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OCIO Searches Spike, Driven by Performance Dissatisfaction

By Lisa Fu
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Outsourced chief investment officer searches have surged in 2021 with activity outpacing the last few years, search consultants and OCIO firms say.

"We're having our busiest year ever," says **Brad Alford,** founder of OCIO search firm **Alpha Capital Management.** Search activity has "exploded."

During the first quarter, several institutional investors announced searches for new OCIO services. In March, the **Texas Tech University System** released a request for proposal for OCIO services for its short/intermediate-term investment fund, as reported by sister publication MandateWire. Texas Tech held more than $1.2 billion in assets as of Sept. 30, 2020, according to investment documents. The $34 million Washington-based nonprofit **Blue Mountain Community Foundation** also released an RFP, indicating it was open to bringing in an OCIO model, as reported.

Meanwhile, the $2.7 billion **Police and Retirement System of Detroit** has been taking part in education sessions about potentially hiring an OCIO to manage its investment portfolio, as reported in February.

Some institutions are also looking replace their existing OCIOs.

The **Lancaster County Community Foundation**, which held $130 million in assets as of 2019, gave a 2021 investment update informing fundholders and community partners that it has terminated its decade-long relationship with OCIO **Glenmede** and hired **PNC** as a replacement. The foundation listed PNC's consistent performance at or above its benchmark, performance in comparison to its peers, competitive fees and ESG investment pool options as reasons for the hire.

Much of that uptick in search activity Alpha Capital Management has seen has been driven by "underwhelming performance" by existing OCIOs managing the portfolio or internal investment teams, Alford says.

"Performance drives everything, especially in OCIO compared to nondiscretionary investment consulting," Alford says. "You want to have a winning record. The **Alpha Nasdaq OCIO Indices** have really increased the transparency on performance. It really opened up people's eyes in terms of what they're getting."

Performance, at least in the endowment and foundation space, is often measured against inflation plus 5%, an index-based mock portfolio that mirrors an organization's existing portfolio and the peer universe index, Alford says. Though other factors like fees and research do play a role, "nine times out of ten," the OCIO searches today are driven by performance-related concerns, he says.

Searches have been especially pronounced in the endowment and foundation space as donors withhold dollars, he says. The donors of this generation are much more involved, and "their money comes with more strings," he says. Donors funding endowments and foundations are not only paying closer attention to performance but are digging into whether the investments incorporate environmental, social and governance considerations, diversity and the mission of the organization, he adds.

"We've had several searches where that's occurred, where they've told us that their donors are holding back because the performance is so weak," Alford says.

A lot of community foundations are competing for donations and they have to show that they are deploying capital in an effective way while also serving as "good stewards for the investment pool," says Jim Scheinberg, founder and chief investment officer at search consultant North Pier. Visible, public-facing charities, endowments and foundations need to be focused on earnings and the governance of their own programs if they want to solicit donations, he says.

"The last year really sharpened the focus of enterprises and organizations in general on their core business or mission," says **Russell Investments** managing director for institutional sales **Rob Cittadini**. "That's usually not managing money. In a time of duress, it's not surprising that [they] would focus on what's core to them and look to trusted outsourced partners."

Meanwhile some investors that adopted the OCIO model early on are now realizing that there are other options as the market has grown, prompting them to reconsider their current relationships, Alford says. The competition among OCIOs has "ramped up heavily in the last year and a half," and Alford estimates there are many more firms in the market beyond the 100 that Alpha Capital Management tracks.

Many institutions are simply reevaluating their existing relationships given the "craziness of the last five quarters," Scheinberg says. There was market volatility and "huge shifts" between value and growth stocks during the pandemic leaving little time for institutions to take a pause, he says.

"Firms now are taking this opportunity to evaluate what they're going to do next," Scheinberg says. "Whether they're going to stay with the folks that they're with, whether they're going to make a change, whether they're going to increase the amount of discretion."

The pickup in activity is “probably up on the order of magnitude of 30% or so,” similar to the surge in OCIO interest after the great financial crisis in 2008, says **Keith Luke**, president of **Commonfund Securities** and executive group member of **Commonfund Asset Management**. Now, many of those same institutions that hired OCIOs in the ’08 crisis are revisiting whether they want to maintain that relationship, he says. The ongoing adoption of search firms may also be increasing the number of searches being conducted, he adds.

“OCIO search consultants are taking a lot of the burden off of investment committees and staff that would normally have to issue the RFP, go through all the RFP responses, … go through all that work,” Luke says. “It has made it a little bit less daunting for an institution to decide to undertake a search.”

The surge in searches, which really started in the third quarter of 2020, will likely continue through 2021, says Scheinberg.

“I actually think that what OCIO search activity we expect over the next 12 months is even more monumental,” Scheinberg says. “We still have a bunch of projects that are on hold. Some investors don’t want to do finals until they can do finals in person.”

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