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?

The asset allocation ranges outlined in the Draft Guidance effectively structure composites of OCIO mandates around risk posture, yet they overlook the critical role of illiquidity risk and the allocation to private markets in OCIO portfolios. This omission hinders prospective clients and consultants from fully understanding the impact of these allocations on composite performance. They also limit prospective clients with risk profiles or investment strategies that do not incorporate private assets from meaningfully utilizing the Required Composites as the presence of private assets affects their evaluation process. Private market investments, known for outperforming public equity allocations, are a key element in return-seeking strategies. Thus, their presence or absence significantly influences composite performance.

Consider two scenarios with two composites (A and B), each containing five portfolios and following a moderate aggressive (70/30) allocation. In both scenarios, each composite outperforms its benchmark.

1. In Composite A, all portfolios allocate 30% to private markets. Composite B has no private market allocations. Composite A's performance is likely to surpass Composite B's, as the latter's reliance on public growth assets requires exceptional performance to match Composite A.
2. In Composite A, the situation mirrors scenario 1. However, in Composite B, only three of the five portfolios allocate 30% to private markets. The remaining two have no private allocation. Despite both composites maintaining a 70/30 allocation, Composite A's consistent private market exposure significantly impacts long-term performance compared to Composite B's varied exposure.

These scenarios illustrate that private market allocations are pivotal in determining composite outcomes. Therefore, we propose refining the OCIO composite structure to segregate portfolios with private assets from those without. This distinction allows for a fairer assessment of firm performance and aids clients and consultants in selecting composites aligned with their risk, return, and liquidity preferences.

While the current guidance mandates disclosure of private allocations in composites, this falls short in providing clarity on performance impacts. Prospective clients are left to interpret returns without a clear understanding of how private allocations influence them.