

[MUSIC PLAYING]

Joining us now at the Optimal Service Group of Wells Fargo Advisors, we have James Johnson, senior institutional consultant, and Bryce Lee, managing director, Investments. Thank you both for joining us. I want to get your take on what are some of the trends you're seeing in the institutional advisory space.

Great question, Jenna. We would say an adoption into the ESG-- environmental, social, and governance-- space is what was the diversity and inclusion piece being implemented into portfolios. We really see a heavy adoption there. We're looking at due diligence questions amongst different providers and different foundations and endowments and other entities. They're really asking how much of that is being incorporated when looking at investment managers. And so we just want to be able to acquiesce as best possible and serve those needs of these requests that are not anymore something-- just more questions, but more so wired now of investment managers when investing.

We also see a trend, Jenna, in the move and the request for-- from traditional consulting into OCIO. A couple studies we've seen recently show that that marketplace in the US is close to \$2 trillion and growing at double-digit rates over the last number of years. So definitely a smaller part of the institutional consulting space but one that's growing and growing pretty rapidly.

Yeah. I'm glad you bring that up, and I'm sure many of our viewers are familiar with that. But for those who aren't, could you quickly define OCIO for us?

Yep. So it stands for "outsourced chief investment officer." And there's different definitions that go into it, but I think the easiest way to think about it is it's just turning over discretion to your investment consultant. Whereas, historically, boards and management, committees, and management teams of non-profits and companies would want you to bring them options, and they want to be heavily involved in the decision-making process, now they're turning over that discretion to the investment advisor and allowing them to make those decisions on a much quicker basis.

Why do you think we're seeing institutional client growth in this area?

That's a great question. It may be bifurcated between smaller institutions and larger institutions. But I think, in all cases, it's just the flow of information is so quick these days. I just think back to 2020, which we all experienced here recently. Committees and boards were trying to figure out how to reinvent their board meetings. "Do we go digital? How do we have a Zoom board meeting?" And by the time that most of them figured that out, the markets had basically snapped back in that period of time. So being able to make quick decisions is important, especially with the flow of data that's out there today.

But on the smaller end, we call it the democratization of OCIO. Really, those hundred million and under nonprofits and companies, we think it's a great opportunity for them to get the best advice and implement it in the quickest manner. I think back to many of the committees and boards we work with at those smaller dollar amounts, and you think about them-- they might be not investment professionals on the committees and the boards. They might have other full-time jobs, other requirements. It might even be a volunteer position for them.

And so in those cases, in order for them to really be involved and get up to speed, the education required is going to take a very long time. So I think that's why many of them are trending towards OCIO.

Yeah. A lot of benefits, a lot of pros as you mentioned-- although what are some of the challenges of OCIO consulting models?

Yeah. I mean trying-- even though it's a small subset at this point in time, I think we would put somewhere below a hundred OCIO providers out there in the marketplace. It's a pretty diverse group because you think about it-- some came from the asset management side. Some came from the consulting side. So you've got different models. You've got, is it a one-size-fits-all, that all their clients get the same portfolio? Are you implementing customization into the portfolio? There are specific preferences, whether it be ESG or D&I or other things, that would be out there. So it's really trying to standardize and get your arms around what's the best OCIO for your specific situation.

James, going back to your prior point, with ESG and diversity and inclusion becoming more prevalent, how is the institutional advisory space adapted?

Right. Great question. And so just thinking with OCIO as the focus, we're starting to see customization with their portfolios. I would say about 90% of OCIO providers can offer a fully customized portfolio. But when considering ESG and D&I, you really want to break down that customization instead of looking at it at a high level within different asset classes. How much of a portfolio is truly has ESG, too, or maybe even diverse-owned or diverse-led managers that are implemented within it?

And so as we look forward to doing that, what companies or what OCIO providers can really help provide that transparency when doing their due diligence, or doing a survey of a current portfolio, or even having their research teams come in and provide recommendations for diverse-owned and diverse-led investment managers to be able to implement into portfolios.

And finally, James, do you see a trend in having ESG-focused or minority-led/owned investment managers only within portfolios?

I would say, in short, yes. We already have seen that adoption at the ESG level, and we currently have a couple of mandates that are ESG only. And we'll definitely continue to see that rise. Within the D&I space, I would say we definitely see that trending upward as well. We're starting to see assets grow in entities that historically may have been smaller. So the small are now becoming medium sized, and they want to be able to invest and be allocated to some of the more esoteric asset classes in which OCIO providers have access to either through a pooled option or through an SMA.

And so I would say-- and especially internally, our research team has been great-- from the diverse-owned and diverse-led making managers recommended for us. And so we hope to be able to assist the best way possible as different mandates come about in that space.

Well, Bryce, James, thank you so much for joining us. Great to have you.

Thanks for having us.

Thanks for having us.

[MUSIC PLAYING]