

# Is Investment Outsourcing Right for Your Organization?



Today, more organizations than ever are realizing the benefits of outsourcing their investment portfolios. According to aiCIO, 41% of organizations surveyed either currently outsource their investment decisions, or plan to do so in the next 24 months.<sup>1</sup>

aiCIO attributes the growth in outsourcing to be primarily driven by institutions with limited resources. However, other reasons cited include: additional fiduciary oversight, better risk management, faster implementation, and the need for increased returns.

## Outsource Investing with FEG Provides a Wealth of Benefits

Outsourced Chief Investment Officer (OCIO) services represent a discretionary investment model whereby Fund Evaluation Group, LLC, (FEG), acts as a fiduciary, managing portfolios on behalf of our clients.

The service developed as a solution to our institutional consulting clients who liked the **customization** of the traditional consulting model, but desired clearer lines of **accountability** and more **consistency** in the investment process.

### ACCOUNTABILITY

The FEG OCIO model is a documented and defined decision-making process, so clients know who has discretion over every aspect of their portfolios. FEG is accountable for both portfolio management and operational support.

- **Portfolio management:** The OCIO model leverages FEG's strengths, including asset allocation and manager selection expertise, deep industry knowledge, and more than 28 years' experience constructing portfolios. Our dedicated investment team provide clients with access to high-quality investment options and alternative and uncorrelated asset classes, all of which can help manage portfolio risk and enhance the potential for higher returns.
- **Operational support:** FEG makes it easy to implement an active and disciplined management structure that frees up our clients to focus on the mission and needs of their organizations. We provide cost-effective, back-office support such as rebalancing, managing cash flows, donor gifts, funding capital calls, and trading. This built-in operational support offers potential cost savings compared with hiring an in-house investment management team.

1 "Outsourced-Chief Investment Officer Survey," aiCIO, published February 24, 2016, <http://www.ai-cio.com/2016-Outsourced-Chief-Investment-Officer-Survey/>.

*The OCIO structure allows us to respond efficiently to market opportunities, rather than waiting for the approval of an investment committee that meets on a monthly or quarterly basis. This helps our clients maximize implementation effectiveness.*



## FLEXIBILITY AND CUSTOMIZATION

Unlike many OCIO models, FEG customizes portfolios based on our clients' unique needs. We work with each client to determine return targets, risk tolerance, liquidity constraints, and other restrictions. Once these are thoroughly understood, we collaboratively construct an appropriate portfolio designed to achieve the objectives.

Clients may customize the following aspects of investment portfolio construction:

- Asset allocation
- Liquidity
- Active or passive management
- Manager selection
- Risk Profile

*FEG's asset allocation framework for managing portfolios is diversified by drivers of risk, or risk factors, and not by number of asset classes. FEG focuses on four global asset categories, each with a unique, relevant risk factor and corresponding role, or value, to risk mitigation. Specific allocations to each asset category are determined through an understanding of our clients' unique needs.*

ASSET CATEGORIES	ROLE	RISK
<b>GLOBAL EQUITY</b> Stocks, Private Equity, Long/Short Hedge Funds	Total Return	Stock Market Declines
<b>GLOBAL FIXED INCOME AND CREDIT</b> Bonds, Bank Loans, Credit Hedge Funds	Equity Risk Mitigation and Total Return	Rising Rates and/or Credit Downgrades
<b>REAL ASSETS</b> Real Estate, Natural Resources, Infrastructure	Inflation Protection and Total Return	Deflation
<b>DIVERSIFYING STRATEGIES</b> Event Driven, Relative Value, Macro	Diversification and Total Return	Active Management

## DEFINING CLIENT OBJECTIVES → BUILDING A CUSTOM SOLUTION

FEG begins each new outsourced CIO relationship by exploring a series of inquiries with the client, which include:

- What is the capacity for investing in mandates that are liquidity constrained?
- Is the outsourced relationship conditional in any way (i.e., the governing fiduciaries will retain manager selection approval on private equity funds)?
- What are the return needs and risk considerations for each pool of assets that must be met in order to limit mission-disruption risk?

Once client objectives are understood, FEG recommends investment policies and asset allocations to help meet the clients' unique needs. The OCIO model leverages FEG's strengths in asset allocation and manager selection to help our clients build a portfolio that meets their unique characteristics.

### Asset Allocation

- FEG focuses on four global asset categories, each with a unique risk factor and corresponding role to seek risk mitigation
- Specific allocations to each asset category are determined through an understanding of our clients' unique needs

### Manager Selection

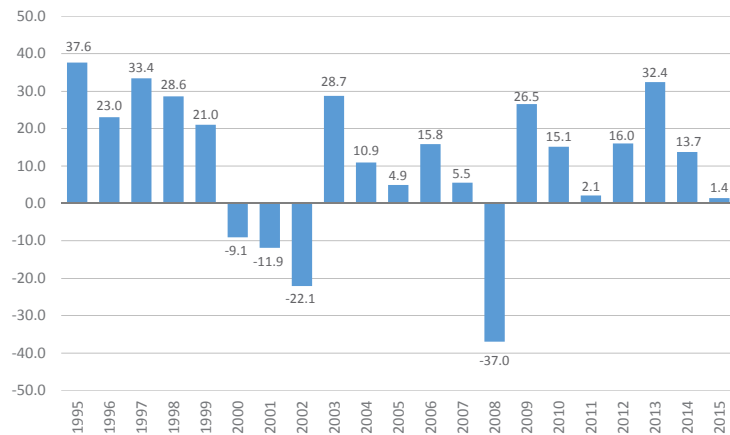
- Recommended managers are unaffiliated with FEG, and pass a rigorous approval and ongoing monitoring program
- Access to best-in-class managers
- Active or passive management



## CONSISTENCY THROUGH A DISCIPLINED INVESTMENT PROCESS

FEG's OCIO services provide a consistent, disciplined investment process. Investment decisions are made and implemented when the opportunities are best, without constraints of periodic committee meetings and approvals. As a result, investment performance has a better chance of achieving stated objectives.

### S&P 500 Calendar Year Returns 1995-2015



Data Source: Lipper

*Looking at the S&P performance over the past 20 years, a new committee member would have a different perspective on the market and appropriate strategy if they joined in the bull market of 1995 vs. the bear market of 2001.*

*By serving as a consistent voice despite market and board turmoil, FEG provides a balanced, long-term perspective.*

### PROVIDING OPERATIONAL EFFICIENCY

#### FEG provides back-office support:

- Daily account monitoring
- Trading and rebalancing
- Implementing investment strategy
- Relationships with custodians
- Weekly monitoring for compliance with the IPS
- Ongoing client support
- Assistance with securities gifting
- Capital Call Monitoring

### FEG SERVES AS A CONSISTENT VOICE

FEG seeks to protect the long-term vision of the client and remains a consistent voice throughout all market environments.

Further, FEG helps new committee members understand the investment policies put in place by previous committee members.

### CLEAR DELINEATION OF ACCOUNTABILITY

The client and FEG work together to set the policy. Performance, within the policy guidelines, is fully on FEG.

FEG is accountable for daily operations. Our service quality is measured both by direct feedback from the client, and by a third-party client satisfaction surveyor.



## WHERE SHOULD YOU BEGIN?

FEG has been at the forefront of Investment Outsourcing—offering OCIO services since 2003—and can work with organizations with assets ranging from \$25 million to \$2 billion.

To learn more, talk to your FEG consultant, or email [information@feg.com](mailto:information@feg.com)

<sup>2</sup> As of June 30, 2016. Assets under Advisement include the assets of FEG and its affiliated entities. Some asset values may not be readily available at the most recent quarter end; therefore, the previous quarter's values were used for this calculation. The values may be higher or lower, depending on the current market conditions. These accounts are typically non-discretionary only. Assets under Advisement includes both discretionary assets, over which FEG has full trading authority, and non-discretionary assets which we advise and make recommendations on, but may not have authority to execute or facilitate trades on behalf of the client. AUA includes approximately \$50 billion in non-discretionary assets. AUM includes approximately \$2.7 billion under discretion and approximately \$803 million under discretion in FEG affiliates.

<sup>3</sup> As of 09/28/2016. Total employees includes part-time employees and interns.

## FEG PROFILE

ESTABLISHED: 1988

ASSETS UNDER ADVISEMENT:  
Approximately \$53 billion<sup>2</sup>

NUMBER OF EMPLOYEES: 130<sup>3</sup>

LOCATIONS:  
Cincinnati, OH (HQ) with offices in Detroit and Indianapolis.

SERVICES:  
Managed Solutions / OCIO Services

- Implementation Services
- Managed Portfolios
- Hedge Funds
- Private Capital Funds

Consulting

- Investment Policy Development
- Portfolio Construction
- Performance Monitoring

Research

- Manager Search and Due Diligence
- Asset Allocation

CLIENTS:

Institutions: university endowments, public and private foundations, corporate retirement plans, banks, insurance companies, not-for-profit organizations

Financial Advisors: independent RIAs, broker dealers, wealth managers, financial planners, family offices

[www.feg.com](http://www.feg.com)

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**Fund Evaluation Group**<sup>®</sup>  
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