

OCIO—Outsourced Chief Investment Office

Evaluating the opportunities

Outsourced portfolio management continues to be one of the strongest trends to emerge among endowments, foundations and families. Outsourced assets in the United States are expected to grow by \$700 billion over the next five years.¹ Today, 52% of groups polled have “substantially” outsourced portfolio management.²

A TREND RECENTLY GATHERING MOMENTUM

This worldwide shift toward outsourcing is a by-product of the ever-increasing complexity of global markets. It also signals a growing awareness among organizations that more successful portfolio management requires more sophisticated tools and resources, as well as more timely decision making.

The outsourced CIO framework can be an effective way to integrate the sophisticated investment management capabilities of a leading financial institution into the day-to-day functioning of an endowment, a foundation or a family office, specifically:

TODAY’S CHALLENGES	EFFECTIVE PORTFOLIO MANAGEMENT REQUIRES
<ul style="list-style-type: none"> Increasingly complex and volatile global markets 	<ul style="list-style-type: none"> A dynamic view of markets
<ul style="list-style-type: none"> Growing complexity of investment opportunities 	<ul style="list-style-type: none"> Advanced due diligence and suitability analysis capabilities Ability to make timely investment decisions
<ul style="list-style-type: none"> Stepped-up need for managing portfolio risk 	<ul style="list-style-type: none"> Risk and portfolio analytics
<ul style="list-style-type: none"> Ever-changing regulatory requirements 	<ul style="list-style-type: none"> Deep familiarity with, and comprehensive knowledge of, the regulatory landscape
<ul style="list-style-type: none"> Often-conflicting needs of current and future beneficiaries 	<ul style="list-style-type: none"> Accountability for investment performance

¹ The 2019 Cerulli Report | U.S. Outsourced Chief Investment Officer Function.

² 2019 NACUBO TIAA Study of Endowments report.

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- **Institutional-quality resources:** Access to leading investment managers and sophisticated analytics, with additional layers of governance and oversight
- **Managing through dislocated markets:** When acting in a fiduciary capacity, an outsourced CIO can take timely actions—without waiting for the next quarterly meeting of the investment committee
- **Tailored investment options:** Services provided can be matched to the specific needs—and then altered as market conditions or institutional objectives change

Further, outsourced portfolio management can free in-house staff to focus on other financial functions and allow investment committee members to concentrate on investment oversight and related functions, such as investment policy, capital budget matters, and longer-term institutional goals and missions.

CONSIDERATIONS BEFORE OUTSOURCING

An important first step is to understand the organizational resources and skill set of the investment committee. Challenging economic environments and financial markets can require significant resources to refine portfolios. During these periods, investment committee members may need to consider:

- The strengths and weaknesses of the investment committee
- Evaluating the resources needed to strategically manage the institution’s legacy assets
- Whether the right team dynamics are in place for achieving committee success

Furthermore, consider the necessary skill set, timing and other limitations imposed by how most investment committees are organized:

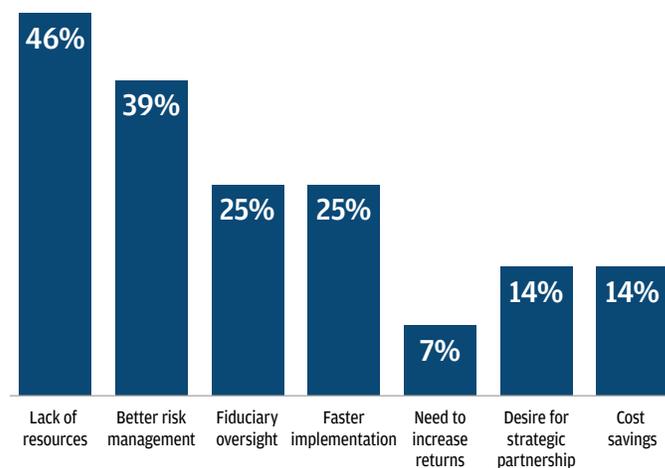
- Do the current members of the investment committee have the investment expertise necessary to:
 - Develop multi-asset-class investment policies?
 - Meaningfully critique overall risk-adjusted investment performance?
 - Evaluate active managers, and especially alternative strategies?
- Can the investment committee, within the context of quarterly meetings, adequately:
 - Create and actively monitor policy decisions?
 - Identify potential risk management issues?
 - Assess changing market conditions?

- Consider legacy fixed assets, such as real estate?
- Select and/or evaluate investment managers?
- Address regulatory and compliance issues?
- Manage administrative issues?
- Provide a comprehensive liquidity analysis?
- Identify potential risk management issues?
- Conduct, and analyze the results of, rigorous stress testing?

Working in an outsourced CIO format may give the investment committee the time to pursue policy and strategy, distribution and other significant issues to a greater degree than is possible when its members are tasked with all aspects of the investment program. The model is flexible and can range from investment committees organized to primarily consider those policy issues that can have a significant impact on long-term results, to those charged with the dual functions of investment policy and execution.

TOP REASONS ENDOWMENTS AND FOUNDATIONS OUTSOURCE PORTFOLIO MANAGEMENT RESPONSIBILITIES

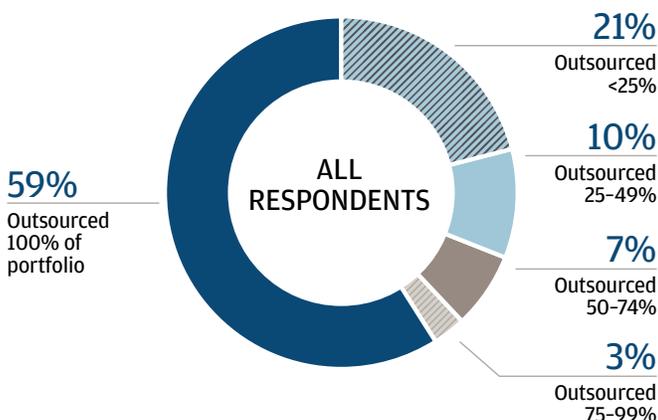
For those who turn to professional asset managers rather than keep total responsibility for investments in-house, a lack of resources, better risk management and fiduciary oversight were top reasons to outsource.



Source: aiCIO for outsourcing trends, March 2020.

HOW MUCH IS OUTSOURCED

Among organizations that move to professional management, most grant discretion over their entire portfolios.



Source: 2020 Outsourced-Chief Investment Officer Survey.

ADAPTING AN OCIO FRAMEWORK

Through J.P. Morgan's Institutional Portfolio Solutions, endowments, foundations and families can work closely with seasoned practitioners, and can access a comprehensive range of portfolio management services tailored to their own specific objectives. Generally, these organizations choose to work with us in one of two ways:

DYNAMIC COLLABORATION: DISCRETIONARY PORTFOLIO MANAGEMENT

Clients may grant J.P. Morgan discretionary authority for managing their portfolios. Under this arrangement, J.P. Morgan assumes full responsibility—as well as full accountability—for all day-to-day investment activities, and also provides:

Governance and best practices guidance

- Advice on wide-ranging strategic matters: asset allocation decisions, governance matters, and investment committee/board policy setting
- Board education regarding fiduciary regulatory and investing matters
- Investment policy statement resources (white paper and template) and best practices

Portfolio construction

- Modeling of strategic asset allocation and portfolio risk Day-to-day investment activities:

- Ongoing manager due diligence
- Strategic and tactical asset allocation
- Liquidity management
- Tactical positioning within defined guidelines
- Performance reporting

Analytics

- Portfolio analytics and risk analysis

Communication

- Participate in all regularly scheduled, in-person meetings
- Provide timely analysis, intellectual capital and access to our best thinking and best practices

PORTFOLIO ADVISORY: IDEAS AND EXECUTION

J.P. Morgan also works with clients on a more limited/nondiscretionary basis with:

- Single-sleeve management
- Recommendations regarding manager implementation across asset classes, including:
 - Proprietary mutual funds, ETFs, separately managed portfolios, alternative investments across entire platform
- Portfolio and risk analysis
- Comprehensive reporting, including monthly statements, performance analysis and access to real-time data
- Attendance at all regularly scheduled, in-person meetings

LEARN MORE

J.P. Morgan's Institutional Portfolio Solutions group is a dedicated team of investment specialists leveraging the firm's global resources to provide customized strategies and advice for endowments, private and public foundations, and institutional families on their investment needs.

J.P. Morgan's Institutional Portfolio Solutions is a trusted advisor with \$37 billion in assets (as of December 31, 2019).

To learn more, please reach out to:

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Investment strategies are selected from both J.P. Morgan and third-party asset managers and are subject to a review process by our manager research teams. From this pool of strategies, our portfolio construction teams select those strategies we believe fit our asset allocation goals and forward-looking views in order to meet the portfolio's investment objective.

As a general matter, we prefer J.P. Morgan managed strategies. We expect the proportion of J.P. Morgan managed strategies will be high (in fact, up to 100 percent) in strategies such as, for example, cash and high-quality fixed income, subject to applicable law and any account-specific considerations.

While our internally managed strategies generally align well with our forward-looking views, and we are familiar with the investment processes as well as the risk and compliance philosophy of the firm, it is important to note that J.P. Morgan receives more overall fees when internally managed strategies are included. We offer the option of choosing to exclude J.P. Morgan managed strategies (other than cash and liquidity products) in certain portfolios.

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