Regarding the questions in the Required OCIO Composite Structure section:

2. Do you agree with the use of a Required OCIO Composite structure?

Yes

3. Do you agree with differentiating liability-focused composites from total return objective composites in the Required OCIO Composite structure?

Yes

4. The proposed asset allocation ranges for the Required OCIO Composites have been created based on a widely used set of OCIO indices, which is built to include the most common 60/40 portfolio in the middle of the moderate bucket. Do you agree with these ranges, or do you think we should take a different approach?

Not entirely. If the goal of these standards is to achieve fair representation, then I believe the Working Group needs to rethink the structure of Required Composites in order to minimize distortions induced by the allocation to private assets. While segmenting Required Composites based on allocation to Growth Assets holds logical appeal, the reality is that accounts within a given composite will show broad dispersion based upon their allocation to public vs. private assets.

Consider two hypothetical portfolios - one with 80%/20% allocation to private equity and cash and one with an 80%/20% allocation to public equity and cash. Both would be categorized within the "Total Return Aggressive" composite, but the latter portfolio will exhibit a much higher standard deviation by virtue of being marked to market. Also, the lagged reporting of private equity funds will lead to material performance deviations during both strong and weak periods for public equities.

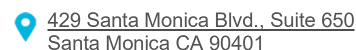
Another source of dispersion will arise from the requirement to assign portfolios to composites "based on the portfolio's target asset allocation, not the actual asset allocation weights." Consider two hypothetical portfolios that both have a 25% private equity target. One of them has a mature private portfolio that is self-sustaining, i.e., most capital calls can be funded by distributions received from prior investments. The other made its initial private equity investments within the past year. The latter portfolio will spend many years in the "J-curve," and its realized returns will not resemble in any way those of the former - even if their future commitments perfectly overlap.

David Brief, CFA
Head of OCIO & Partner
Angeles Investments

(310) 857-5834

https://www.angelesinvestments.com

dbrief@angelesinvestments.com


429 Santa Monica Blvd., Suite 650
Santa Monica CA 90401

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