



*By: Michael P. Czajka, Chief Executive Officer*

The concept of outsourcing holds a well-established position in today's global business environment especially as potential disruptors. In the asset management world, we're increasingly seeing entities like foundations, endowments, registered investment advisers and smaller institutions with retirement plans look out-of-house for help or complete management of all aspects of their investments responsibilities that typically fall under the purview of the chief investment officer (CIO). The benefits of outsourcing can be substantial, enabling companies to leverage the core competencies of their provider, including asset allocation, manager selection expertise, high-quality investment options, deep industry knowledge and resources and, potentially, reduced some of their fiduciary liability.

As a backdrop, CIOs are responsible for designing and managing investment plans of companies, retirement pools, endowments, foundations or other organizations with financial assets and obligations. The job requires a deep understanding of the organization and requirements of the plan, significant investment expertise and the ability to stay up-to-date on regulatory developments. CIOs serve as fiduciaries and thus have a responsibility to manage assets prudently.



Within this larger mandate, a CIO is tasked with understanding current and future needs and goals of the organization, and setting a risk tolerance that balances the organization's investment needs and culture. This often requires setting outflow and inflow expectations (which may require actuarial analysis of

defined benefit plans) and establishing an optimized asset allocation strategy that will help the organization meet its obligations within the confines of its risk tolerance. CIOs must also select managers or strategies to implement the plan, then monitor the portfolio and its managers, rebalancing or making tactical moves according to the market environment, and terminate managers as necessary.

For entities that have a CIO or an investment team in place, an “outsourced CIO” can represent an additional source of input for decision-making. In this situation, outsourced CIO services can include input on capital market assumptions and tactical market opportunities. They may also provide a comprehensive view of risk analysis, or simply a connection to the financial community and the networks of social information they provide.

It’s increasingly common for organizations to seek a more complete set of services from an outsourced CIO, in which case the role may expand to full fiduciary responsibility across asset allocation, implementation and rebalancing processes. Within this scope, entities hold on to the ability to retain or terminate the outsourced CIO, but are generally able to delegate certain responsibilities and associated liabilities in overseeing the investment plan to the outsourced partner.

Discussions are now beginning to take place on a smaller level whereby outsourced CIO services are gaining traction in the smaller registered investment adviser and break-away broker communities. The two most time-consuming functions within an advisory firm are compliance and investments. There has been a strong focus on outsourcing compliance functions and we believe we are in the infancy stage of outsourced CIO services for registered investment advisers.

Outsourced CIO provides clients with the following benefits:

### **1. Extensive investment infrastructure at a lower cost**

CIO outsourcing can allow entities to access a substantial investment infrastructure for far less than it would cost to build it in-house. Hiring a CIO or an investment team can represent a significant financial commitment especially for a company, a foundation or an endowment with a small to mid-size asset pool. Additionally, smaller organizations may be able to hire only one professional who, however knowledgeable, may lack the time or expertise to do every task related to the job well.

CIO outsourcing provides immediate, turnkey access to asset allocation, manager research and selection expertise, ongoing monitoring and liability management. Outsourced CIOs can take responsibility for navigating the array of available investment options: active, passive and flexible strategies, products that use derivatives and leverage, and those with lockups and alternate fee structures.

### **2. Comprehensive & Integrated Advice**

The advice provided by a CIO spans the full spectrum of the asset management function policy, management and review but is accomplished within an integrated approach to goals-based portfolio construction, while stewarded with a fiduciary mindset.

### **3. Ongoing Relationship**

CIOs, whether on a fully dedicated or outsourced basis, typically have an ongoing professional relationship with their Steward clients. As a result, CIOs are available for ongoing dialogue with their clients and not only when investment manager changes are required. Such a relationship leads to

increased continuity in the overall asset management function, which ultimately benefits Stewards and their investors.

#### **4. Unwavering Objectivity**

Most CIOs do not have their own proprietary investment products that they provide to clients. As a result, the investment solutions and services that they provide to their clients are fully objective and delivered with the clients best interest in mind at all times.

#### **5. Shared Responsibility**

We believe that Stewards do not want to bear the burden of full responsibility for every investment solution implemented although they are clearly accountable. Instead, we believe that Stewards expect their professional advisors to share that responsibility. A CIO provides clear advocacy of all proposed solutions.

#### **6. Value**

Given the ongoing nature of the CIO relationship, Stewards and their investors are typically provided with solid value as the costs of CIO services are normally amortized over the full term of a multi-year professional services agreement instead of being compacted into a series of one-off consulting engagements for manager search & due diligence assignments.

#### **Conclusion**

By adopting a broader definition to the CIO role than merely investment manager search & due diligence, but instead a true Fiduciary Manager, we believe that the investor client will be better served, and that in a world in which global investment opportunities simultaneously exist with a new set of risks, Stewards of wealth will be far more successful in fulfilling their fiduciary obligations of the diligent pursuit of the investor client's investment objectives. With an uncertain political and economic environment around the world, companies and institutions are embracing discretionary investment models in order to access the expertise and scale needed to get the most out of their investments.

## **ABOUT MALVERN CAPITAL MANAGEMENT**

Our team has over 30 years of experience building investment portfolios and advising clients during volatile markets as well as, working closely with institutional clients providing support and solutions. Malvern Capital Management's Outsourced CIO service focuses on the undersized RIAs allowing them to spend their time meeting with current and prospective clients, servicing existing clients and growing their business. Such RIAs have limited time available to focus on investment management, research and due diligence, building and monitoring asset allocation models and spending countless hours meeting with investment wholesalers.

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