

# Outsourced CIO OCIO Poised for Growth as its Influence Reverberates Across the Finance Industry<sup>1</sup>

At the end of January, the third iteration of Cerulli Associates' report<sup>2</sup> exploring the evolution of the Outsourced Chief Investment Officer (OCIO) industry was published. The study predicts that U.S. OCIO AUM<sup>3</sup> will experience a compound annual growth rate (CAGR) of 8.1% during the five-year period ended 2023, when AUM is projected to reach \$1.67 trillion.

Cerulli is calling the era "OCIO 2.0" — a time when the market is generally accepted among institutions, with its influence reverberating across the finance industry more broadly<sup>4</sup>.

The industry continues to grow, as asset owners seek OCIO partnerships to navigate increasingly challenging conditions alongside a lack of resources and a need for better risk management. As conditions become more difficult, institutional investors are asking for more from the best providers<sup>5</sup>.

At a high level, discretionary OCIO means delegating some or all decision-making responsibilities relating to the management of an institutions investment portfolio. Most institutions are looking to improve management and oversight of their day to day management to a third party under an OCIO arrangement.

Cerulli noted that OCIO model adoption was growing within most types of institutions: corporate and public defined benefit (DB) plans, endowments, foundations, sovereign wealth funds, health and hospitals, and defined contribution (DC) plans. While historically it had been used by institutions with smaller asset bases, Cerulli is seeing an increase in larger organizations retaining an OCIO provider.



**Natasha Dayaramani**  
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## Frequent Catalysts for Pursuing an Outsourcing Arrangement

Resources	Governance	Ancillary Support Services
<ul style="list-style-type: none"> <li>In-house investment staff is expensive, inexperienced or non-existent</li> </ul>	<ul style="list-style-type: none"> <li>Improve corporate governance. Fiduciary duty, transfer of investment responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>Reporting and technology</li> </ul>
	<ul style="list-style-type: none"> <li>Spend less time on investment decisions, more on strategic decisions</li> </ul>	<ul style="list-style-type: none"> <li>Custody, recordkeeper, and trading relationships</li> </ul>
	<ul style="list-style-type: none"> <li>Increase the speed of implementing investment changes.</li> </ul>	<ul style="list-style-type: none"> <li>Investor education and fundraising (nonprofits)</li> </ul>

Source: Cerulli Associates

<sup>1</sup> <https://www.institutionalinvestor.com/article/b1cxsbt20q7s8/The-Outsourced-CIO-Earthquake>

<sup>2</sup> U.S. Outsourced CIO Function 2018

<sup>3</sup> Under full or partial discretion

<sup>4</sup> Source: Institutional Investor

<sup>5</sup> 2018 Outsourced-Chief Investment Officer Survey

The investment landscape remains volatile and unpredictable with continued expectations for a low-return environment. In addition, institutions continue to face numerous challenges – stretched budgets, regulatory and accounting rule changes, demographic shifts, underfunded pension plans, fee pressure and litigation. Given the increasing pressures and time required to oversee and manage a portfolio, the use of outsourced services continues to rise.

In speaking with our sales leader for OCIO, Daniel Desmarais, about the SSGA OCIO offering, he walked me through what he believes makes our proposition unique to clients.

**Dan**—As the 7th largest provider of Global Investment Outsourcing Assets<sup>6</sup>, with a deep team of more than 150 dedicated professionals<sup>7</sup> we bring a practitioner’s perspective to our partnerships in a number of different ways. Many of our team members are experienced as in-house managers of pension assets. As such, we have a deep understanding of the practicalities of managing our client’s plans. This means we can truly partner with clients to act as an extension of staff, working with our clients’ staff to address their needs both on the investment portfolio and in supporting their trustees with fiduciary education programs. In addition, we have a breadth of highly experienced investment professionals, who understand the nuances of implementation and are able to add value by responding to changing circumstances in real time.

**Natasha**—How can the speed of implementing changes in investments improve outcomes?

**Dan**—I believe this is a subtle, but important nuance within our value proposition, especially in times of heightened volatility. Being nimble, by being able to add in a tactical position, a portfolio hedge or mitigating funded status volatility as circumstances dictate, we can add a lot of value and, as investment professionals, this is included as part of our day-to-day activity for clients.

Compared to an advisory model, this highlights that the delegated OCIO model can actually work out to be more cost effective for clients when all of the implicit costs are accounted for.

**Natasha**—As yields come down and concerns grow over broad-based asset class returns and a coming market downturn, clients continue to seek further risk mitigation. The Cerulli report noted that providers expect to increase allocations to a range of alternatives, especially privates. What is the team’s capability here?

**Dan**—Alternatives is another area where we our team has a legacy and robust capability, which we can put to work for our clients in customized form to create outcome-based solutions.

In talking to our Alternatives Portfolio Strategist, Anne-Marie Fink, on this topic, she noted ‘at a later point in the economic cycle, cash-flowing alternative investments can provide reliable income, while offering inflation protection, insulation from interest-rate increases and diversification from publically-traded securities. One of the solutions we can create for clients, for example, is a broad income-focused mandate, which allows the team to allocate dynamically among the most compelling alternative income assets at any given time, across geography and type, including core real estate, private credit, infrastructure, low beta arbitrage-strategy hedge funds and dividend-paying private equity’.

**Natasha**—It sounds like we are prepared to partner with our clients as their needs continue to expand. Our practitioner’s perspective, from an investment viewpoint and as an extension of staff, as well as being able to help them navigate the heightened volatility and lower return environment with our alternatives capabilities, puts us in a really strong market position.

**Dan**—Yes indeed! In addition to all of those, our heritage, depth of investment capabilities and scale are all great advantages.

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<sup>6</sup> As at Q1 2018

<sup>7</sup> SSGA Solutions and Alternative Investment teams

# Marketing communication

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