



Poll: CIO Outsourcing Set to Grab Assets

March 3, 2011

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As more firms are increasing their CIO outsourcing services for small institutions, a majority of *FundFire* poll respondents say the trend will continue long-term.

Nearly 76%, or 113 respondents, said they believe CIO outsourcing is a noteworthy market development when asked whether the outsourcing movement is a long-term trend or just a fad in the *FundFire* poll published Wednesday.

This majority group included 51% who called the trend moderate and said the industry will see some new assets flow to outsourcers, and 25% who believe CIO outsourcing is a major trend that will generate big inflows.

In contrast, about 24%, or 36 voters, said they do not believe CIO outsourcing will be a significant trend. This group included the 13% who said it is a fad and that few assets will go to outsourcers, and 11% who called it a wash and said that all of the new CIO outsourcers will split the winnings and struggle to get scale.

The poll results come as an increasing number of firms are ramping up their CIO outsourcing services, as *FundFire* has reported.

Industry observers agree that CIO outsourcing is a viable trend that will continue to grow as smaller endowments strive to reach larger platforms.

"I agree that it is a moderate but meaningful trend," says David Eager, a partner at Eager, Davis & Holmes. "But, at the same time, I believe most fund sponsors are not going to turn over total control of their fund assets to a single third party."

Still, Eager says outsourcing seems ubiquitous among the firms he has worked with recently.

"From a marketing standpoint, with so many organizations having moved to an open architecture concept, these managers are going to find it difficult to differentiate themselves," Eager adds. "I recently helped a small endowment I am connected to conduct a manager search for an organization with an open architecture platform. It seemed as if every one of our nine candidates was using many of the same third party managers."

"What we're finding is that financial directors are really looking for ways to delegate and become more efficient and not fall behind their competition, and CIO outsourcing is a way to implement that vision," says Jon Waite, chief actuary at SEI.

At SEI, which saw \$2.5 billion in new assets flow to its outsourcing unit from 15 institutional clients in the first half of 2010, as *FundFire* has reported, chief actuary Jonathan Waite says CIO outsourcing is on the rise and will continue to grow across firms of all sizes.

“It really can apply across the institutional marketplace to the larger endowments and the pension space as well,” Waite says. “In general, we have seen a growing interest in outsourcing of many responsibilities having to do with the management of portfolios. Given the complexities of the market and liabilities, what we’re finding is our clients are really looking to focus on the most important and strategic issues for their fund. That comes down to many of the rules that might be encompassed in CIO outsourcing and more.”

According to Waite, these responsibilities may include manager research, taking full fiduciary responsibility for manager selection, asset allocation decisions and making portfolio changes. All of these areas leave ample growth potential for a trend that’s already gaining traction in the institutional space.

“I think this is a critical area,” Waite says. “What we’re finding is that the financial directors are really looking for ways to delegate and become more efficient and not fall behind their competition, and CIO outsourcing is a way to implement that vision.”

As of 3 p.m. Wednesday, 149 *FundFire* subscribers had participated in the poll, which is an unscientific sampling of the publication’s subscribers. Readers could vote only once on a voluntary basis.

FundFire’s audience consists of financial advisors, asset managers, institutional investors and service providers.

