Case Study: A Successful Transition to an OCIO Provider: McDonogh School and TIFF Investment Management

Overview

In 2024, McDonogh School, a PK-12 independent school in Owings Mills, Maryland, successfully transitioned its endowment management to TIFF Investment Management (TIFF), an Outsourced Chief Investment Officer (OCIO). The goal of the transition was to better align the endowment portfolio with McDonogh's investment objectives and support the school's mission to provide life-altering educational experiences that inspire personal and intellectual growth.

> *"A streamlined transition process helped us facilitate a smooth shift to TIFF, strengthening our long-term strategy and ensuring financial and risk management considerations were carefully addressed," noted Sherri Voelkel, Chief Financial Officer at McDonogh School.*

Challenge

Transitioning to an OCIO is a multi-faceted endeavor requiring the well-orchestrated movement of potentially millions of dollars of investments, agreement on the strategic vision for the portfolio, and completion of many legal and administrative documents. Various groups are involved, increasing the need for coordination.

Solution

Over the course of the second half of 2024, McDonogh and TIFF successfully completed the transition utilizing project management best practices with adherence to endowment management best practices throughout the process. A summary is below:

Project Management Best Practices	
Identify Key Stakeholders and Responsibilities	School leadership, Board-Level Investment Committee, Board-Level Finance Committee, Board of Trustees, and OCIO provider (and previous advisor if relevant) involved in transition
Create a Transition Plan and Timeline	Establish and communicate a clear plan and timeframe; obtain buy-in from all stakeholders
Clear, Transparent, and Frequent Communication	Regular updates on the progress of transition and any challenges faced
Key Parts of the Transition Plan	
Strategic Asset Allocation ("SAA") Review	Assess financial circumstances, risk management and tolerance, return objective, and liquidity needs when approving new Asset Allocation
Update of Governance Documents	The Investment Policy Statement (IPS) will need to be revised and approved by appropriate parties.
Legal Documentation and Other Technical Items	Completion of AML (Anti-Money Laundering), IMA (Investment Management Agreement), POA (Power of Attorney), etc. with assistance from OCIO
Executing Transition of Portfolio Assets	Create and execute a plan to transition assets from the existing provider to the new OCIO and to implement new Asset Allocation

Project Management Best Practices

1. Identifying Key Stakeholders and Their Responsibilities

The success of any OCIO transition hinges on assembling the right stakeholders in the process and establishing their responsibilities at the beginning stages of the transition. Key stakeholders and their responsibilities in the transition include:

- **School Leadership:** Partner with the OCIO on the transition plan, executing operational and legal tasks while providing input on the school's financial circumstances.
- **Board-Level Investment Committee:** Provide guidance on and approval of the SAA and the IPS, as well as review key decisions regarding the investment strategy.
- **Board-Level Finance Committee:** Provide additional input on the school's

financial circumstances and approve the SAA and IPS.
- **The Board:** Provide final approval of the IPS and other governing documents.
- **OCIO (TIFF):** Lead and manage the transition process, designing and executing the plan to ensure alignment with the school's financial goals, risk tolerance, and return objectives. Also, provide education and clarification whenever needed.
- **Previous Advisor (if relevant):** Serve as the counterparty in transitioning assets.

The key stakeholders for McDonogh are aligned with its governance structure; however, it's important to note that each school may have its own structure, which could impact the stakeholders involved.

2. Creating the Transition Plan and Timeline

During the transition, a well-defined project framework and timeline are crucial to establish key actions items, deadlines, and responsibilities.

- **Transition Date and Interim Check Points:** A specific date or timeframe to transition the investment portfolio provides key stakeholders a unified goal to work toward, along with interim checkpoints to ensure the process remains on track.
- **Checklists:** Using checklists ensures that action items and deadlines are tracked, holding key stakeholders accountable.

3. Clear, Transparent, and Frequent Communication

Effective communication is essential to the success of a transition, ensuring transparency and alignment among key stakeholders at each stage. The project lead should establish communication protocols and regular check-ins early in the transition process to facilitate important discussions with stakeholders.

- **Project Management (OCIO and Staff – Weekly):** Prioritize the time needed for check-ins to cover operational tasks, timelines, and any roadblocks.
- **Strategic (OCIO, Investment Committee and Staff – two or three meetings):** Schedule two or three Investment Committee meetings to discuss and make decisions on asset allocation, IPS, and other key investment and governance topics. There will also likely be intermittent discussions with the Investment Committee Chairs and/or school leaders in preparation for the transition.

Key Action Items in the Transition Stage

1. Conducting a Strategic Asset Allocation Review

A critical part of the transition is ensuring the endowment portfolio aligns with long-term

financial goals and investment return objectives through the agreement on the SAA:

- **Required Target Return:** How will this portfolio maintain inflation-adjusted value after spending?
- **Risk Tolerance:** What is the school's tolerance, both the Investment Committee and the school's financial standing, for risk?
- **Liquidity Requirements:** What is the school's liquidity profile (e.g., spend, debt, emergency)?

The OCIO should also evaluate organizational factors, including:

- **Endowment Dependence:** Reliance on the endowment draw to meet the annual budget
- **Operating Profile Stability:** Stability assessment financials

SAA reviews help assess various options and trade-offs between different asset allocations, helping the stakeholders to make informed decisions that best align with the school's investment return objectives and financial circumstances.

> *Voelkel notes, "McDonogh's endowment represents our commitment to balancing exceptional educational experiences with responsible financial stewardship. The partnership with TIFF has enhanced our ability to fulfill this vital balance for current and future generations."*

2. Update Governance Documents

Internal documents, policies, and governance structures need to be revised to align with the new investment strategy and governance shift to discretionary management. The most pivotal document is the IPS**,** which outlines the school's investment objectives, asset allocation, spending policy, and risk management guidelines. McDonogh transitioned to a discretionary OCIO relationship with TIFF, featuring a portfolio including previously underutilized investment strategies. In collaboration, TIFF and McDonogh revised the IPS accordingly, which required approval from the Board-Level Investment and Finance Committees as well as the full Board.

3. Legal Documentation and Other Technical Items

There will be an influx of different agreements and documents that will need to be reviewed and agreed upon by key parties. These include:

- The Investment Management Agreement (IMA)
- "Know Your Client" / Anti-Money Laundering review

- Power of Attorney (POA)
- New fund subscription documents and account opening for brokerage firm(s)

It is prudent to include legal counsel to review and, if appropriate, comment on all new agreements.

4. Executing the Transition of Portfolio Assets

The final step is moving the assets to the new provider and implementing the agreed-upon portfolio allocation. TIFF provided McDonogh with guidance on the complicated concert of implementing a new strategy while adhering to a few key principles:

- Maintaining market exposure
- Timely processes and coordination of cash movements
- Clear timeline and dates of any redemptions and new subscriptions/investments

Conclusion

Successfully transitioning endowment management to an OCIO provider requires a strategic and collaborative approach. The process that TIFF and McDonogh executed ensured a seamless transition and enabled all stakeholders to have input into strategic decisions along the way.

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