More volatility, alts underscore the need for expertise in OCIO

By PALASH GHOSH

Market volatility and the rising popularity of alternative assets will play major roles in the future of OCIO arrangements, industry experts say.

Michael Cagnina, Oaks, Pa.-based vice president and managing director of the institutional group at SEI Investments Co., said stock and bond markets had performed well for about a decade until this year, a period of extreme volatility. "Thus, many of the newer OCIO firms have only known bull markets and low interest rates," Mr. Cagnina said. "As we have entered a more difficult market environment, OCIOs with longer track records and more experience — those that have navigated both bull and bear markets — might be better suited to cope with the current headwinds."

SEI reported $100.7 billion in worldwide outsourced institutional AUM with full or partial discretion as of March 31, according to *Pensions & Investments* data.

With respect to this year's market volatility, OCIOs have the expertise to weather such storms — like quickly rebalancing and reallocating in a market sell-off, noted William Jarvis, the New York-based head of strategic thought leadership in Bank of America's philanthropic solutions group, which includes OCIO. The investing climate of 2022 presents a stark contrast to the era of low interest rates and easy money of the past decade or so, he said, suggesting clients likely need more assistance in managing assets in an increasingly difficult market environment.

Mr. Jarvis also pointed out that OCIOs are increasingly allocating money to alternative assets like private equity, commodities and real estate, as their clients seek "prudent diversification" and risk controls in their portfolios.

Mr. Jarvis noted that investors need exposure to private markets and other asset classes for such diversification, beyond just stocks and bonds.

Bank of America reported $38.9 billion in OCIO AUM for worldwide institutional as of March 31, up 9.9% from the prior year.

Stephanie Lynch, the Charlotte, N.C.-based co-founder and partner of Global Endowment Management, said that given the volatility in stock and bond markets and rising inflation, some alternative asset classes, such as commodities and real estate, have become more prominent in her portfolios.

"These are inflation-resistant securities that our clients want to generate excess return," she said.

Global Endowment Management had about $10.3 billion in assets invested under ESG principles as of March 31. The firm had total OCIO assets of about $10.9 billion in OCIO assets as of March 31, up slightly from $10.8 billion a year earlier.

Moreover, Jim Scheinberg, Marina del Rey, Calif.-based managing partner, founder and chief investment officer at OCIO search consulting firm North Pier Search Consulting, noted that there is increased demand from some asset owners — especially endowments and foundations — for expertise in alternative assets, private equity, infrastructure and natural resources, as they are likely to provide higher returns than public stocks and bonds.

However, picking from a diverse array of alternative assets, like private equity, requires skill, said Timothy T. Yates, Wilton, Conn.-based president and CEO of Commonfund Asset Management.

"There are somewhere around 4,500 to 5,000 PE firms in the U.S. alone and picking the perfect candidates from that large pool is a pretty daunting task," Mr. Yates said. "But OCIOs have the staffing to pick a submanager for this asset class."

According to data compiled by *P&I* , Commonfund had about $14.7 billion in worldwide outsourced institutional AUM with full or partial discretion as of March 31.

As returns for bonds and stocks are expected to be "muted" amid rising inflation and tighter monetary policy, demand by asset owners for alternatives will only keep growing in the coming years, Mr. Yates predicted.