



HIRING AN OCIO?

Here are three reasons why you should consider an asset manager.

Investment assets managed by outsourced chief investment officers (OCIOs) have doubled over the last five years, as the industry surpassed \$2 trillion under management in 2021.¹ Continued institutional desire to improve investment outcomes, governance and efficiency are just a few reasons underpinning this rapid growth and compelling more institutions to turn to an OCIO for managing their investment portfolios.

While there are many forces inspiring institutions to hire an OCIO, there are also different types of OCIOs, and not all are created equal. Given their long histories and heft in investment management, custody and banking, asset managers are occasionally overlooked as potential OCIOs despite their global resources, operating systems and diversified business models. Importantly, partnering with an asset manager OCIO provides the potential for a higher probability of investment success due to three distinct advantages which this paper will explore.

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THE THREE ADVANTAGES

1 | **Deep experience and global resources** that enable better-informed portfolios.



2 | **Significant investment in infrastructure** to support the efficacy of investment activities and protect client capital.



3 | **Organizational stability with robust financial footing** reduces business risks and supports business continuity.



¹ Pensions & Investments 2021 OCIO Survey.

1 | **Deep experience and global resources that enable better-informed portfolios.**

Asset managers are seasoned investors. They are investors with realized (not synthetic) track records accrued over multiple market cycles, and in some cases, over a few decades. Sophisticated asset managers employ experts in each asset class with hands-on portfolio construction experience and professionals located around the world — providing local insights on a global scale. Asset managers also have a unique view when evaluating other investment managers for clients' portfolios because they operate in the same field. When considering an asset manager OCIO, be sure to engage in an upfront dialogue about whether they take an open-architecture or proprietary fund approach (or both) to managing your portfolio. There's no right or wrong way of doing it, but transparency is key and institutions should set guidelines on their preferences at the start of the relationship.

Thanks to their broad and diverse resources, global asset managers offer a deep and extensive perspective to investing as an OCIO. An established physical presence in geographies where client assets are invested is critical. Aided by on-the-ground knowledge, global asset managers transact in markets globally, which informs their views on how client assets are invested. In contrast, OCIOs lacking a global presence may find themselves playing catch-up. As market cycles rotate to economies outside the U.S., domestic managers need to refresh their viewpoints on the international economies where they invest (especially as many have not stepped foot outside the U.S. since late 2019). Sophisticated asset managers employ experts in disciplines such as liability-driven investing (LDI), sustainability and environmental, social and governance (ESG), and alternative assets such as private equity and hedge funds to ensure that a client's investment needs are met today and over the long-term. Trustees, committees and staff members can also participate in the educational sessions that are frequently offered by an asset manager's in-house specialists, including, but not limited to, investors, economists, actuaries and risk managers.

Many asset manager OCIOs offer services such as transition management, custody and banking, which can provide more holistic and centralized management of an institution's financial situation and more convenience to the client (both from an oversight and cost perspective). As many will remember, in March and April of 2020 (and months after) as the COVID-19 pandemic raged, many organizations scrambled to keep the lights on and their employees onboard while cash inflows to their businesses evaporated. An OCIO with banking services may assist with credit and liquidity management to support a client's near-term operational needs and avoid liquidating investments from the portfolio during a time of extreme stress and uncertainty. Hiring one partner to manage various functions means that the institution spends less time overseeing various service partners. Furthermore, in many cases, the client achieves cost savings by bundling these services. It's important to be knowledgeable about all the relevant services that an OCIO offers so that you know about all of the tools and levers available to you.

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NORTHERN TRUST ASSET MANAGEMENT'S DEEP EXPERTISE

We employ an open architecture approach that examines investment options on a best-in-class basis. While Northern Trust offers many top-tier investment products, we use them only when we feel that they are the best choice for a client, and we provide transparency on fees. Additionally, if a client prefers to only invest their assets with external funds, we are perfectly comfortable with that approach. Many clients take advantage of Northern Trust's custody and banking services and appreciate the simplicity of collaborating with one partner for their holistic investment needs; however, we also have deep experience working with external banks and custodians. The Northern Trust OCIO approach is flexible and designed to meet our clients' long-term, financial needs.

2 | Significant investment in infrastructure to support the efficacy of investment activities and protect client capital.

While not the flashiest topic, the strength of an OCIO's operational infrastructure is a glaring risk to both the client and the OCIO. Precise and timely investment execution is part of an asset manager's DNA; they have the trading policies, protocols and online systems to buy and sell funds and securities which mitigates the chance of errors. Often, institutions focus their energy disproportionately on understanding an OCIO's investment philosophy and underemphasize the critical importance of risk management. Before hiring an OCIO, every institution should discuss the firm's risk-control culture and how its operational infrastructure supports it. Confirm that an OCIO has the necessary guardrails and controls in place to ensure seamless execution and avoid trade misfires.

As we know all too well, cybersecurity threats are now a part of everyday life. A Clark School study at the University of Maryland has quantified that a cyberattack happens every 39 seconds.² Furthermore, a 2021 report published by Varonis states that the average cost of a financial services data breach is \$5.85 million.³ The best safeguards to protect against this widespread hazard are investments in both technology and training. In a recent study by CaseyQuirk,⁴ asset management firms with more than \$500 billion in managed assets spent at least \$50 million annually on technology investments which means that larger firms have an advantage in protecting client assets from cybercrimes. If you haven't already, ask your OCIO about their cybersecurity program (which should include continuous employee training and testing) and their business continuity plans if an attack occurs and how this could impact the management of your institution's investment portfolio.

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² Hackers Attack Every 39 Seconds, 2017-02-10, *Security Magazine*.

³ 2021-Financial-Data-Risk-Report.pdf (varonis.com).

⁴ how-technology-will-redefine-asset-management-relationships.pdf (deloitte.com).

NORTHERN TRUST ASSET MANAGEMENT'S GLOBAL SCALE

As one of the largest asset managers in the world, Northern Trust is continuously focused on enhancing and upgrading our operational infrastructure to protect client capital. Managing our clients' assets is a privilege and a responsibility that we take very seriously. We employ over 1,800 professionals dedicated to IT operations and systems to streamline and safeguard our systems to support this mission. In fact, from 2018 to 2020, Northern Trust spent approximately \$3.1 billion on systems support, development and enhancements and has budgeted about \$3.5 billion over the next three years (2021–2023).⁵ The Northern Trust OCIO approach benefits from the robust resources that an asset management firm offers while providing the hands-on, clients-first experience for the organizations we proudly serve.

3 | Organizational stability with robust financial footing reduces business risks and supports business continuity.

Organizations in it for the long term deserve a partner with the same time horizon. Asset management is a risky business, but a robust corporate governance, compliance and risk management approach helps to ensure that firms stay in the game for the long term. The top asset managers adhere to the highest standards of regulations prescribed by the SEC, FINRA, and DOL, among others. The rules can be onerous, but they require asset managers and OCIOs to utilize a multi-layered risk framework to protect client capital from unnecessary loss. Stable firms with long-term visions of success invest sufficient time and resources to adhere to regulatory rules and bolster their own risk management functions. Before hiring an OCIO (and during the course of your partnership with one), ask about recent visits, examinations and outcomes from regulators.

The topic of asset manager stability cannot be underscored enough. No business is immune from risk, but taking the necessary precautions and following a strategic roadmap usually helps lend itself to long-term success. There's no all-weather strategy, but a diversified business model helps in times of drought and tempest. Asset managers with a robust capital position and sound financial foundation can focus on innovation for clients and growth for existing and prospective talent, not the threats of acquisition or blow-up. Losing a meaningful client relationship will not rock the boat for well-capitalized and diversified organizations; they have many eggs in a few different baskets. Ask your OCIO (or potential OCIO) about their future plans: their long-term business growth strategy and how they plan to retain and attract top talent. It's also worth asking about their historical stability (client retention and growth rates, employee turnover statistics and receipt of any outside emergency financing such as a PPP loan in 2020).

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⁵ Northern Trust.

NORTHERN TRUST ASSET MANAGEMENT'S FIDUCIARY HERITAGE

Founded in 1889, Northern Trust is one of the most time-tested firms in the industry. With more than 25,000 employees across 26 countries, we truly are a global firm. Every day we strive for excellence for the good of our clients, shareholders and employees, and we're proud to be designated as one of *Fortune Magazine's* "World's Most Admired Companies" for the 14th consecutive year⁶ and one of *Barron's* "100 Most Sustainable Companies."⁷ The Northern Trust OCIO approach benefits from the stability of a well-capitalized balance sheet and diversified operating model. When our clients choose Northern Trust as their OCIO, they have the peace of mind that we are focused solely on delivering financial results for their institutions.

World's Most
Admired
Companies

FOR THE 14TH CONSECUTIVE YEAR⁶

Finding the right OCIO partner for your organization

With rock-bottom yields in traditional fixed income stretching back to the 2008–09 Global Financial Crisis, institutions have been challenged to meet their long-term objectives for many years. And while recent equity markets have helped keep many portfolios stable and growing, we expect the return environment to grind lower in the coming years. We see the job of investing institutional assets getting more difficult as the world grapples with potentially slower and uneven economic growth, extreme government debt levels and higher inflation. With over 80 OCIOs around the world, there's a right one for every institution. When selecting an OCIO, we implore you to choose wisely; the trick is determining what your institution needs and then aligning with the right OCIO partner. For institutions seeking an OCIO partner with vast global resources, a well-established operational structure with top-line technology, and a stable and diversified business model, an asset management firm might be the one you need.

Barron's
100 Most
Sustainable
Companies

The Northern Trust OCIO Difference

Northern Trust Asset Management is the 5th largest provider of U.S. outsourced assets under management.⁸ With \$140 billion in OCIO assets,⁹ our sophisticated and client-centric approach has withstood the test of full market cycles going back to the late 1970s, enabling us to construct better-informed and time-tested portfolios for our clients. With nearly 500 investment professionals worldwide, our clients benefit from our deep experience utilizing real-time information from experts and practitioners in every major asset class to make forward-looking decisions. While not required, many clients also leverage Northern Trust's custody and banking services, which provides institutions with more efficiency when monitoring and engaging with their service partner(s). Ultimately, our objective is for each client to view their Northern Trust chief investment officer as a trusted partner and an extension of their investment staff.

5th largest

PROVIDER OF U.S.
OUTSOURCED AUM⁸

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IN OCIO ASSETS⁹

⁶ Fortune's survey partners at Korn Ferry Group start with approximately 1,500 companies comprised of the Fortune 1,000 (the 1,000 largest U.S. companies ranked by revenue) and non-U.S. companies in Fortune's Global 500 database with revenues of \$10 billion or more. Korn Ferry then selects the companies with the highest revenues in 52 industries, surveying a total of 670 companies from 30 countries in 2020. To create the 52 industry lists, Korn Ferry polled executives, directors and analysts to rate companies in their own industry on nine criteria, from investment value to social responsibility. A company's score must rank in the top half of its industry survey to be listed. <http://fortune.com/worlds-most-admired-companies>.

⁷ Additional information regarding the ranking methodology can be found at: <https://www.barrons.com/articles/barrons-100-most-sustainable-companies-for-2021-51613172493?refsec=top-sustainable-companies>.

⁸ *Pensions & Investments* 2021 OCIO Survey.

⁹ Northern Trust Asset Management. As of June 30, 2021.



Learn more about Northern Trust Asset Management's deep OCIO experience and expertise.

How helpful
was this?



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