



Outsourced CIO Adoption Expected To Grow Amongst Nonprofits: SEI

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Outsourced cio providers should look to the nonprofit sector to develop their business as growth in the marketplace is led by foundations, endowments and hospitals, according to **Mary Jane Bobyock**, managing director, nonprofit advisory team at **SEI Investments**, who led a discussion on the sector.

During the *What To Expect When Outsourcing Your Chief Investment Officer* session, Bobyock said that data showed approximately 36% of nonprofits and 36% of healthcare plans have already adopted the outsourced cio model and that figure should continue to rise. The story of growth in the space is evidenced by the amount of assets that nonprofits have fully outsourced, which increased to \$301 billion in 2016 from \$228 billion in 2014.

While corporate pensions were early adopters of the outsourced cio model, the increase in nonprofit assets being handled by outsourced cios has surpassed pensions, which have grown to \$285 billion in 2016 from \$226 billion in 2014, according to Bobyock.

Projecting out even further, nonprofits' assets being managed by outsourced cios are expected to increase to \$343 billion in 2017 and \$391 billion in 2018, according to Bobyock.

"It is really the governance process that is leading that charge," she said.

With the prevalence of nonprofits adopting the outsourced cio model, outsourced cio providers should understand why prospective clients are looking to do so, so they can identify institutions early on or even before the nonprofits begin the process.

Bobyock found that nonprofits often look to outsource because the institution lacks resources and is seeking better performance through improved risk management, additional fiduciary oversight and faster decision making or implementation.

"The main drivers for nonprofits, of course, are returns... most capital market assumptions you'll see from your providers have 6.5% returns for U.S. equities and 3.5% returns for fixed-income so how do you get to a 7% or 8% return?" Bobyock said. "You need to weave in some alternative asset classes and that creates a whole new level of fiduciary awareness, education, due diligence on the managers, liquidity under-

standing and that lends itself to the benefits of outsourcing."

The outsourced cio model typically employs an "open architecture" for the manager selection process, whether it be through separately managed accounts, commingled funds or institutional mutual funds, according to Bobyock.

She noted that the open architecture format should be highlighted to nonprofits because it can reduce administrative burdens and realize additional cost savings due to the fact that outsourced cios are aggregators for assets of specific manager pools and have the leverage to reduce management fees.

Beyond meeting return objectives, outsourced cio models are being called upon due to reduced staff levels in addition to increasing portfolio complexity, according to Bobyock, who said, "with the more complex types of market environments, the volatility we're seeing, the low returns, the need for more different types of alternative asset classes and the nimbleness in which to be able to make those changes are the main triggers to help push you over the edge to make the decision to go and outsource."

In addition to being a resource to allow nonprofits to better manage the markets' growing complexities, outsourced cio providers can emphasize the fact that they provide an extra layer of governance and oversight to nonprofits' boards and committees, Bobyock said.

While foundations and endowments may be wary of giving up discretion over their assets, outsourced cio providers should highlight what services they provide that can be used by the institution, including asset allocation advice, manager monitoring, manager research, manager selection, administrative services and trust or custody services.

Outsourced cio providers should also be mindful that interested organizations are often also those that are resource-constrained and seeking returns, which should be taken into account when they are engaging potential clients.

Bobyock found that the most identified reason behind a nonprofit selecting an outsourced provider is the firm's client service. Beyond client service, nonprofits sought firms based upon the outsourced cio's reputation, referral from a peer and the experience of the firm's top management.