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EPISODE 77:

Mastering OCIO Solutions:

Insights from Chestnut Advisory Group

Robert Morier: Welcome to the Dakota Live Podcast. I'm your host, Robert Morier. The goal of this podcast is to help you better know the people behind investment decisions. We introduce you to chief investment officers, manager research professionals, investment consultants, and other important players in the industry, who will help you sell in between the lines and better understand the investment sales ecosystem. If you're not familiar with Dakota and our Dakota Live content, please check out dakota.com to learn more about our services. Before we get started, I need to read a brief disclosure. This content is provided for informational purposes and should not be relied upon as recommendations or advice about investing in securities. All investments involve risk and may lose money. Dakota does not guarantee the accuracy of any of the information provided by the speaker, who is not affiliated with Dakota. Not a solicitation, testimonial, or an endorsement by Dakota or its affiliates, nothing herein is intended to indicate approval, support, or recommendation of the investment advisor or its supervised persons by Dakota. Today's episode is brought to you by Dakota Marketplace. Are you tired of constantly jumping between multiple databases and channels to find the right investment opportunities? Introducing Dakota Marketplace, the comprehensive institutional and intermediary database built by fundraisers for fundraisers. With Dakota Marketplace, you'll have access to all channels and asset classes in 1 place, saving you time and streamlining your fundraising process. Say goodbye to the frustration of searching through multiple databases and say hello to a seamless and efficient fundraising experience. Sign up now and see the difference Dakota Marketplace can make for you. Visit dakotamarketplace.com today. Well, I am very happy to introduce our audience to Amanda Tepper and Ravi Venkataraman of the Chestnut Advisory Group. Amanda, Ravi, welcome to Philadelphia.

Amanda Tepper: Thanks for having us.

Robert Morier: Thank you for being here. Yeah, thank you so much for being here. It's always the best when people come to the desk, and they're here in person. We can't thank you enough for making the effort to be here on a beautiful day in Philadelphia. So, it's really a pleasure. So, Chestnut Advisory Group is a boutique management consulting firm dedicated to asset managers and investment solutions providers. We're going to talk a lot more about your business, the founding of your business, and some recent research that you've conducted, which we're really interested to learn more about. But before we do, I am going to read your biographies for the audience. Amanda Tepper is a managing partner, founder, and co-owner of Chestnut Advisory Group, a boutique management consulting firm dedicated to asset managers and investment solution providers. Amanda co-leads Chestnut's strategic advisory practice, partnering with asset managers and OCIOs across a diverse mix of asset classes, and firm sizes to devise and implement successful growth strategies. Amanda's custom market research expertise often shapes her advisory work. Her early research into the OCIO Marketplace on behalf of advisory clients led directly to Amanda serving as co-founder of the Chestnut Solutions Institute, where she leads the institute's research efforts. Prior to founding Chestnut, Amanda served as a global director of AllianceBernstein's senior portfolio management team. Previously, Amanda developed extensive sell-side equity research expertise as associate director of equity research at Bank of America and as an equity analyst at JP Morgan. Before moving to the sell-side, Amanda was an investment banker in JP Morgan's retail industries group. She began her career on a corporate bond trading desk. Amanda holds an MBA from Wharton here in Philadelphia and a BA from Brown University. Her past board memberships include the Investment Advisory Committee for the Endowment of the Arts Student League of New York, the Global Advisory Council for 100 Women in Finance, Girls of New York, and the Andover Development Board of Phillips Academy. Ravi Venkataraman is a managing partner and co-owner of Chestnut Advisory Group. Ravi co-leads Chestnut's strategic advisory practice, partnering with asset managers and OCIOs across a diverse mix of asset classes, and firm sizes to devise and implement successful growth strategies. Ravi's distribution, investment consulting and solutions background informs his advisory work. Ravi's desire to help advance the future of the investment solutions industry, combined with his firsthand OCIO and solutions experience, led directly to him serving as co-founder of the Chestnut Solutions Institute, where he leads the institute's strategy and member engagement efforts. Prior to joining Chestnut, Ravi was the global head of investment solutions at MFS Investment Management. Before moving to MFS, Ravi was the president and chief investment officer of Mercer Investments, having founded Mercer's OCIO business, 1 of the industry's earliest leaders in the fiduciary management space. And by the way, Mercer is now the world's largest OCIO provider. Ravi holds a master's degree in economics from Tufts University and is a CFA charter holder. His past board memberships include being the chair of MFS's Retirement Investment Committee, chair of the Steering Committee of the Active Managers Council and chair of Generation Citizen, a nonprofit organization focused on civic education in middle and high schools in Massachusetts. Amanda and Ravi, thank you so much for being here. Congratulations on all your success.

Ravi Venkataraman: Thanks for having us.

Amanda Tepper: Thank you.

Robert Morier: Yeah, it's really wonderful. Well, to get us started, Amanda, could you share with our audience the genesis of Chestnut Advisory Group and The Chestnut Solutions Institute? And within that, if you could, let us know, what's the mission of the organization?

Amanda Tepper: Sure. Five questions in there, which is usually how I ask my questions. So, the thesis behind Chestnut is that investment management is a truly unique business in the world. My background as an investment banker and an equity analyst, I've covered probably a dozen different global industries, and success in investment management is completely counterintuitive to what you would learn from analyzing any other industry. So, I learned that not just as an analyst, but then working with institutional and retail clients globally. So, through our strategy consulting work, which has always been the core of chestnut, began being asked by more and more of our clients to do work into the growing OCIO or outsourced CIO sector. I saw how well it was meeting clients' needs, which was always our thesis that the industry… to succeed in the industry, you need to really meet your clients' needs. It isn't all about alpha. That isn't the only need. So, I expected OCIO to continue to grow. And I saw how disruptive this growth was going to continue to be to the investment business. And over time, as we published more research and folks across the industry came to us asking for more and more insights and data around the industry, I realized that this whole segment was suffering from a lack of standards and norms. OCIO and other investment solutions are not well-defined. They're not widely understood. And we wanted to address that issue in a way that served the industry and end investors. So, when Ravi joined Chestnut, he and I decided to launch the Chestnut Solutions Institute. So, to answer your question about the mission, we want to serve as an independent forum for the entire investment solutions ecosystem. So that's providers, investors, evaluators, everybody. One of the core theses behind Chestnut is what investors really want more than anything is to trust their providers. They have to understand to trust. And with trust, everybody wins. You have to have the understanding. So, the 3 big goals that we have are to educate the market and investors about solutions, to promote ethical standards, and to promote a level playing field. And at the institute, we achieve these goals via thought leadership and research, which is a core competency of Chestnut. And we're going to talk about some of our recent research with you today. So, we do exclusive market research like the defining investment solutions report, that we're going to talk about. We run peer-to-peer forums, where we facilitate in-person dialogue among senior executives, both investment and client facing, which is a unique combination, and other solutions industry participants about key issues facing the solutions industry. And then a big part of our mission is to deliver public education, to start, to establish a wider understanding of, perhaps, at least, a dialogue around what should the standards be, what should the norms be. So, it's just like this conversation today. So, thank you again for this opportunity. And we're aiming to really bring greater clarity to the investment solutions industry. We want to enhance transparency by getting everybody on the same page. And we'll talk about this more, but we want to advance a holistic measurement of client outcomes, which, again, alpha is just 1 component.

Robert Morier: Ravi, I'm not going to ask you to go all the way back to your days in Boston with Mercer, but a very interesting opportunity for you, launching the OCIO business at Mercer. So, as you fast forward today with Chestnut, what were some of the lessons that you learned at your time at Mercer that you brought forward with you to Chestnut?

Ravi Venkataraman: In the last couple of decades, a lot of things have changed. And I saw this as I went on, stepped away from the OCIO business and worked at an asset manager in distribution leadership roles. The market has exploded, both on the provider side as well as the demand for it. And we'll talk a little bit more about all the multiple dimensions there. But the investment markets have become way more complex. The public markets don't offer as much as they used to. There's been a lot of investment innovation, private markets, real estate, and so on. The market has expanded. There's greater awareness of the different types of capabilities. But I was surprised when I started refocusing and rethinking about the space when I was in the last few years at MFS, I was actually surprised it hadn't evolved more. And by that, I mean, despite the market expansion, there's still a lack of clarity. There's still a lot of bias and potential buyers out there that don't really understand this space, haven't heard of it, or, at least, have heard different interpretations of it, depending on who they've met. This segment is not as mature as some of the other market segments that we're used to, like mutual funds, and even defined contribution, where there are lots of industry bodies and there are lots of conferences and whatnot, and public education has been in place for a long time. So, it's difficult for, frankly, buyers to align, find the right provider, know what to look for, figure out what fits their needs, and so on. So, we really thought this was an opportunity for an unbiased and a knowledgeable firm. Amanda said, she had been looking into research in this area for a while. Obviously, I've lived it, so I knew it from the inside out. Really, knew what it takes. And to your question, focusing on client needs and all of their needs, both investment needs as well as non-investment needs, is a critical component. And we thought as a knowledgeable, neutral party, our sponsorship of this institute bringing providers and all parts of the ecosystem together to help educate, to spread the word, would really be a net win-win for everybody, a win for clients as well as a win for providers and other service providers.

Robert Morier: Thank you for sharing that, Ravi. That's very interesting, particularly your background. So, when you think about who constitutes that institute today, who are the people who are participating in this group?

Ravi Venkataraman: Yeah. So it's all investment consultants and asset managers, both firms that have OCIO and solutions capabilities, and we'll get into the differences of those terms, as well as those that don't, even single component provider firms, and then other service providers and other entities and other intermediaries that are involved in this ecosystem or who want to be involved and do business, buy or sell, participate in any part of the cycle between client and provider. So, it's pretty open.

Amanda Tepper: And membership is at the firm level.

Robert Morier: Got you.

Amanda Tepper: So whole firms join.

Robert Morier: Well, you mentioned the report, Amanda, defining investment solutions, which is emphasizing that need for a clear definition for investment solution providers within the industry. Can you elaborate on why establishing common standards and definitions is critical for both providers and investors?

Amanda Tepper: So, there's good news and bad news here. The good news is that investment solutions and OCIO within investment solutions, collectively, are the fastest growing segment of the investment industry. Investors are increasingly seeking holistic solutions to help them achieve their goals. So that's the good news. The bad news is that what is an investment solution? What is an OCIO? Not well-defined, not widely understood. So, investors face, what I would call, an investment solution's maze today. They're left to their own devices to find, understand, and evaluate all the different investment solutions, providers, products and services that are out there. And I would say, conversely, the providers are each left to their own devices to try to define what it is that they're doing. And our industry is really known for jargon, so everybody's using slightly different terms. Maybe they're describing the same thing. It all becomes very confusing. So here at the institute, we're seeking to establish the same environment of widely accepted standards and norms, which I talked about a minute ago. And that creates clarity, and that creates investor trust, which is the bedrock of everybody winning and good performance in the long run because turnover is deadly for investors. An end state that we're aiming for is widespread understanding and trust, that's going to benefit everyone in the marketplace, especially end investors.

Robert Morier: It makes sense. If you have an endowment or foundation who's looking for an OCIO provider, they put out an RFP, they may get 7 different answers to 1 question because the standards aren't aligned. So, it makes sense to have—

Amanda Tepper: 1,000%. So, 2 things I wanted to say is, is that 1 of our recent forums, 1 of the… we had a search consultant, so they're an intermediary that help conduct OCIO searches. And they were complaining that they put out what they thought was a very simple question in an RFP. Tell us about your investment performance. And we're getting back 10-page plus answers that were all over the place. So that's a great example of that. I also wanted to throw out how we, at the institute, are trying to define investment solutions. This is in our report for the marketplace to digest. An investment solution is any investment product or service whose primary goal is to meet the specific needs of 1 unique investor or a set of investors. So, an early example, if you think of it as a spectrum, where fully delegated OCIO of whole portfolios is on the 1 end, the other end would be, as Ravi said, a component product, where you have 1 investor saying, it's a standardized product, but I want you to screen for certain factors. The minute you start customizing, that becomes a solution. And because of the customization, the client has a need other than just alpha against an index.

Robert Morier: Ravi, can you give us some historic context? You mentioned the word explosion, this explosion of providers. And you can see it just in the volume of solutions that are now available to both institutional and retail investors. What have been some of the factors that have led to that exponential growth?

Ravi Venkataraman: First of all, the adoption and the increased demand is a testament to the marketplace evolving to meet a need. So, it's a great thing, first of all. As far as where the growth is coming from, I would probably say it's threefold. The first being there's just net additional demand even in mature, the segments that traditionally bought these services going back 20 years ago. So those would be pension plans, small to mid-size pension plans, endowments, foundations. So, what we're seeing is both more firms, more institutions and plan sponsors wanting to outsource. It's also growing up market, so much larger plans. And you've seen the news, some of the big transactions we've seen multi-billion-dollar plans that are now part of this phenomena. And they do it for different reasons. They may outsource the whole portfolio or also increasingly outsource pieces of it, maybe for their private equity portfolio, where they think outsourcing that to an expert with core expertise in that area is a better way to go than building out a big staff to manage maybe just 20% of the portfolio. So that's 1 factor. The second is different and newer market segments that are adopting this trend. So, a couple of examples of that would be insurance companies. Those were traditionally conservatively managed, much of it is in-house fixed income oriented. Now, you're seeing them looking at outsourcing certain niche asset classes, and so on. Retail is another relatively new channel that is growing in multiple ways, so new markets. And then, finally, geographic regional expansion. So, this was a traditionally US, North America, Europe, UK phenomena. That's how it started out. But increasingly, now, you're starting to see that go global and coming to Asia and so on.

Robert Morier: Is it starting in a specific channel in those markets, Asian markets, for example? Is it family offices, multifamily offices or institutional? Is there a specific area where that development is happening?

Ravi Venkataraman: It's interesting bring that up because in the Western markets, it was traditionally led by institutions. But in Asia, a lot of times, retail leads. That's where a lot of the money is. There are relatively fewer endowments, foundations, for example, like that, super innovation funds and so on. But retail is huge. And there, the innovation has tended to come from retail. So, you're right. And it may start and just providing… in providers providing this research, manager research, databases, tools, and then growing from their model portfolios and then full outsourcing. So yeah, different ways that it evolves in different parts of the world.

Robert Morier: Interesting. Thank you for sharing that. So, investors are out there. They have to find potentially an OCIO provider. And there are 100 for them to search for and look for without a common language. But your report introduces a new framework for evaluating and selecting investment solution providers. Can you share an overview for our audience? Help us understand what that framework looks like, and how investors can navigate those solutions through that approach.

Amanda Tepper: Sure. So, we actually introduced 3 proprietary frameworks in the report. The first one is just different provider types. When you're buying, call it, long-only equities, it's long-only equities. You don't need to worry about who's… you know what the product is if it's a mutual fund. When it's OCIO, however, there are so many components that go into it. So, there are the 2 classic provider types, if we just want to talk about OCIO, are consultants, investment consultants, who were doing the traditional consulting of advice-only, and they move to implementation. And then there are asset managers who are the component… were component providers to investment consultants. And now, they're taking over the whole portfolio. Among asset managers, some are independent, and some are owned by banks, and some are owned by insurance companies. And they all bring different components that they would bring to include or not include or add on or make available at no fee. For instance, custody is a big piece of OCIO. And some of them have it. And some of them don't. Then there are independent boutiques, many of whom spun out from teams that ran 1 endowment or 1 foundation. And then there are also boutiques that come from family offices that are trying to turn it into a multi-family office. The issue with any of them… and then among all of them, they focus on different types of end investors. So just taking the boutique, for instance, if you came out of… if it's a team that came out of an educational endowment, there's a number of those, they are generally offering a best ideas portfolio, and the thought being that they have the best ideas, and there's a lot of endowments out there that are going to want their best ideas. That's 1 approach. Then within the different types of providers, some focus on… some of them are great at DC plans. They bring a lot of technology for that platform. Others won't touch DC plans for liability reasons. So, you need to understand that. If you're an annuity plan that's about to close, you might… it might make sense to align with an insurance company that can manage the transition end to end for you. So that's the different provider types. And then there are 2 other frameworks that we have in the paper, and I think Ravi could take you through those.

Ravi Venkataraman: Yeah. And as a preamble, I have to say some of this is colored by my experience, being both on the buying side as well as the provider side, and a search consultant. The same search consultants that Amanda referred to said it's not unusual to find 200-page responses to proposals. That's just—

Amanda Tepper: That's a failure.

Ravi Venkataraman: That's overwhelming. And I can't imagine how you would then read 10 of those and make any sense of it. So, part of our work in these frameworks is to bring some order, some taxonomy, shall we say, because rather than sprawling questions that go all over the place, maybe we can look at it in components. So, the capabilities framework is what we introduced in the report. And we look at 3 dimensions. And we've got a circle depicting that. So, 3 concentric circles, if you want to visualize it. Investments… that's core central, always has been, probably always will be. Operations and then service. And we outline different pieces in each of those categories. We identify between 4 and 7 components. As a way to think about capabilities, who offers what? Which ones are more important to you, specifically, you as a buyer? Certain things may be important to you, like pension. LDI expertise may be important to a pension plan, but not to an endowment, for example. So, it's a modular approach, but it attempts to introduce a common taxonomy, which will just be, we think is practical and helpful for both buyers and sellers to organize and project their capabilities. So that's another 1. And then, finally, we offer something for asset owners and prospective buyers, which is a due diligence checklist. What do you look for? Certainly, you look for these capabilities so that's a framework they could use. But we also talk about, what are the types of things that you may want to look for when you do a due diligence visit, when you go on site, talk to management, because there are things that you can do, and you can observe that you cannot in an RFP. So, we get into that as well.

Robert Morier: Interesting. Very helpful. And it sounds like a very effective way to distill all of this information. Just thinking about the first framework, the types of providers, it was hard not to run out of ink in terms of how many people are doing different things for different plants. It makes sense.

Amanda Tepper: It was hard for me to stop talking.

Robert Morier: I can imagine. Well, you're offering a solution and you're trying to sell yourself as a bespoke provider. So, when you're a bespoke provider, you have to potentially respond in paragraphs that may get you to 200 pages for an RFP.

Amanda Tepper: Easily.

Robert Morier: So, it's very interesting. Well, just to add to all of this, it seems like I'm watching the same movie again in terms of the consolidation that's starting to go on. You know very well from being with Mercer, a lot of these consultants went through major acquisition… made major acquisitions through the mid-2000 and then, again, from 2012 to 2018. And it sounds… it seems like it's starting again with OCIOs. Firms like Agility merging with Cerity Partners. Mercer acquiring parts of Vanguard's OCIO unit. What do you think is driving the trend now for this consolidation?

Ravi Venkataraman: So, the big wants to get bigger. State the obvious.

Robert Morier: They can't help themselves, can they?

Ravi Venkataraman: No. It's the way it goes in this industry. So, this happened at asset management firms and continues to. We've seen that movie for the last 20 plus years. So, the same thing is happening in the solution space. I think what is very attractive about this is not only the obvious demand for it increasing, but the amount… the number of capabilities and the diversity of capabilities you can offer, the different asset classes and advisory components. That's a natural extension of what consultants do. So, to grow, they have to be part of this phenomenon, because, otherwise, it's a pretty mature market for traditional advisory services. And then the scale in this business and in solutions, especially where multi-manager structures are implemented. Scale can be a good thing. It can be a win-win. Now, there is a tipping point, of course. But generally, you have more money that you can access different types of investments and offer those to your clients. You can offer lower fees, if you can work out good arrangements and so on. So, there are some advantages to scale for the client. And we always focus on the end client. What's in it for the client, right? Easy to see what's in it for the provider. and some of these things can be helpful to clients, but some of it is not.

Amanda Tepper: Yeah. So, it's a growing market. It's attracting capital. And the stakes for success are being raised. So, you could look at it as, to me, this increased activity, I don't view it so much as consolidation as a sign that some folks are saying, you know what, the stakes are too high. When it's a growing market, everybody wants to enter it and put out a flag, and everyone who is building a portfolio, the first thought is we can offer our same portfolio to the entire world. And then you start to do it and realize there's so many other components. It's incredibly intense on the client support piece, and not everybody wants to invest in all the technology reporting back end, the footprint you need to serve the clients. And I call it moving from OCIO 1.0 to 2.0 and beyond. It's getting more professionalized. And as Ravi said, it does, ultimately, benefit the end investor. But of course, change in ownership is really disruptive for clients, so you have to keep that in mind. It's always a tradeoff. And lastly, I would say like other investment industry segments, OCIO is going to look like the rest of the industry, which is the 80/20 rule. So, 80% of the assets are going to be held by the top 20% of providers. However, I expect there will always be a successful group of OCIO boutiques, just like there are always entrepreneurial asset managers out there. And like Ravi said, there are opportunities, there are some opportunities for scale. But it really is more limited than in traditional asset management, where ultimately, you're selling mostly standardized products. Client service is ongoing and crucial for any type of solutions, especially OCIO.

Robert Morier: So even with this professionalism, even with all of the changes, the enhancements that you've seen, being from coming from Mercer all the way through, now, with Chestnut, I was surprised to see some recent data that came out of the outsourced CIO survey for 2024. And it was highlighting dissatisfaction among current

OCIO clients, specifically with an apparent restiveness among CIOs that currently outsource a 25% of the respondents of this survey with assets over $1 billion plan to initiate a search to replace their OCIO providers. That's not surprising. That happens every 5 to 10 years. But 19% of those respondents want to definitively switch. So, something's amiss with these structures. So, I'm curious, what are the main factors that you believe are leading to some of this underlying dissatisfaction in the industry, despite all of these changes that have gone on?

Ravi Venkataraman: It's not our survey, so I can't speak to the specific numbers. But certainly, I think we all see the trend, the direction of travel. Amanda referred to the transition from version 1.0 to 2.0. I think that is a big part of this because at the end of the day, this is not that mature an industry, even though it's been around for 20 plus years. So, we're seeing probably turnover in that first generation of appointments, firms that have bought OCIO services 10 years ago, even 5 years ago and so on. So those are beginning to turn over. So, we think that is the reason for some of that. And it's fair to say, if we talk about the lack of clarity and that's lack of clarity now. Imagine what it was 10 years ago, even less transparency, less awareness and knowledge. So, we think a lot of those initial appointments came from relationships, word of mouth. Chances are they didn't follow a consistent or detailed process in those appointments. These were contacts. These were inside recommendations and so on. So, there's probably a mismatch of expectations. They probably went into it thinking 1 thing, and then they got what was out. A very common for in this type of environment for different… even investment committee members to be expecting different things from the providers. Some folks may be focused on investment performance. Others, staff may be focused on outsourcing all the difficult stuff that they have to do on a daily basis or the administration, and so on. So those are 2 examples of 2 very different things and different emphasis that may have been placed. So, some of it is probably that. There's also a new phenomenon with search consultants coming on board in the last few years. There's a whole cottage industry. And I say cottage industry because they tend to be fairly small firms that are getting into the business of helping sponsors hire and monitor. And naturally, they're bringing their perspectives, their databases and insights. Some of them probably also have your standard, let's go to the market and test the providers on every 5 years or something like that, whether the client is satisfied or not. So, some of this is that traditional single manager mentality that's coming to the solutions business. It's a little tricky in the solution space, but we can talk about that later.

Robert Morier: Yeah. Thank you for sharing. So, gatekeepers for gatekeepers.

Amanda Tepper: Oh, yeah. Belt and suspenders. That's right. And I'd like to add one thing.

Robert Morier: Sure.

Amanda Tepper: On top of all of that is that investors needs have evolved as well. So, let's just say it was the last 5 to 10 years when they brought on an OCIO it might have been for thinking it's going to be more streamlined. It's generally the markets are so complex. And then now, it turns out they want someone who can be more aligned with their mission and help them build a portfolio along those lines, which was not something they were looking for 10 years ago. They want to revisit their governance and they want advice on that. They want to revisit the diversity of their managers. And they want advice on that. So, they've got new needs. And that's going to drive some of it as well.

Robert Morier: Ravi, in my experience on the business development side, having done it for a number of years, it seems like sourcing business for OCIOs remains incredibly difficult for a lot of the reasons that we've discussed. There doesn't seem to be a central or 1 language to look towards. You have gatekeepers for gatekeepers. So, there's lots of reasons. Some of the smaller plans, for example, they typically didn't have a relationship before, so they rely on their board. And maybe their board member knows somebody from the industry. So as the world is turning more rapidly towards these OCIO solutions, what does a successful distribution structure look like for OCIOs to gain market share?

Ravi Venkataraman: It's a $1 million question, Robert, because a lot of the firms that we talk to, asset managers are really after that. It's the holy grail. And even those that have solutions capabilities are looking to distribute through others. So, it's an interesting phenomenon. I think Amanda talked about different provider types, insurance companies, specialists, journalists, et cetera. If you just extrapolate from that, I think the distribution model is going to vary, depending on the provider type. If you have a huge retail business, that's going to drive a slightly different distribution strategy. You have internal people, probably advisors that you need to sell to that then will take the word out to the market. Whereas, if you were a specialist in a market segment, you can go directly to your market segment like endowments and foundations. So, I would say at the outset, it varies, but there are a few common ingredients. One is intense client knowledge. And this is… it sounds like it's the obvious thing, but I would say the one… and I'll say this, myself, I've been part of this industry for 30 plus years, actually, knowing the client is I wouldn't say is uniform or consistent throughout the industry, because if you take the relationship management sales functions of selling product firms, there was a certain type of selling where the need was expressed by the buyer. In this solution space, an OCIO space, it's actually a joint project of teasing out what the client needs and what's going to fit. So, you need to bring a level of client knowledge that is way more detailed to the market segment expertise. If you're talking to an E and F, you need to not just the vocabulary, you actually have to be in their shoes or have been in their shoes to really understand what that person or that institution is going through. If you're selling to a hospital, you need to know whether they're public or private. What is their tax situation? Are they in a cash flow crunch? Or is this a profitable operating? And these things matter to the things that you'd want to provide. So, there's going to be… I think, upskilling the client facing team is probably the biggest learning curve facing the providers for the next few years, and, really, rewiring their organization to be more of a team approach. So that goes hand in hand. It's no longer, you come in, the salesperson… the lone wolf is gone. You can't sell the product and then have the investment guys deliver the portfolio. That's not the way this works. You got to have a team approach. So, the relationship manager or the salesperson is the quarterback bringing the best of to the client. That will be the investment product specialist, that will be a client strategist that can do technical work, and, of course, the portfolio management team. So, it's going to be a team sport. So that's probably the critical difference.

Robert Morier: It makes a lot of sense. I can't tell you how often the allocators who come on our show… and sometimes I'll ask them, what shouldn't you do as an asset manager? What are the do nots? It's easy to talk about the Dos, but what should asset managers not do? And more often than not, they say don't ask us what we do. Don't ask us how we do it, our mission. We want you to know that before you come in. So, you have some type of framework for a solution-based discussion to enter into with us.
Even if you're just offering a single product, how do you fit within the asset allocation model? It's become increasingly important. So, it makes a lot of sense and quite intuitive. So, thank you for sharing that. Amanda, how do OCIO providers ensure that they meet these return expectations, though, in addition to the servicing model? So, let's say, they get the servicing model right, and they've got the right people, they've got the right team approach, and that mentality is in place. But how do they meet the return expectations of these asset owners while balancing other objectives that they may have de-risking, for example?

Amanda Tepper: The short answer is education, because it isn't return expectations. Actually, it's the holistic outcome, holistic meeting their goals. So, taking a small endowment, for an example, you'd have 1 type of engagement with them. They need to meet the whole goals, its risk return, meeting the needs of all their different constituents. If it's a pension plan, they need to make sure they can make the pension payments. If it's an institution or family office, they have cash flow needs. There's continuous education and conversation as the investors, the end investors need change and the markets change. This is an ongoing partnership. When we hear… and we've done research into this… about why are you winning the mandate or why did you lose the mandate, when investors say… and performance is never the lead, by the way, on either of those metrics, not even close. But when they do say performance, it ends up being that they didn't understand what the metric was and what to expect. So, engagement with a fully funded closed pension plan is going to be very different with a mid-size endowment reliant on that endowment to fulfill their mission every year. So really, it's about constant education, constant conversation, constant evolution. When there's another market downturn, which there always is, when there's another recession and all the contributions dry up, which there always is, it's a very different need from the investors. So, the good OCIOs are going to be preparing their clients about the illiquid part of their portfolio and ensuring that it's built in. Those that are just aiming and having their communication primarily about top quintile performance every single quarter forever often find themselves backtracking. And once you're underwater, it's really hard to earn that trust back.

Robert Morier: Makes sense. Thank you for sharing that. Ravi, another million-dollar question for you. I'm sorry, I'm punting all the million-dollar ones to you, but they're equally valuable. Looking ahead, what are some of the emerging trends and innovations that you anticipate that are going to continue to shape the landscape for providers?

Ravi Venkataraman: There's going to be innovation in the framework we talked about, investments, operations and service. A lot of it is going to come in just under those categories. Investments… it's pretty clear that alternatives are going to increasingly be a bigger part of everybody's portfolio, including retail. That's relatively new. Very low right now, less than 5% on average allocation. That's going to change. With that, it's going to come all kinds of different betas. So, if you look at private debt, it's a catch-all. But if you look under the hood… I'm just picking 1 example, lots of different types of private debt, whether it's mission aligned, it's sustainable products, to climate, to affordable housing, you name it. And that's just one little wedge. You can have quality term structure. So, investment innovation is going to continue. I'm just picking 1 from each. So that's in the investment wheel, as it were. On the operations side, vehicle innovation. So, we already know about ETFs. We know about model portfolios. We know separate accounts, customized portfolios, portfolios, where the paper portfolio is handed over and someone else handles the trading. So, there's going to be the lines of what a provider does are going to be fungible. And providers are going to have to evolve with that with all centered around the client. So that's the critical thing. And service… I already talked about. It's going to have to be really market segment oriented. It's going to be tough for generalists or, at least, client facing teams that are organized around journalist lines, unless they have a very unique way of pulling together to be able to sustain that. You're going to have to specialize.

Robert Morier: That makes sense. I think you've both named the episode of this podcast, client-centric solutions with Chestnut Advisory. It seems like it's the common theme and very prevalent among the discussions that you're having with your clients and members of the institute. So, thank you for sharing. I'm sure you get this question more often than not, but what advice are you offering investors considering engaging in an OCIO relationship? So just thinking about everything that we've talked about today, what are those key ingredients that you're sharing with an investor who's making that consideration?

Amanda Tepper: So, I had a feeling you were going to ask that question. And I was thinking about it. It's the same advice I give to my 2 daughters, who are starting their careers, thinking about what they should do next. Close your eyes, go inside, know yourself first. That gets back to the 1.0, 2.0. This isn't a push the button kind of thing. This should be hiring, starting a partnership that you're going to evolve together using Ravi's terms over the next, ideally, it should be a decade or more. So, you really want to think first and foremost about what you need, what's most important to you. And then as you're interviewing the providers, again, close your eyes and think about… when I'm talking to my daughters, I say, who do you want to spend most of your waking hours with, in a job? When you're hiring an OCIO, who do you want to be spending all your board meetings with? Who do you want to trust with making sure you can meet all your needs? And that's who you should go with.

Ravi Venkataraman: I have 1 to add. And I'll take the flip side of that, which is spend the time with the providers, at least, your top two, top three. Forget the 200-page RFP. I don't mean, forget it. You got to do it. And there are certain things you discover from the written word, but there is nothing like going on site because you get to ask the questions. And more importantly, you get much more candid answers. I'll give you an example. What are your succession plans in this portfolio? If you know that, it's going to be a big part of the solution. There's not a firm in the world that are going to be totally candid in writing because they have legal issues. You can't… but you could pick up insights on a lot of things. So, I don't see how having them in for 45 minutes in a finals interview is going to surface any of this. So, you're better off spending/ I would say got to meet with the prospective provider at least 5 times to really get at it. And that is time much better spent than, 60 hours reviewing 200-page RFP answers.

Amanda Tepper: Because, again, if this is a decade-long relationship, probably whoever comes to that meeting for 45 minutes won't be there the entire decade with you. And you won't have the same board for the entire decade. So, you want a cultural fit at the organizational level on both sides. And that only comes over time. The issue we're having now, I think, is that the whole search process, understandably, the industry… both sides of the industry are using the approach that evolved over decades for the old model of component providers of a large portfolio. So, 45 minutes is plenty, if you're talking about 2% of your portfolio and which manager you're going to hire for specific asset class. But that approach doesn't work when you're talking about such a long-term engagement.

Robert Morier: It never ceases to amaze me how close manager selection advice is to dating advice. Essentially, one and the same. Know yourself, spend time with the person, and listen because they will tell you who they are. But spend the time, at least, 5 dates. That's great. So, Amanda, Ravi, thank you so… thank you so much for spending time with us over the course of this last hour. It was really insightful, not just for the OCIO providers, but for any client who's considering a potential OCIO mandate, and just anyone interested in the industry. Thank you for sharing your insights.

Ravi Venkataraman: I really enjoyed it.

Amanda Tepper: Yeah, thanks for having us. This was a pleasure.

Robert Morier: It was wonderful. If you want to learn more about the Chestnut Solutions Institute, the Chestnut Advisory Group and the work they conduct on behalf of clients, please visit their website at www.chestnutadvisory.com. You can find this episode and past episodes on Spotify, Apple, or your favorite podcast platform. We are also available on YouTube, if you prefer to watch while you listen. If you'd like to catch up on past episodes, check out our website at dakota.com. Finally, if you like what you're seeing and hearing, please be sure to like, follow, and share these episodes. We welcome your feedback as well. Amanda and Ravi, thank you for joining us today. Again, we appreciate you being here. And to our audience, thank you for investing your time with Dakota.