > HYBRID > ONE-FUND

At one end of the spectrum of OCIO solutions are custom OCIOs. This model looks and feels very similar to legacy investment consulting relationships, which you learned about in our [OCIO 101] course. Custom OCIOs take a collaborative approach to many high-level portfolio decisions like liquidity, return objectives and risk tolerance, asset class weights, and idiosyncratic portfolio decisions like values-based investing. On these big-picture topics, there is no functional difference between a custom OCIO and a traditional non-discretionary investment consultant. The line in the sand that separates custom OCIO from non-discretionary consulting is the OCIO's ability to hire and fire investment managers without approval. Once the Investment Policy Statement has been collaboratively created and agreed upon, the custom OCIO has discretion to make day-to-day portfolio decisions and the operational authority to implement them.

Benefits	Considerations
Customization, integration of investment ideas like values-based investing	Building a portfolio, especially in private assets, takes time and is subject to the J-curve
Easy to change OCIO providers—no asset transfers required	OCIOs may not have as much buying power for clients as when they pool client assets together into vehicles
Familiar for organizations used to a traditional consulting role	Performance is difficult to evaluate on an apples-to-apples basis as each portfolio is different
Least costly OCIO model on average	Clients cannot access all of the firm's best ideas

Works well for organizations who have:	Challenging for organizations with:
Special investment restrictions like debt covenants, ESG, or other complications	Lack the scale required to build diversified portfolios while meeting individual investment manager minimums
Significant legacy assets, as the OCIO can build a portfolio around these positions	Struggle with Investment Committee member engagement
Investment Committees who want a higher degree of granularity on investment decisions or to own all assets in the organization's name	Desire a fully invested illiquid portfolio very quickly, or do not want to go through the J-curve

Second Lesson: What is a one-fund OCIO?

CUSTOM → HYBRID → **ONE-FUND**

At the opposite end of the spectrum of OCIO solutions are one-fund OCIOs. These are complete solutions designed primarily for endowments and foundations, and the one-funds are typically managed by spin-outs of large endowment teams like college universities. When an institutional investor engages a one-fund OCIO, the institution's assets are combined with all the firm's other clients in a pool and invested in the same asset allocation with the same managers. One-fund OCIOs typically invest in a version of the Endowment Model, with heavy allocations to illiquid alternative investments. Unlike the custom OCIO model, there is no collaboration on liquidity, return objectives, or risk tolerance—these are determined solely by the one-fund OCIO. Many one-fund OCIOs now offer the ability to customize asset class weights with satellite vehicles, but the flagship pool is designed and executed solely by the OCIO's investment team.

Benefits	Considerations
Invest in a fully diversified portfolio, including illiquid assets, on Day 1. No J-curve or ramp up period	Customization is difficult (though no longer impossible in some cases)
All clients receive equal access to limited-capacity managers and asset classes like venture capital	Costliest OCIO model on average. One-funds are capacity constrained so there are fewer clients to share the cost of the investment team
Audited track records are available to review	Termination is not straightforward. Exit parameters are complex and may be opaque
Investment team is completely focused on building a best-ideas portfolio that you own	

Works well for organizations who have:	Challenging for organizations with:
Have perpetual time horizons, target typical E&F returns (CPI + 5% or so), and defined liquidity needs	Significant internal investment resources and/or investment committees who want to make portfolio decisions
Lack the investment resources to make portfolio decisions like asset allocation and seek to outsource everything to a professional team	Different return/risk objectives or spending needs than the typical endowment or foundation
Desire a full portfolio of illiquid assets, including venture capital and private equity, but lack the access or assets to build it in-house	Investment restrictions like liquidity or ESG considerations

Third Lesson: What is a hybrid OCIO?

CUSTOM | **HYBRID** | ONE-FUND

We hope it's obvious that hybrid OCIOs combine features of both custom and one-fund OCIOs and thus fall somewhere in the middle of the spectrum. The defining characteristic of a hybrid OCIO is that at least some of your assets are pooled with the OCIO's other clients into access vehicles. In fact, some of the earliest OCIOs in the industry use a hybrid model where client assets are pooled at the asset class level. As an example, each client determines its own asset allocation in collaboration with the OCIO, including the "Global Equity" weight, The OCIO then implements the Global Equity allocation by investing the client into the OCIO's Global Equity feeder fund. The OCIO makes all decisions within the Global Equity fund, including manager hire/fire, manager weights, and rebalancing. Other examples of hybrid OCIO models allow clients to invest passively in one or more asset classes (like domestic equity) or selectively use pooled vehicles for alternative assets.

Benefits	Considerations
Committees retain discretion over strategic asset allocation (the most important decision!) while outsourcing manager selection to experts	Performance can be difficult to evaluate. Asset class vehicle track records are usually available but they can be apples to oranges as OCIOs define asset classes differently
Terminating a hybrid OCIO itself is straightforward, but care must be taken to understand the separate unwinding of investments in the OCIO's pooled funds	Fees can be opaque, especially if the cost of the OCIO services and the underlying OCIO funds are bundled
Good middle ground for Committees who don't need complete customization or total asset ownership	Private vehicles are typically raised by vintage year so buildout is slow and subject to the J-curve

Works well for organizations who have:	Challenging for organizations with:
Issues implementing a totally customized portfolio (usually lacking the asset size to do so, especially in illiquid alternative assets)	Desire to own all assets in their own name or need a high degree of manager-level customization
Significant legacy assets that need to be considered when designing the total portfolio	Reluctance to invest in pooled vehicles run by the OCIO
ESG or other values-based considerations that require customization in certain asset classes	Desire to bypass J-curve or quickly ramp up illiquid asset exposure

Fourth Lesson: Other Models Exist

Life is messy. While our clients find our OCIO spectrum helpful as a starting point, the OCIO industry is in a state of evolution and growth. There are many variations that exist between the three major OCIO models we highlighted. For example, a client might grant an OCIO discretion over activities in certain asset classes (like private markets) while utilizing them as a non-discretionary advisor for other assets. We've also heard OCIOs offer clients a veto period, like 72 hours, so that clients can veto an upcoming investment action if desired. It's also important to note that our spectrum describes the OCIO models, not the OCIOs themselves—many OCIOs offer more than one model to clients depending on the client's level of assets. As a general rule of thumb—the larger your assets, the more options you have. Key parameters like discretion, consent, liquidity, and fees vary widely among OCIO providers as well as models. It's important that your organization look carefully at each OCIO provider as well as their key terms. The better designed your RFP is, the easier this process will be for you. If you're not comfortable going it alone, you can always call Alpha Capital!

Final Exam

1) Name 3 differences between OCIO models.

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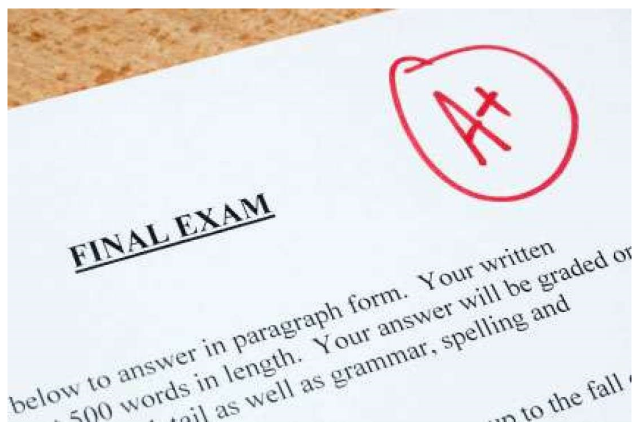
2) Can you mix and match OCIO models? (circle one)

   a. Yes b. No

3) Did you like our class? (circle one)

   a. Yes! b. Yes! c. YES!



ABOUT ALPHA CAPITAL MANAGEMENT

We are a leading provider of OCIO and investment consulting searches for institutions and have represented more than $90B of assets in the marketplace. We created the industry's first OCIO indices in partnership with Nasdaq. An independently owned investment firm founded in 2006, Alpha Capital has four employees located in Atlanta, GA. We seek to provide unbiased advice to our partners with our investment-oriented services and solutions. Our mission is to improve the outcome for the investor.

OCIO & CONSULTANT SEARCH SERVICES

Our core business is performing OCIO and investment consultant searches for large institutional investors. Our deeply experienced team views OCIOs and consultants through many lenses, having served as plan sponsors, investment consultants, and Investment Committee members. We take a disciplined, rigorous approach to OCIO and consultant due diligence, complemented by our investment expertise and CFA designations. We drive a better result for our clients while simplifying the search process.