



Understanding OCIO Costs: Not All Fee Structures Are the Same

While cost is a significant consideration for the nonprofit community, organizations will find that investment providers have differing levels of transparency around fees. It is critical to ask questions about fees to make the best choices for your organization and its operating model.

The annual all-in fee using a self-management, investment consultant or OCIO model may include:

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

Model 1: Self-Management

Some organizations choose this option because it can save money by 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. The self-management model 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 may appear to be an economical option initially, unexpected costs may arise. These can include custody fees, travel expenses, transaction fees and research tools. An additional cost to consider is working with underlying managers, as you may be charged more with expensive retail pricing versus lower-cost institutional fees that other management models can offer.

Model 2: Investment Consultant

In this structure, the board of directors or its investment subcommittee hires an investment consultant to assist with evaluating the investment policy statement, asset allocation, and hiring and replacing managers.

The investment consultant's role is to make recommendations, but ultimately the board or the subcommittee is responsible for making all final decisions. The most valuable resource spent in this model is the time of the board or investment committee. There may be additional costs, 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 and specific manager searches.

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
- 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 such as 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.

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. 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.

Why Partner with an OCIO?

- Lack of internal resources
- Need for more sophisticated risk management resources
- Access to additional or more sophisticated investment strategies and asset classes
- Additional fiduciary oversight
- More timely implementation and decision-making
- Guidance on educational objectives, leadership transition, next-generation engagement and governance best practices

Fee-Based Questions to Ask When Evaluating an OCIO

It is important to consult with potential OCIOs to get a comprehensive breakdown of fees and services. Asking for the same data from each provider when conducting your due diligence will help you make the most effective decision.

- 1. What support should I expect from my OCIO?** Your OCIO should be able to provide your organization with strategic expertise, asset allocation and investment advice including full investment discretion, if desired. 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 engagement begins.
- 2. Should I expect transparency about all potential fees in our initial interview?** 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 based on services provided over the full tenure of the partnership. There is a possibility for two or three layers of fees, including those paid to the OCIO, to underlying managers (and/or investment vehicles) and to custodians.
- 3. Does the OCIO receive incentives to recommend specific external managers for inclusion in client portfolios?** We believe managers should remain impartial, make decisions with a holistic and unbiased view and not be financially incentivized to select one strategy over another.

4. **What kind of fees can I expect to pay for the underlying investment managers and vehicles used for my portfolio?** OCIOs often can provide clients with access to institutional (lower fee) fund share classes and lower fee rates for private funds and other underlying managers than a client would be able to obtain directly by self-managing. Be sure to ask your potential OCIO providers the extent to which they are able to access such share classes and rates.
5. **Are any travel costs included in OCIO fees or will the OCIO seek reimbursement?** Although these costs are typically included as part of an all-in fee, we recommend you discuss the full scope of expectations.
6. **Do fees apply for both passive and active portfolio management?** All investment strategies, even passive or index-based, typically carry fees. It is important to understand the OCIO's approach to selecting strategies and their associated fees.
7. **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.
8. **Are the OCIO fees variable or fixed?** Does the OCIO charge the same fixed (flat) rate on all assets under its management, or does it charge a fee schedule with tiers or breakpoints, meaning the effective fee rate changes as assets are added to or removed from the OCIO's management? 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 and which type of fee schedule may be more cost effective for you.

Glenmede as an OCIO

When reviewing potential OCIO providers, fee transparency is crucial. This step will help you make a more informed decision when choosing which OCIO provider is the right partner for your organization.

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.

To learn more about how Glenmede's OCIO capabilities may help your nonprofit, please email Glenmede's Endowment & Foundation Management team at EFsolutions@glenmede.com.

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