

# Understanding OCIO Costs

## *Not All Fee Structures Are the Same*

Many nonprofits and foundations recognize the benefits of the outsourced chief investment officer (OCIO) model, but understanding how the associated fee structure compares with other investment management models (e.g., self-management or investment consultant) can be confusing.

While cost is a significant consideration for the nonprofit community, organizations will find that investment providers have differing levels of transparency when presenting fees. The industry may move toward a more universal standard in the future, but for now it is critical to ask questions about fees to make the best choices for your organization.

Whatever the preferred model, the annual all-in fee using a self-management, investment consultant or OCIO model could include:

- In-house investment personnel.
- Advisory or oversight fees.
- Custody fees.
- Underlying manager fees.
- Transaction costs.
- Travel costs.
- Switching costs or early termination fees.



Below we provide a general overview of what your organization can expect from various types of investment models when it comes to fees.

## **Model 1: Self-management**

Some organizations choose this path because it can save money while leveraging the expertise of the organization's board of directors or investment committee members to make critical decisions on investments. However, conflicts of time and a split focus on other responsibilities may lead to hiring additional staff and increasing resources to successfully manage assets and reporting in-house. Self-management may not always adjust to organizational or market changes in an objective or time-sensitive manner, which could prove costly in the long run.

Although self-management appears to be an economical option, unexpected costs may arise. These include custody fees, travel expenses, transaction fees, research tools and overly expensive underlying manager fees due to retail pricing versus institutional pricing.



## Model 2: Investment consultant

In this oversight structure, the board of directors — or an investment subcommittee of the board — hires an investment consultant to assist with evaluating the investment policy statement, asset allocation and hiring and removal of managers. The investment consultant's role is to make recommendations, but ultimately the board and subcommittee are responsible for making all final decisions on investment policy statement, asset allocation and manager selection. The most valuable resource spent here is time by the board or investment committee. There may be additional costs with this model, including layered consulting fees, custody fees, manager fees, transaction fees and travel costs. Many consultants also charge additional à la carte fees for ancillary services as needed, such as education, spending policy analysis or specific manager searches.

THERE TYPICALLY ARE TWO TO THREE LAYERS OF FEES: THOSE PAID TO THE OCIO, UNDERLYING MANAGERS AND CUSTODIANS.

## Model 3: OCIO

An OCIO can serve as a comprehensive fiduciary partner to your organization, providing services such as investment policy development, asset allocation modeling, portfolio implementation, rebalancing, performance reporting and board education. The OCIO can recommend, or be granted discretion to make, manager or asset allocation changes, including implementation of strategies that can align with your organization's values, and can provide education on important topics like mission-aligned investing. Given the comprehensive nature of the relationship, OCIO fees are typically based on assets under management. Fee considerations may include custody fees, asset allocation and/or implementation fees, underlying manager fees and transaction costs.

To get a clear understanding of what you should expect, it is important to consult with your potential OCIO provider and get a comprehensive breakdown of fees for services.

### WHY PARTNER WITH AN OCIO?

Organizations may partner with an OCIO because of a lack of internal resources, a desire for more sophisticated investment and/or risk management, desire to access additional investment strategies and asset classes, additional fiduciary oversight and more timely implementation and decision-making. An OCIO should make decisions with a holistic and unbiased view. Further, the OCIO can take pressure off the board or investment committee and give them more time to focus on their defined roles within the organization if they choose to do so. The OCIO provider also should be able to provide guidance on educational objectives, leadership transition, next-generation engagement and governance best practices.

The OCIO provider is not there to replace or replicate the dynamics of your in-house team. Rather, the OCIO should be a partner or extension of your team, ensuring the appropriate people and expertise are in place to prudently invest your organization's assets within the parameters of your investment policy statement.



## Fee-based questions to ask when evaluating an OCIO

- **What support could I expect from my OCIO?**

Your OCIO should be able to provide your organization with strategic expertise, asset allocation and investment advice including, if desired, full investment discretion. Fees may vary depending on the responsibilities delegated to your OCIO. It is important for your organization to address and confirm the level of discretion granted to your OCIO before the engagement begins.

- **Should I expect transparency about all potential fees in our initial interview?**

Generally, yes. During your evaluation, the OCIO should be clear and transparent about all fees, aligned with any proposed portfolios. By the end of the evaluation, you should easily understand OCIO advisory fees, underlying manager fees and any additional fees that may be assessed based on the services provided by your OCIO over the full tenure of the commitment. There potentially are two to three layers of fees: those paid to the OCIO, to underlying managers (and/or investment vehicles) and to custodians. Asking for consistent data will help you to effectively compare different providers.



- **Does the OCIO receive incentives to recommend particular external managers for inclusion in client portfolios?**

This is a question you should ask the potential provider. We believe managers should remain impartial and not be financially incented to select one strategy over another.

- **How are underlying manager fees charged?**

External manager fees generally use institutional pricing as opposed to the higher retail costs you might see when self-managing.

- **Are any travel costs included in OCIO fees, or will the OCIO seek reimbursement for its travel costs?**

Although these costs are typically included as part of an all-in fee, we recommend you discuss the full scope of expectations when meeting with your potential OCIO provider.

- **Do fees apply for both passive and active portfolio management?**

All investment strategies, even passive or index-based, carry fees. It is important to understand the OCIO's approach to selecting strategies and their associated fees.

- **Will my OCIO create customized reports?**

Often this depends on the provider. There may be additional or higher fees for customized reports as opposed to the standard reporting provided by your OCIO.

- **Are OCIO fees subject to change?**

Is the fee rate charged by the OCIO fixed at a flat rate, or are there tiers or breakpoints based on the amount of assets in the portfolio? If you anticipate significant future contributions to or withdrawals from your portfolio, this is something you should discuss to understand how your fees could change.



## Conclusion

When reviewing potential OCIO providers, it is important to have transparency when it comes to the potential fees associated with the OCIO. This step will help to make a more informed decision when deciding which OCIO provider is the right partner for your organization.

While fees are a factor in weighing your decision, there is much more to selecting the investment management firm that can best support your organization's goals to fulfill your vision and mission. We invite you to reach out and get to know more about Glenmede and how we help nonprofits, institutions and foundations manage their investments to help accomplish their missions, goals and objectives.

## Glenmede as an OCIO

Glenmede serves as a trusted OCIO to more than 250 nonprofits, institutions and foundations. We strive to present our OCIO fees clearly so there are no surprises.

*Glenmede's OCIO Toolkit: A Guide to Choosing the Right Investment Manager for Your Organization* will walk your investment committee through the process of deciding if an OCIO is right for your organization, the steps to take in choosing an OCIO partner that can align with your investment objectives, and a breakdown of fee considerations. Click [here](#) to download the toolkit.

If your organization is interested in learning more about the benefits of partnering with an OCIO, please call Samantha Audia, CTFA, Business Development Director, at 215-419-6038, or email Glenmede's Endowment & Foundation Management Team at [EFsolutions@glenmede.com](mailto:EFsolutions@glenmede.com).

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