

CFA Rounds Up Working Group to Help Develop GIPS Standards for OCIOs

The 15-member group is tasked with helping produce a consultation paper set to be released in early 2023.

By Justin Mitchell

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The CFA Institute has assembled a working group to help it decide on a method to measure the performance of outsourced chief investment officer, or OCIO, firms based on the Global Investment Performance Standards, known as GIPS.

The standards, widely used in the traditional asset management space, haven't yet caught on with OCIOs.

"Our main goal is to determine what kind of guidance we need for the GIPS standards that is specific to OCIOs, and so we want input from the industry to help us make that determination," said **Karyn Vincent**, CFA's senior head of global industry standards.

Unlike more traditional asset managers, OCIO portfolios tend to be heavily customized for different clients, making comparisons between them difficult, Vincent said. For the GIPS standards, a foundational concept is the use of composites that include all the portfolios managed in a specific strategy.

"An easy example in the typical GIPS world is somebody would create a composite for all accounts managed in a large-cap strategy. That is pretty straightforward," Vincent said. "It's a little different in the OCIO world, when you have accounts that have unique asset allocations that really are created to generate a specific return."

The 15-member working group will convene Sept. 1, and will work to help CFA create a consultation paper to be released in early 2023, Vincent said. After receiving feedback on the paper, the CFA Institute will decide the next steps.

The CFA Institute is not yet releasing board members' names publicly but says they include people from major OCIO firms like BlackRock and Mercer, as well as search consultants like Alpha Capital Management and Curcio Webb.

As asset owners look for help navigating a complex and uncertain investment landscape, they are increasingly turning to OCIOs. Total assets under management in the space stood at about \$2.46 trillion as of last year, according to a study from Pensions & Investments, and could exceed \$4 trillion in the next few years, according to a recent study from Chestnut Advisory Group.

“This is ... the latest piece of evidence that this marketplace is only going to grow and it’s not going away, or all these people wouldn’t be putting in extra time for this,” said **Amanda Tepper**, Chestnut’s CEO.

Along with the increased popularity of this service has come increased transparency and the rise of an entire industry of OCIO search consultants hired by institutional investors to evaluate potential providers, which has in turn helped bring down fees and put them more in line with traditional non-discretionary investment consultants. However, fee data is still messy, and firms find ways to conceal what they are charging.

The same is true of performance, said **Brad Alford**, founder of Alpha Capital Management and a member of the CFA working group.

“We do searches, we ask for performance, and we just get very cherry-picked numbers, we just can’t believe a lot of them,” he said. “In the next two years, if you’re not GIPS compliant, we might not even have you in a search.”

OCIOs will often handle their clients’ asset allocation, implementation and manager selection, in addition to advising clients on their investment policy statement and other mission-aligned initiatives such as environmental, social, governance or impact investing; or diversity, equity and inclusion, Tepper said. This has made transparency and standardization more important, she added.

“It’s a lot of services you’re buying, and a lot of trust that you’re handing over,” she said.

While OCIO performance reporting guidance is “the logical next step” for CFA, it will be challenging, said **Brian Schroeder**, founder of OCIO Monitor, a firm that helps investors track their OCIOs’ performance.

“Given the uniqueness of every client by type, risk/return objectives, portfolio guidelines, financial conditions and other factors, a truly fair and useful comparison may prove difficult,” he said in an email.