



WHAT IS AN OUTSOURCED CIO?

The investment industry continues to be a highly innovative and creative business. There is a continuous creation of products and mountains of marketing materials, combined with a motivated salesforce empowered to spread the word.

With this has come the recent proliferation of the term Outsourced CIO (“Outsourced Chief Investment Officer” or “OCIO”) to describe a broader service delivery. Unfortunately, what has resulted is a disconnect in the true definition of the Outsourced CIO and the services they provide.

The concept had its origins in endowment and investment offices for single-family offices, as well as university endowment offices that employed independently thinking investment professionals to manage the investment portfolio of the entity. These investment professionals were empowered to create tailored, conflict-free, cutting-edge portfolios that employ top-tier investment solutions. Endowments, foundations, pensions and pension-like entities often choose an Outsourced CIO to manage and advise on their portfolio of investments.

The Skorina Letter, published by Charles Skorina, has historically tracked and covered Outsourced CIO’s annually; this includes a list of providers calling themselves Outsourced CIO’s.¹ The list gets longer every year. With the recent increase in firms calling themselves Outsourced CIO’s, we thought it was important to review the key attributes of this descriptor.

Do they really tick all the boxes?

Here are the criteria that clients of an Outsourced CIO are typically looking for:



CONFLICT-FREE ENVIRONMENT – WHAT DOES THIS MEAN?

- Utilize underlying investment solutions only managed by external parties
- Full disclosure of fees
- Fees paid only by clients – no side deals with underlying investment managers, custodians, brokers, etc.
- They are fiduciaries and as such put the interests of their client first
- Investment advice is tailored to the client’s investment objectives and circumstances at all times
- Investments are evaluated based on their own merits and suitability to the client’s portfolio

Question: Are all banks, brokers, or investment management firms eliminated from being a true Outsourced CIO?



TRUE OCIO'S ARE INVESTORS FIRST

- The culture is that of professional investors, and the people employed have this background, experience and credentials
- The culture is rooted in research, portfolio construction and decision making
- Investment professionals are registered with securities regulators as portfolio managers, allowing them to make tailored investment recommendations and decisions
- They must meet the regulatory standards – integrity, code of conduct and proficiency requirements
- Open architecture – all investment styles, geographies and asset classes are considered in an effort to build a portfolio comprised of best-of-breed solutions

Question: Given the embedded investment-minded culture and alignment with the client, can a consultant meet the definition of an Outsourced CIO?



PURCHASING AND INVESTMENT-TERM POWER

- Size and skill allow for purchasing power with underlying investment managers, meaning lower fees
- Dedicated research allows for deep and broad knowledge of fees and terms
- All fee discounts or rebates go to the benefit of the client
- Provides ability to negotiate to waive or improve limitations, terms and performance fees

Question: Can a smaller, less-sophisticated firm refer to itself as an Outsourced CIO without the ability to negotiate fees and deliver purchasing power?



THE INTANGIBLES

- **Scale** to hire top people and leverage sophisticated reporting technology
- **Relationships** with leading advisors in accounting, tax, legal, insurance and custody
- **Support** in board governance, board education, succession and regulatory awareness

OUTSOURCED CHIEF INVESTMENT OFFICER

INSIGHTFUL SOLUTIONS.
THOUGHTFUL PARTNERSHIP.

In his article “OCIO My Foot!,” Jonathan Hirtle of Hirtle, Callaghan & Co. (a US-based Outsourced CIO in business since 1988) commented that given much of the criteria noted below, 75% of so-called Outsourced CIO's would not be able to meet the requirements discussed above.²

At Guardian Partners Inc., we believe we meet them all.

Guardian Partners Inc. has been in business for over 25 years³ and is one of the longest-serving Outsourced CIO's in Canada - we are very proud of our client relationships and our consistent investment pedigree and culture.



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1. Charles A. Skorina & Co. “OCIO Update: New Firms, More Aum.” Charles Skorina & Company, July 19, 2022. <https://charlesskorina.com/ocio-update-new-firms-more-aum>.
2. Hirtle, Callaghan & Co., LLC. “HC OPINION: OCIO My Foot,” 2021.
3. On March 1, 2021, Guardian Capital Group Limited completed the acquisition of BNY Mellon Wealth Management, Advisory Services Inc., and renamed it Guardian Partners Inc.

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