Terrible OCIO Performance Merits Your Attention

Many fiduciaries have been challenged by their OCIO's performance this year, and question whether their OCIO's performance is acceptable in light of terrible market performance [S&P 500 down 14% plus and bonds down 10% to 15%]? Returns are actually worse after considering 8% inflation, and many fiduciaries are finding that the actual buying-power is down over 20% in real terms.

What steps should you take that properly support your decision to retain your OCIO, or to explore whether you should search for a better-performing OCIO relationship? We suggest that a first step is to consider whether your OCIO is performing satisfactorily, relative to market conditions, to help inform your governance efforts:

Market returns have been exceptionally poor 2022 YTD. This year is only the third year since 1900 when both equities and bonds indices were both down. (2015 and 2018 were the other two years.) Indeed all 11 S&P sectors suffered with the notable exception of energy (+34.5%). Certain alternative funds provided effective diversification. Those OCIO managers that were sufficiently nimble to layer in protective equity puts, pivot to energy, avoid long duration fixed income, and focus on specialized hedge strategies were best able to reduce overall market losses. It is these types of OCIO managers who are the standouts.

Conversely, we have seen OCIOs underperform from several causes. OCIOs that pursued 60/40 allocations that did not dodge rising interest rates' impact on their bond portfolios received a double hit. OCIOs that focus on "alpha creators" for their long only equity managers [an allocation approach we meet with great skepticism] also were hit hard by the fact that those OCIOs really didn't diversify by style, and many of their managers are growth-and-tech bias at the epicenter of underperformance in year's value-oriented equity market. OCIOs with a strong "geographic diversification" [i.e. underweight the US markets] were hit by falling European currencies and weak European equity markets. Finally OCIOs that tend to use equity-oriented hedge funds missed the benefits of having the full suite of hedge fund strategies.

Whether you wish to continue your OCIO relationship or are considering a search potentially to replace your OCIO, we recommend that, **as fiduciaries, you evidence that you have reviewed your relationship** if you have had losses near or over 15% this year. We specialize in evaluating OCIO portfolio performance and can assist you in providing an objective third party analysis. **Manager Analysis Services has nearly 20 years' experience in this field**. We offer your fiduciaries a complimentary discussion of your OCIO's performance, and whether you should take further steps.

We welcome your call at 917-287-9551.