MERCER

Outsourced CIO (OCIO)

Survey results 2020

welcome to brighter

Executive summary

In our latest survey, Mercer sought to identify trends among institutional investors on the topic of outsourcing investment management responsibilities. Results and findings of the survey, which ran from August 1 through September 18, 2020, were based on the views and opinions of individuals responsible for the management and oversight of defined contribution plans, defined benefit plans, endowments, foundations and other institutional asset pools.

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What are institutional investors' top concerns?

Survey respondents' top concerns include reducing fiduciary risk, improving investment performance and reducing fees.

Based on survey results, the COVID-19 pandemic had no material impact on respondents' top concerns. The leading concerns before and after the height of the pandemic remain 1) reducing fiduciary risk and 2) improving investment performance. Not surprisingly, improving governance rose the most among the top concerns, as any critical market event can give fiduciaries cause to reevaluate their governance structures.

In fact, improving the oversight and governance of institutional assets is a commonly cited benefit of investment outsourcing. A growing number of institutional investors have welcomed the involvement of an outsourcing provider as a way to share fiduciary responsibility. It also allows those individuals at the organization who oversee the asset pool to focus on activities where they can add the most value, especially if investment expertise is limited or lacking in particular areas (for example, alternatives, asset allocation or ESG).

Reduce fiduciary risk

Improve investment performance

Reduce fees

Improve governance

Free up capacity of internal team

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Are more institutional investors considering outsourcing?

Of those who participated in the survey, 44% already implement a fully or partially outsourced investment solution.

Another 14% indicate that they plan to explore outsourcing within the next two years, contributing to the rise in demand for outsourced investment services.

Notably, 42% of respondents say they are not considering outsourcing investment management oversight within the next two years. The primary reasons cited include the desire to maintain internal control, the need for a better understanding of OCIO models and the lack of bandwidth to evaluate OCIO providers.

42%

of respondents are not considering outsourcing the oversight of investment managers in the next two years.

Desire to maintain internal control	32%
Need to better understand OCIO	25%
Lack of bandwidth to evaluate	13%

Defining OCIO

Rarely has a single investment concept been known by so many different names. Depending on geography and organization type, the process of outsourcing investment responsibilities may be referred to by a variety of terms, such as:

- OCIO (outsourced chief investment officer)
- Delegated investment management
- Discretionary investment management
- Fiduciary management
- Implemented consulting
- CIO in a box

Regardless of what you call it, the demand for OCIO solutions by institutional investors has been on the rise over the past two decades. Especially in uncertain markets, managing financial assets can divert resources and distract focus from more strategic organizational objectives.

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Loss of control — Perception or reality?

Losing internal control continues to be the primary reason cited by asset owners for not pursuing an OCIO solution.

However, institutions do not need to hand over full control to a third party when outsourcing. Many outsourcing models offer custom approaches, allowing an organization, board or investment committee to maintain control and decision-making responsibilities in the areas they choose while delegating other responsibilities to the OCIO provider.

It is often an exercise in change management — lines of responsibility are well-defined at the outset of the relationship but may evolve over time. OCIO providers can help a committee identify areas where they should spend their time making value-added decisions — and where it can be advantageous to delegate decisions to the OCIO provider. We outline examples of investment-related responsibilities in the table below and provide insights on the outsourcing decision.

	Client responsibility	OCIO responsibility	Insights
Investment and organizational strategy			Investment and organizational strategy is of utmost importance to the institutional investor. The board or committee should be actively involved from a strategic perspective to ensure alignment with goals and objectives. This is often done in conjunction with the OCIO.
Asset allocation			Asset allocation is another area in which the board or committee may want to retain full or partial control. Asset allocation drives performance, so it's critical that the organization understand the makeup of the portfolio. Once overall asset allocation decisions are made, the organization can delegate any allocation adjustments to the OCIO within committee-approved guidelines or ranges.
Manager selection			Asset owners may or may not have staff with the time or resources to conduct due diligence on managers and strategies. Institutions can outsource this function to the OCIO provider. Many institutions utilize a "veto" clause with the OCIO provider so that the client has 24 or 48 hours to approve or reject the OCIO's selections.
Operational execution			Operational aspects of running the investment program can be time-consuming and not value-adding for an organization. Outsourcing responsibilities such as trading/rebalancing, capital calls/wires, account paperwork, etc., can free up staff and committee time to focus on core competencies.
Administrative duties			Administrative duties can also be time-consuming and add little value. Organizations can outsource these functions to the OCIO provider.

For illustrative purposes only. All outsourced solutions are customized for each client's unique situation.

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More outsourcing on the horizon?

As the investment landscape continues to evolve, innovation of new solutions and strategies could lead to even more outsourcing.

A recent example is the SECURE Act legislation that provides for the creation of a new retirement vehicle, a pooled employer plan (PEP) — sponsored by a pooled plan provider (PPP) — in which unrelated employers may participate. This is the latest outsourcing trend within the defined contribution and individual retirement space. Many organizations show a strong desire to focus on their core competencies (that is, running the business) and not on administering a retirement or 401(k) plan.

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Is outsourcing right for my organization?

Not sure if outsourcing all or part of your organization's investment program is the right choice? Consider the elements below and which end of the spectrum you're on.

If you lack internal resources and expertise, if you have infrequent committee meetings, if you take a long time to make decisions or lack confidence in your decision-making capabilities — outsourcing might be a good fit for your organization.

Where do you fall on the spectrum?

High	Internal resources and expertise	Low
Regular	Committee meetings	Infrequent
Timely, proactive	Speed of decision-making	Delayed, missing opportunities
High	Comfort with decision making	Low

Do it myself	Help me do it	Do it for me
Internal staff	Traditional investment consulting model	Outsourced CIO

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Have questions? We're happy to help

Mercer provides investment and retirement advice and solutions to institutional clients, including endowments, foundations, hospitals and healthcare organizations, insurance, financial intermediaries and businesses of all sizes (defined benefit and defined contribution plans). If you would like to discuss ways your organization can enhance or outsource the investment program, visit www.mercer.us/ocio or contact us at:

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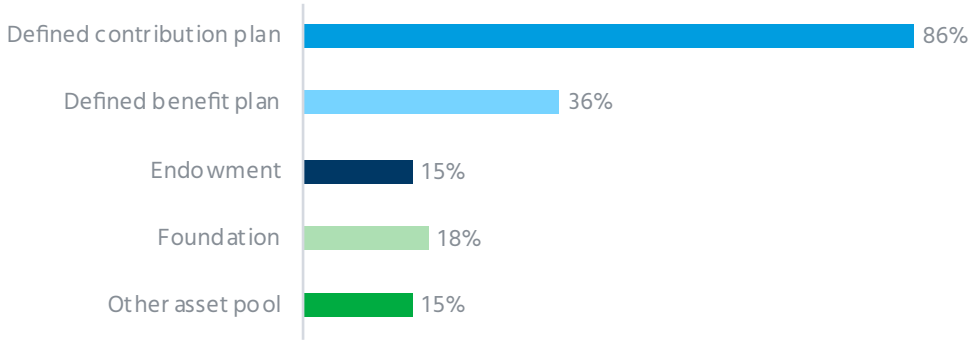
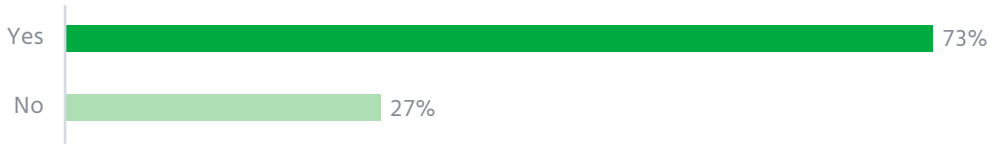
Full survey results

1. I am responsible for the following type(s) of investment or retirement plans (check all that apply):



Statistics based on 142 respondents.

2. Do you currently outsource day-to-day investment and retirement plan resources?



Statistics based on 142 respondents.

2a. Please check all that apply.

Statistics based on 142 respondents.

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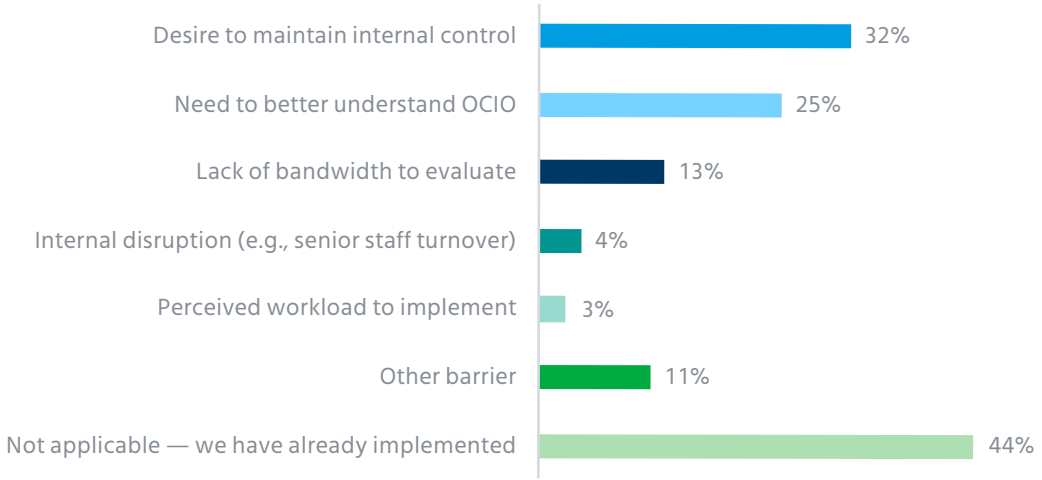
3. Within the next two years, are you considering a partially or fully delegated approach to oversee investment managers?

We have already implemented a fully delegated OCIO solution	25%
We have already implemented a partially delegated OCIO solution	19%
Yes, we are exploring a partially delegated OCIO solution in the next two years	10%
Yes, we are exploring a fully delegated OCIO solution in the next two years	4%
We are not considering investment management outsourcing within the next two years	42%

Statistics based on 142 respondents.

4. If you have not yet implemented a delegated approach, what have been the barriers? (Check all that apply.)



Statistics based on 142 respondents.

5. Please rank from 1-5 your top concerns related to management of your investment and/or retirement plans before COVID-19 versus now, with 1 being most important and 5 being least important.

Ranked the following as the #1 concern	Before COVID-19	Current environment
Reducing fiduciary risk	33%	35%
Improving investment performance	32%	33%
Reducing fees	19%	18%
Improving governance	14%	17%
Freeing up capacity/bandwidth of the internal team	14%	14%

Statistics based on 142 respondents.

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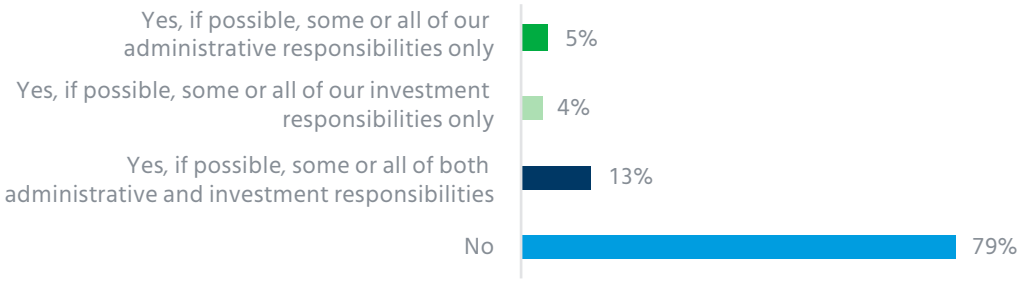
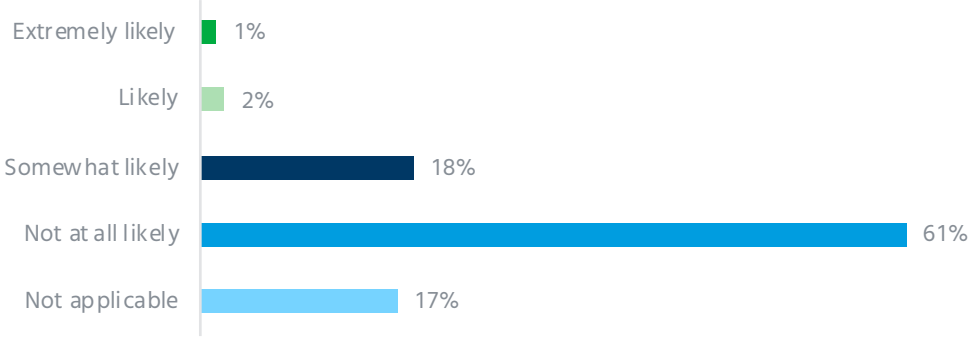
6. Given challenges experienced by employers and employees, are you considering more outsourcing of your retirement plan management?



Statistics based on 142 respondents.

7. With the passing of the SECURE Act, more employers may now join a pooled employer defined contribution plan to increase efficiency, reduce risks and potentially create better outcomes for participants. How likely is it that your organization would consider taking advantage of a pooled employer plan in the future?



Statistics based on 141 respondents.

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