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OCIOs Slightly Outperformed a 60/40 Portfolio in Q1

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June 9, 2021

Outsourced chief investment officers, known as OCIOs, slightly outperformed a standard 60/40 portfolio benchmark in the first quarter of the year, according to a new report. But a look beneath the surface shows a wide range of performance dispersion.

The broad AlphaNasdaq OCIO index returned 1.75% during the first quarter of 2021, slightly outperforming a standard 60% equity, 40% fixed income portfolio built on broad market indices. The base case 60/40 split, modeled using the MSCI All Countries World Index and Bloomberg Barclays U.S. Aggregate, returned 1.42% for the first quarter. However, if the OCIO benchmark trades in the MSCI ACWI index for the S&P 500, it would have returned 2.31%, surpassing the average OCIO.

The industry likely benefited from the market swing from growth stocks to favoring value stocks in the first quarter, says Alpha Capital Management founder **Brad Alford**. Traditionally, OCIOs have a bias toward value, so they were already positioned to benefit from this market shift, he says.

Most OCIOs "kind of have a Warren Buffet approach,…they have a value tilt," Alford says. "Growth stocks are just so volatile."

The OCIO index also slightly bested the benchmark in the fourth quarter, when it returned 9.32%, 22 basis points more than the 9.1% return of the 60/40 MSCI ACWI and Bloomberg Barclays U.S. Aggregate index split.

In the first quarter, within the broad OCIO index, portfolios with riskier asset allocations reported higher investment returns, and those with more "risk-mitigating" asset classes such as high-yield bonds, core fixed income and Treasurys, experienced losses.

The AlphaNasdaq OCIO Aggressive Allocation Index returned 4.14% during the first quarter compared to the 1.75% recorded by the broad OCIO index. The AlphaNasdaq OCIO Conservative Allocation Index, which includes portfolios that have an allocation of more than 75% to risk-mitigating assets, reported losses of 4.75% for the first quarter.

The AlphaNasdaq OCIO Defined Benefit Pensions Plans Index, which lost 0.66% in the first quarter, was the worst-performing institutional investor segment when compared to the

traditional 60/40 split and other OCIO index categories, Alford says. The underperformance stemmed from the inclusion of defined benefit portfolios that tend to be liability driven and weighted more toward fixed income, he notes.

Meanwhile, the endowments and foundations OCIO index — which consists of institutional investors that hold more risky assets compared to defined benefit plans — notched the largest gains in the investor segment, 3.49% during the same period. In comparison, the AlphaNasdaq OCIO Healthcare Operating Reserves Index and OCIO Insurance Reserves Index returned 2.78% and 2.06%, respectively during the quarter.

Some OCIOs made “knee jerk” tactical moves in 2020, like adding a lot of fixed income to their portfolios and never taking it off, Alford says. That heavy fixed income exposure led to the portfolio getting “crushed,” he adds. The Bloomberg Barclays U.S. aggregate index, a benchmark for fixed income, lost 3.37% during the first quarter of 2021.

“Some people got it really wrong and [some] really right because it was a very volatile year,” Alford says, looking back on the first quarter 2020 through the first quarter of 2021 OCIO performance.

Along with the risk level in portfolios, the underlying institutional client’s financial health might have affected OCIO performance, says **Michael Cagnina**, v.p. and managing director of the institutional group at SEI. Some institutional investors were forced to change their portfolio allocations because the pandemic affected their business and liquidity, he says.

An OCIO may have done portfolio stress testing with a client in anticipation of a market correction, but they may not have been able to prepare for a pandemic that disrupted the institutional client’s operations, Cagnina says.

“If you were an arts and cultural nonprofit, you no longer had revenues,” he says. “You were closed. You didn’t have concerts, you didn’t have events. So, their liquidity needs changed.”

Meanwhile, institutions like universities probably had an easier time staying on course with allocation plans and had better investment performance as a result, Cagnina says. Similarly, while health care institutions were hit hard by the pandemic, many were able to borrow money at a low rate and avoid having to change their investment strategy, he says.

As a result of this nuance, while these indices are helpful, it can be difficult to identify why some OCIO groups performed better than others, Cagnina says. “We have to get more granular if these [indices] are going to be meaningful,” he says.

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