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CFA Develops Guidelines for OCIOs to Comply with GIPS

The guidelines would create a standardized composite to measure OCIO performance.

By Sam Heller

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The **CFA Institute** released a draft of outsourced chief investment officer guidelines last week that aim to help these managers comply with global investment performance standards, or GIPS.

The proposed guidelines seek to standardize the process of grouping similarly managed portfolios, known as composites, based on objectives and asset classes for OCIOs. The blueprint also aims to standardize benchmarks, fees and track record reporting.

The institute's goal is to create a framework for presenting investment performance that suits the OCIO business model, said **Karyn Vincent**, GIPS executive director at the CFA Institute.

"Firms that manage either specialized OCIO mandates or were looking to enter the OCIO market in the U.S. were having some challenges complying with the regular GIPS standards for firms because of the unique nature of the assets they manage," she said. "Combined with just the growth of OCIO assets in the past few years, all of this just made us take a serious look at the OCIO industry."

The greatest challenge was figuring out how to create the composites, given the vast number of client circumstances and strategies OCIOs take into account, she said.

Under the proposed guidelines, firms will identify their strategies as either liability focused or total return and comply with required OCIO composites, which define each on a range from "aggressive" to "conservative."

"The Required OCIO Composites are defined based on a combination of the strategy, (liability-focused or total return objective), and asset allocation rather than by client type," according to the draft. "This will allow prospective clients to better compare smaller and larger firms that manage OCIO strategies."

For liability-focused composites, assets are classified as either liability-hedging or growth assets, while for total-return composites, assets are shown as risk-mitigating or growth.

Proposed OCIO Composite

The recommended GIPS rules would define OCIO strategies based on their portfolios' risk.

Required OCIO Composites	Allocation to Liability-Hedging Assets	Allocation to Growth Assets
Liability-Focused Aggressive	0-20%	80-100%
Liability-Focused Moderately Aggressive	21-30%	70-79%
Liability-Focused Moderate	31-50%	50-69%
Liability-Focused Moderately Conservative	51-75%	25-49%
Liability-Focused Conservative	76-100%	0-24%
Required OCIO Composites	**Allocation to Risk-Mitigating Assets**	**Allocation to Growth Assets**
Total Return Objective Aggressive	0-20%	80-100%
Total Return Objective Moderately Aggressive	21-30%	70-79%
Total Return Objective Moderate	31-50%	50-69%
Total Return Objective Moderately Conservative	51-75%	25-49%
Total Return Objective Conservative	76-100%	0-24%

Source: CFA Institute

Firms would also have to report the benchmarks they use, and those using portfolio-weight custom benchmarks would need to disclose any rebalancing and the reasoning.

OCIOs would also be expected to disclose all fees charged to their clients and break them down, whether it's for different asset managers or their own proprietary funds. In the past, **conflicts arose** from OCIOs not needing to disclose double fees on their proprietary funds.

The draft rules would only apply to OCIOs with total discretion over an entire asset owner's portfolio and to one that is also giving strategic advice to the asset owner.

The draft is currently in a public comment period, which will end on Nov. 20.

The CFA Institute assembled the working group that created the benchmarks over a year ago, and it consists of 15 people within the industry, including representatives from **Aon**, **Verus**, **NEPC**, **BlackRock** and **Mercer**, as well as OCIO search consultants.

The biggest change the rules propose is standardization in a very customizable industry, where policies and performance benchmarks all vary greatly, said working group member **Gabriella Barschdorff**, co-head of pensions on BlackRock's multi-asset strategies and solutions team.

"To have these standards... would make it much, much easier to be able to compare provider A to provider B," she said. "[It] will make potential buyers of OCIO services lives much easier."

The guidelines also allow for legacy assets that an OCIO inherited and cannot easily get rid of to be left out of an OCIO composite, as they may hurt the portfolio's target and not form part of the OCIO's current strategy.

Legacy assets can make up as much as 30% to 40% of a portfolio, Barschdorff said.

"Firms don't necessarily want to be held up to or evaluated based on previous firms' positions in terms of investment," she said.

If these rules were to be implemented as-is, it would take a few months for BlackRock and likely other large firms to comply with the rules, as it would take some work to break down the specific fees, Barschdorff added.

Certain firms, such as Mercer, already comply with general GIPS standards for money managers, said committee member **Brad Alford**, founder of OCIO search consultant **Alpha Capital Management**. Many firms that do not follow these current standards have released fake track records or used inconsistent benchmarks, Alford said.

Alpha Capital Management plans to no longer consider any OCIOs that do not follow GIPS standards by 2025, he added.