

More Endowments Embrace Outsourced CIOs

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Institutional use of the “outsourced CIO” investment model appears to be picking up steam as investment boards continue to face challenging financial markets and increasingly complex investment vehicles.

In a new SEI survey of 177 executives at foundations and endowments – none of which are SEI clients – 53% cite complex investment strategies as a burden while 51% say it is difficult to read the economic outlook. These factors, along with increased due diligence needs, are pushing more and more institutions to consider adopting an “outsourced CIO” investment model – an investment structure SEI offers.

Indeed, the outsourced CIO model does appear to be a growing business. SEI says its outsourcing unit added \$2.5 billion in new assets from 15 institutional clients during the first half of this year. And a big part of that growth is coming from new endowment, foundation and healthcare clients, where the firm has taken in \$2.6 billion in assets over the past 18 months.

SEI’s new outsourcing clients include Boston Mutual Life Insurance, Cape Regional Health System, Miami-based Operating Engineers Local #487, Calif.-based Specialty Equipment Market Association and London-based Jeyes Supplementary Pension Scheme.

In the outsourced CIO model, the investor hires a firm whose professionals make essentially all of the investment decisions, taking on more discretion than in a traditional model. Outsourcing allows managers to be hired and fired in a relatively small amount of time due to the discretion these outsourced firms are afforded. Some institutions choose to outsource if they have a small investment staff and want more professionals working on their account.

“There are a lot of [endowment] investment committees that are worried about the growing complexities of the financial environment,” says Carolyn McLaurin, a managing director at SEI.

“These people are smart and committed, but their time is limited with their full-time jobs,” says Carolyn McLaurin, a managing director at SEI, adding that such committees many times meet infrequently.

This, she says, weighs heavily on the minds of investment committee members as these individuals are often just volunteers. “These people are smart and committed, but their time is limited with their full-time jobs,” she says, adding that such committees many times meet infrequently.

While the opportunities to add significant business in the space are enormous, McLaurin admits not all institutions are sold on the idea.

“A lot of [universities] won’t do it [right now] because they do not want to give up control or oversight,” she says. “But they are softening. They are seeing other institutional investors using [the outsourced CIO model], and that is validating.”

Chris Bittman, a partner and CIO of the Agility outsourcing unit at Perella Weinberg Partners, adds that the chances of this outsourced model taking off are legitimate.

“There is a distinct trend with foundations and endowments toward outsourcing,” he says, “because the volunteers that make up these investment committees and boards have a great understanding of their fiduciary obligation. As a result, they are looking to increase their resources, and one way to do that is through outsourcing.”

Despite potentially giving up investment control, he says investment committees will not become obsolete – far from it. “They have to adjust their role,” he says, noting that investment committees could undertake asset allocation and other oversight functions.

As this investment model continues to take bigger bites out of the traditional consulting landscape, many firms are taking steps to be ready to capture that growth. Recent movements include Rogerscasey taking on both Kentucky Retirement Systems CIO Adam Tosh and former Wilshire Associates business development executive Robert Zeidman for its outsourcing unit, as well as TIAA-Cref hiring former Rice University CIO Scott Wise for a similar effort.

Nick Pettinico, an associate v.p. of institutional advancement at Central Connecticut State University, says the school’s recent move to the outsourced model has paid off for them.

Central Connecticut previously utilized Bank of America to manage its \$27 million endowment, but chose SEI a year ago as the fund wanted to move in a new direction.

“It opened up new opportunities for us that we couldn’t have made before,” Pettinico says, noting the endowment is more diversified now. “They make all the decisions based on an investment policy which we made collaboratively.”