OCIO 2.0

WHAT TO ASK WHEN CONSIDERING A CHANGE IN AN OCIO PARTNERSHIP

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In Brief

- Outsourced Chief Investment Officer (OCIO) evaluation has entered a new phase. Institutions are no longer asking whether outsourcing works, but whether their current provider is the best partner to fit their needs.

- The quality of an OCIO relationship becomes clearer over time. Continuity, transparency, philosophical alignment, and the ability to demonstrate a disciplined investment process often matter as much as headline returns.

- Performance remains important, but it cannot be assessed in isolation. Committees need to understand how reported results were constructed and whether they fairly reflect the experience an institution could reasonably expect.

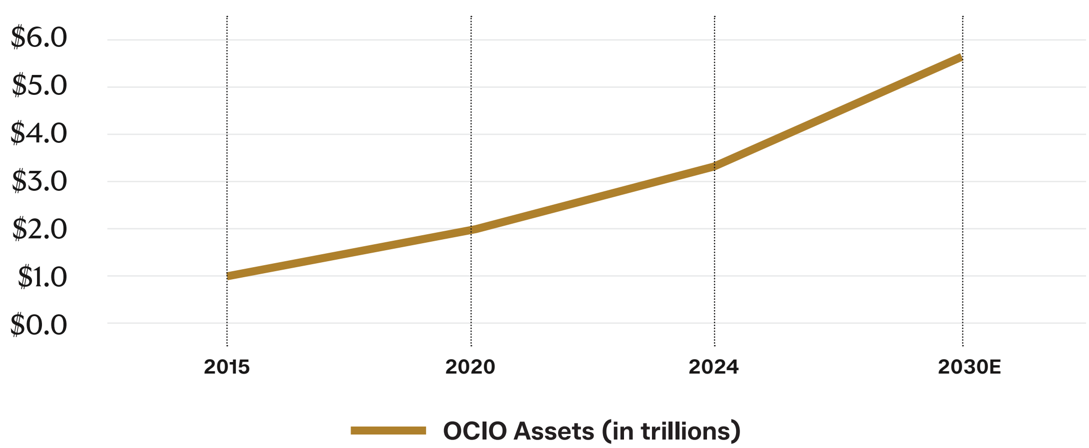
- FEG believes the strongest OCIOs do more than manage the portfolio—they act as extensions of the institution, helping leaders navigate governance, communication, and the broader demands surrounding the investment program.

June 2026 marked my twentieth year working in the outsourced chief investment officer (OCIO) industry. For the past two decades, I have watched the conversation among institutions evolve from whether they should outsource investment management to whether they should reconsider the provider they already have.

When I entered the profession, the industry had not yet settled on what to call the service. Depending on the provider, terms such as delegated consulting, discretionary consulting, implemented consulting, managed portfolios, and outsourced investment management were all used to describe variations of the model. Much of the discussion centered on governance and whether outsourcing was the right fit for an institution.

As time passed, this sub-industry of financial services moved from niche offering to mainstream acceptance. Governance models were debated. Conference panels were filled. Surveys were published. And the market largely answered the question with a resounding yes to outsourcing. Assets managed under OCIO arrangements have soared, from roughly $1 trillion in 2015 to more than $3 trillion by the end of 2024, according to Cerulli Associates.

U.S. OCIO ASSETS



Cerulli Associates, as of Nov 20, 2025

While the industry has largely settled on the term “OCIO,” the way providers approach the role can vary considerably. OCIO models are not interchangeable. Differences in team structure, performance evaluation, investment process, philosophy, portfolio construction, transparency, and service model can all shape the client experience. As institutions become familiar with the model, these differences become more visible and more important.

In what follows, I explore several issues that institutions should consider evaluating when they're contemplating an OCIO to OCIO transition. They reflect the questions that tend to emerge only after an institution has lived with the model long enough to understand what it truly needs from a provider.

OCIO 1.0	OCIO 2.0
ASSET ALLOCATION	INVESTMENT STEWARDSHIP
MANAGER SELECTION	GOVERNANCE & DECISION SUPPORT
REBALANCING	FINANCIAL MANAGEMENT
PERFORMANCE REPORTING	MISSION & VALUES ALIGNMENT
COMMITTEE SUPPORT	STAKEHOLDER ENGAGEMENT

(From managing portfolios to supporting the entire investment enterprise.)

Institutions increasingly are asking whether their OCIO still fits their needs.
This reflects a healthy maturation of the industry.

Team Continuity: Who Will be Serving the Relationship Five Years from Now?

Early in my career as an investment advisor, I remember one of my first new business presentations. I was confident. I had the designations, had done well academically, and had already helped committees navigate difficult decisions in prior roles. But I was still relatively inexperienced.

I presented alongside a more tenured OCIO leader. We won the relationship. Shortly afterward, the client requested a provision in the contract requiring that the senior leader remain involved with the account. Smart, albeit with a personal sting.

What I appreciate even more today is that their concern was not really about one individual. It was about continuity. They wanted confidence that experienced judgment would remain part of the relationship over time and that the organization had the depth and succession planning necessary to support the relationship through inevitable leadership transitions.

Over long periods, personnel changes are inevitable, particularly in client relationships that span decades. I know at FEG, we've had some client relationships for over 35 years. Leadership transitions, retirements, promotions, and career growth are all part of a healthy organization. In this case, the senior leader eventually was promoted to CEO, and the client was entirely comfortable with me serving as lead once I had gained the necessary experience. The transition worked because the relationship was never dependent on a single person. The client knew the broader team, understood how decisions were made, and had confidence that expertise was embedded within the organization rather than concentrated in one individual.

> **Key questions on team continuity:** When evaluating an OCIO provider, ask who will be involved in the relationship a year from now, five years from now, and when inevitable personnel changes occur. How does succession planning work? Who is making investment decisions versus who is presenting them? How is knowledge shared across the organization? What happens when a key person leaves?

Performance Evaluation: When Reality Competes with Fiction

Despite the broader focus of OCIO 2.0, performance remains one of the most important evaluation criteria. On a $100 million portfolio, a 50-basis-point annual advantage compounds into more than $3 million of additional assets over five years. If there are concerns about portfolio performance, it is entirely reasonable to compare results across providers.

The challenge is that the two sets of results are not directly comparable. The performance an institution has experienced with its existing provider is real. It incorporates cash flows that forced transactions at inopportune times. It reflects the actual period the institution was a client, including the market fluctuations they lived through together. It may not be the best version of the incumbent's results, but it is the only version institutions typically see.

The challenger's performance is typically presented through a GIPS-compliant[1] composite. While composites provide an important standardized framework for calculating and presenting investment results, they differ from the actual experience of any single institution. The composite may contain accounts that entered at different times, experienced different cash flows, and operated under somewhat different circumstances than the institution evaluating the provider. In addition, benchmarks, reporting periods, and implementation timing may not align perfectly with the experience of the incumbent relationship.

The institution is not comparing two investment managers. It is comparing an existing track record against a marketing document. One way to narrow this gap is through standardized, independently verified reporting. GIPS-compliant composites are not perfect, but they provide a common framework for calculating and presenting performance. They help committees move beyond marketing narratives and evaluate results using a more consistent set of rules.

[1] *Global Investment Performance Standards created and administered by the CFA Institute.*

> **Key questions on performance:** Committees owe it to themselves to understand what they are actually looking at when it comes to performance. How were performance results constructed? Does your firm claim compliance with GIPS standards? Are your composites independently verified? Which clients were included in the composite? How representative are those returns of the broader client experience? GIPS-compliant performance reporting, independent benchmarking data, and references from institutions with similar characteristics can all help provide a more complete picture.

How Do OCIOs Demonstrate Their Process?

Strong historical performance does not necessarily indicate investment skill. Separating skill from luck often comes down to whether an OCIO has a repeatable, disciplined investment process and whether that process is consistently applied. Evaluating this in a 2.0 environment requires looking three layers deep. Most providers can describe a process (layer 1). Fewer can demonstrate it (layer 2). Fewer still can explain when it failed and what changed as a result (layer 3). To elaborate:

LAYER 1

ARTICULATION

This is the polished narrative. Every OCIO can describe a disciplined, research driven process. Committees should still ask: How are investment decisions made? Who decides what? How is risk defined and measured? These questions establish whether the OCIO can coherently explain its approach, but they reveal little about how it functions in practice.

LAYER 2

DEMONSTRATION

Here, committees ask for evidence. What recent decisions illustrate the process? What research supported them? How long did implementation take? How were positions sized and monitored? Layer 2 distinguishes providers with a real, repeatable process from those with a well packaged story.

LAYER 3

ACCOUNTABILITY

This is the rarest layer and often the most revealing. Every OCIO has made decisions that did not work. The question is whether they can speak candidly about them. What went wrong? How was the mistake evaluated? What changed in the process as a result? Providers who cannot answer Layer 3 questions with clarity and humility may have a process that is merely rehearsed rather than actually practiced with discipline.

Belief Structure: Do Your Investment Philosophies Align?

Related to investment process is investment philosophy. These are the core beliefs that get expressed in the investment process and ultimately shape performance. In OCIO 2.0, philosophy alignment has become one of the clearest indicators of long term fit.

One of the more common themes in OCIO to OCIO searches is a growing realization that the institution and provider may no longer view the world the same way, or that the original philosophy was never fully understood at the outset. Take value investing. For decades, many institutional investors embraced the Fama French research suggesting that companies with lower valuation should outperform over long periods of time. This was logical. If investors are willing to own less popular companies, they should be compensated for doing so. As a result, many portfolios developed a meaningful value bias.

Then growth outperformed value for much of the next decade, shifting the debate from performance to philosophy. How long should investors wait for a factor premium to emerge? When does discipline become rigidity? Has the market structurally changed, or is this simply the cost of staying true to a belief system? These questions highlight an important consideration when evaluating an OCIO provider: Does your provider's investment philosophy align with your institution's beliefs, risk preferences, and time horizon?

A difference in philosophy is rarely visible in year one. It becomes visible in year five, when the portfolio behaves exactly as designed — but not as the committee expected. Which is why OCIO-to-OCIO searches carry a particular risk. First-time searches force philosophy conversations because everything is new. Switches often skip them, assuming the institution already knows what it wants. And when a potential switch follows a period of difficult markets, committees should pause to ask an honest question: did the portfolio behave differently than expected, or did it behave exactly as designed during a challenging period?

> **Key questions on philosophy:** What is the OCIO's thinking about active versus passive management or public versus private assets? How is it concentrated or diversified? Does it carry a value or growth bias, and is the approach sufficiently rigorous to pursue repeatable results? The objective is not necessarily to agree with every viewpoint, but to understand the beliefs driving investment decisions and how those beliefs are expressed in the portfolio. Institutions should understand not only how the provider thinks, but how that philosophy adapts as circumstances, markets, and institutional needs evolve.

Does the Model Fit Your Institution?

Most nonprofit institutions share similar long term objectives: support spending needs, preserve purchasing power, and generate sufficient returns to meet future obligations. With OCIO 1.0, many providers approached this by quantifying return goals and slotting clients into a model portfolio that matched. Risk was defined narrowly, often as volatility or tracking error, and the assumption was that clients with similar return targets should look similar.

OCIO 2.0 recognizes that risk is not a universal concept. Enterprise risk (falling short of return goals), illiquidity risk (not meeting cash needs), market risk (declines in asset values), and maverick risk (looking different from peers) all matter—but not equally for every institution. The question is no longer "Which model fits your return target?" but "Which risks can your institution actually absorb?"

Consider a higher education institution with a perpetual time horizon, a 5% spending rate, and a committee with deep investment experience. To maintain intergenerational equity, the portfolio may need to earn 7.5% annually—a return unlikely to be achieved through public markets alone. Adding private capital strategies can help meet return goals but increases complexity and illiquidity. In this case, the institution likely has both the ability and willingness to sacrifice some liquidity and flexibility in pursuit of higher long-term returns.

Now consider a healthcare system with a similar return objective. The portfolio may support operations but may also need to fund a major technology upgrade, facility expansion, or unexpected operating pressures. Add a committee comprised primarily of busy physicians, and the tolerance for complexity and illiquidity may look very different. This client may instead prioritize maintaining flexibility and liquidity, even if doing so requires pursuing return through different sources of risk than private market exposure.

> **Key questions on models:** How is the portfolio tailored to your specific circumstances? How does the provider balance different types of risk? How does this practice align with your organization's needs?

How Much Information Supports Effective Governance?

Recently, FEG spoke with an organization exploring a potential OCIO change. When reviewing their current portfolio, we assumed performance was driving the search. Instead, the concern was transparency. The client felt the provider was reluctant to share the underlying portfolio funds, opting instead to report only at an asset class level, such as "U.S. equities" and "Fixed income."

To be fair, there can be legitimate reasons for providing information at a higher level, including implementation efficiency, proprietary portfolio construction, or administrative simplicity. The question is not whether every committee needs to review every underlying holding or manager decision. Rather, it is whether committees have access to the information they need to fulfill their governance responsibilities.

In an OCIO model, delegation does not eliminate oversight. Committees do not need to approve every trade or manager change, but they do need sufficient information to evaluate the people making those decisions. The appropriate level of detail will vary by institution. Some committees may be comfortable focusing on higher-level outcomes, while others may occasionally want to understand the rationale behind specific decisions or portfolio changes.

> **Key questions on transparency:** What portfolio information is available, and how will portfolio changes be communicated? Can underlying holdings be readily accessed? Even if that information is not used regularly, institutions should understand what is available and when deeper transparency can be provided.

Beyond Investing: What Role Should Your OCIO Play?

One of the more meaningful shifts in OCIO 2.0 is not about portfolios at all. It is about what institutions have come to expect from the relationship.

Early OCIO arrangements were built around a straightforward assignment: build the portfolio, hire the managers, rebalance the assets, and report the results. That model served institutions well in the early years of delegation. But as the relationship matured, many institutions began to realize that the investment portfolio does not exist in isolation. It exists inside an organization with donors, constituents, board members, communications needs, and operational complexity. A portfolio manager, however skilled they may be, is not privy to this complexity and so isn't equipped to address it.

Increasingly, institutions are looking less for a portfolio manager and more for an "external, internal CIO." The distinction may sound subtle, but in practice it is significant. A portfolio manager manages assets. A CIO helps navigate the full investment enterprise.

What does that look like? Helping craft donor communications, press releases, or board presentations explaining market volatility. Drafting RFPs, preparing finals materials, designing constituent surveys. Calling an upset donor, identifying one invested in the wrong pool, and working through the solution together. Offering policies on how much to allocate to various pools. These are not purely portfolio management functions but extend more into relationship functions.

Community foundations and other institutions managing externally donated funds face challenges that OCIO providers may have never been asked to address. Meeting those challenges may require not only managing investments, but also developing investment policy statements and fund guidelines, implementing electronic monitoring tools, building data infrastructure, and creating appropriate reporting capabilities. Few providers have developed this full range of capabilities. For institutions that need them, the differences among providers are therefore structural, not merely a matter of investment performance or service.

> **Key questions on OCIO role:** Beyond the portfolio, what are they prepared to do for your institution? Do they have the experience and capabilities to develop the policies, guidelines, monitoring systems, and reporting framework that your institution requires?

From Outsourcing Decision to Ongoing Evaluation

OCIO PARTNER ECOSYSTEM

OCIO 1.0 was about deciding whether to outsource investment management. OCIO 2.0 is about understanding whether your current partnership still fits what your institution has become.

This is a harder question, and one that has to be asked. The initial outsourcing decision was made at a point in time, with a particular committee and set of needs. But institutions evolve. Committees turn over. What fit well in year one may look very different in year ten. And the factors that reveal the gap are rarely the ones that drove the original decision.

The themes explored in this piece—team continuity, performance evaluation, investment philosophy, portfolio construction, transparency, and the role an OCIO plays beyond the portfolio—tend to become more visible the longer an institution lives with the provider. But these factors are worth considering closely, including by asking better questions about what the relationship is actually delivering.

The institutions that do this well are not necessarily the ones with the most sophisticated committees. They are the ones that treat the relationship as an ongoing evaluation rather than a decision made once and revisited only when something goes wrong. Getting there requires a more intentional approach to OCIO due diligence.

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