



Outsourced CIO

Strategy. Implementation. Execution.

Prepared by Aon Hewitt
Retirement & Investment

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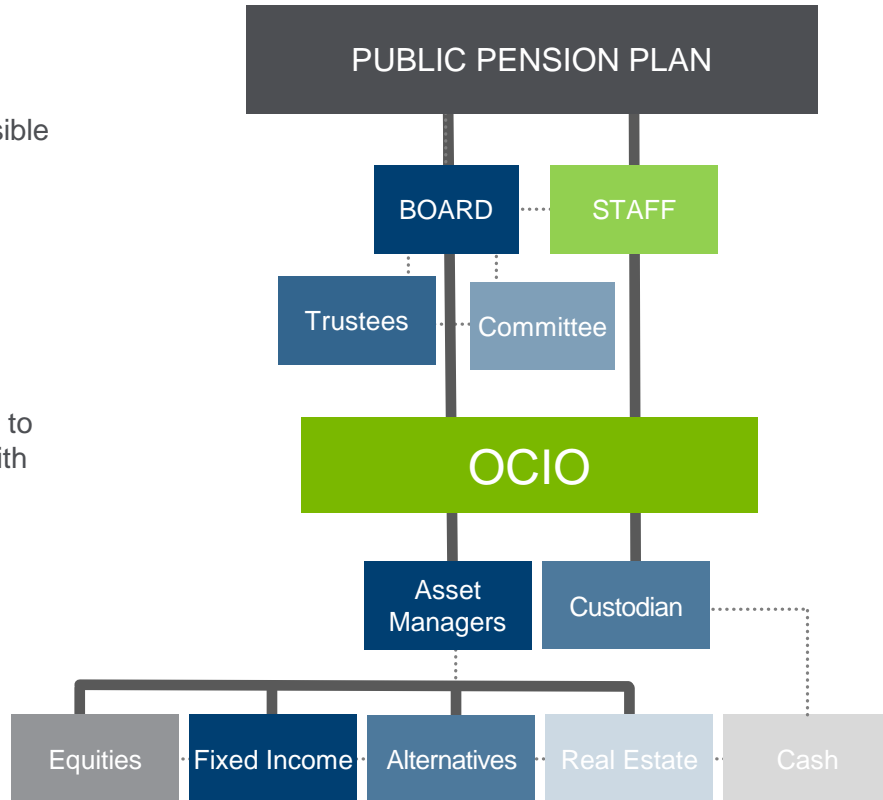
The OCIO Role



A Chief Investment Officer is responsible for managing a company/institutions investment portfolio.



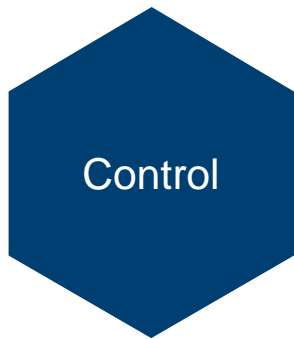
A financial service provider delegated to oversee investment responsibilities with full or mutually agreed upon partial discretion.



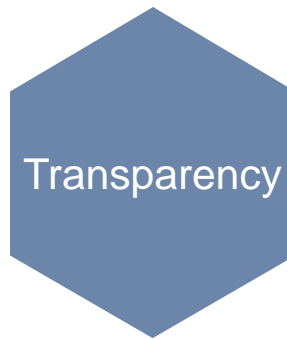
Barriers to Entry

Why are Public Funds concerned with the delegated approach?

Common Public Fund Barriers



Will we lose control?



How do we know what is happening with our assets?



Who is accountable for performance, execution, oversight, and headline risk?



Will we retain our preferred vendors, job, etc.

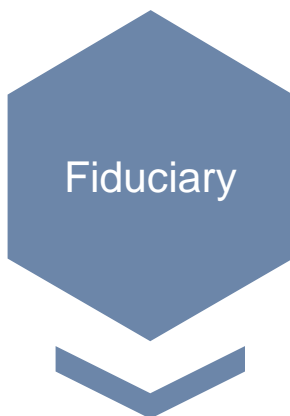
Delegated Public Sector: Solution

Why might Delegated (OCIO) be an Attractive Solution for Public Funds?

Constrained resources and funding shortages impact public pension fund's ability to meet short term and long term investment and retirement objectives.



- Scalability
- Allocation of staff time
- Daily monitoring + Efficient & timely investment decisions
- Single point of contact



- Delegated accountability
- Investment Policy strategy development & oversight
- Clear lines of responsibility
- Plan Size – Smaller plan less nimble
- Regulatory awareness & oversight



- Access to strong investments at prices reserved for large asset pools
- Fees independent of implementation
- Decrease reliance on current investment returns to pay current retirement needs, while sacrificing ability to meet long term obligations



- Headline Risk
- Impact of inexperienced or inappropriately managed investments

OCIO Utilization by Institution Type



NEED BY INSTITUTION TYPE

- Corp DB:** Risk Management Execution
- DC:** Risk Management Tools to Improve Outcomes
- E/F/HC/NP:** Alternatives Complexity Requires Expert Execution
- Public DB:** Return Challenges Require Innovation of Experts

RANKING¹

ORGANIZATION TYPE

Corporate pension	36% (+2%)	
Public pension	21% (+21%)	
E&F/Nonprofit	25% (+67%)	
Health Care	7% (n/a)	
401(k), 403(b) or 457 DC plan	15% (n/a)	
Other	13% (+43%)	

¹ OCIO Buyers Guide, February 2016

Why Outsource



Markets Increased volatility and investment innovation

Turnover Retirement or Turnover of Internal Investment Leaders

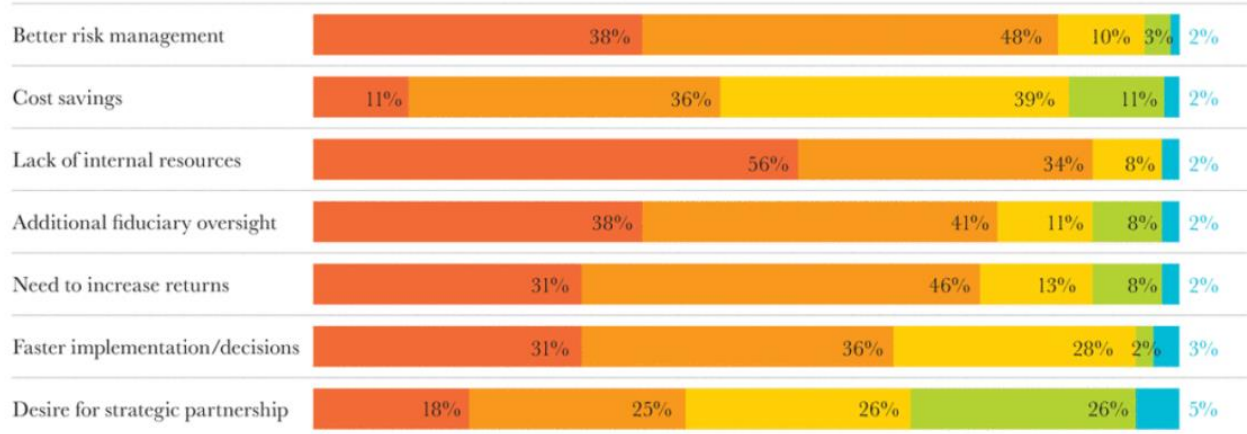
Regulation Increasing Requirements of Fiduciaries

Expertise Align Investment Decision Rights with Specialized Professionals



Reasons for Outsourcing

■ Critical ■ Important ■ Not very important ■ Not at all important ■ Not applicable



¹ OCIO Buyers Guide, February 2016

Why Outsource: Market Response

- ▶ Discretionary assets have grown by 860% while the number of investors choosing to outsource some or all of their portfolio has increased by 2,189%, since the financial crisis¹
- ▶ 70% of OCIO Survey respondents have granted full discretion versus 39% the prior year²



1/3 of public funds cited a need for increased returns as their critical reason for outsourcing²



Investors expressed difficulty staying abreast of new investment strategies at the current rapid pace of change and innovation.

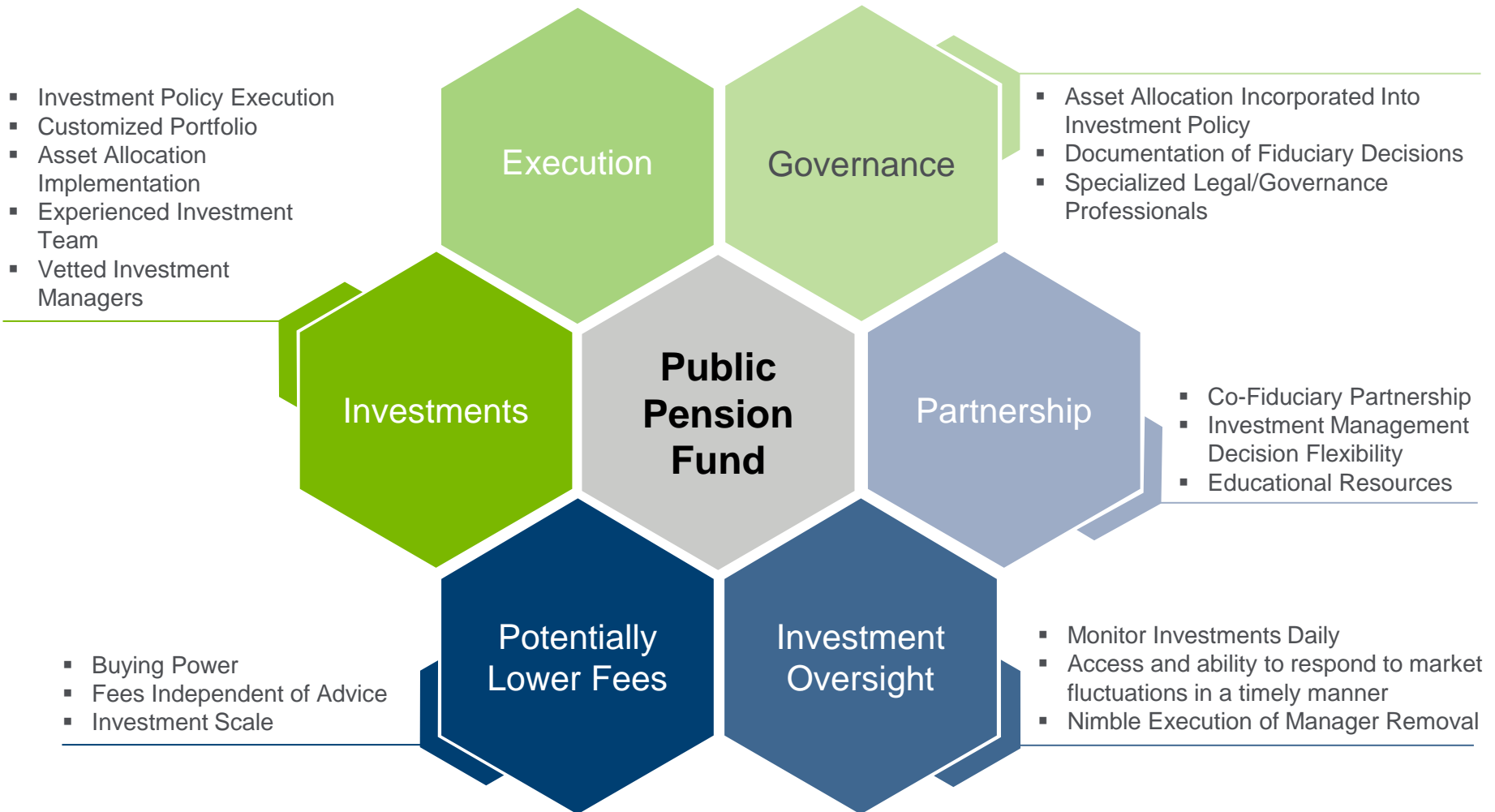


Investors expressed interest in enhancing the sophistication of their investment program.

¹ OCIO Buyers Guide, February 2016

² 188 respondents, OCIO Buyers Guide, February 2016

OCIO: Public Pension Fund Partnership



Client & Delegated Investment Management Roles

Client Name	Allocation of Responsibility	
	Client	Delegated Investment Management
Strategy		Shared
Asset Allocation		Shared
Investment Policy		Shared
Portfolio Implementation	Can Be Delegated →	✓
Portfolio Operations	Can Be Delegated →	✓
Investment Manager Selections and Termination	Can Be Delegated →	✓
Monitoring / Reporting	Can Be Delegated →	✓
Rebalancing	Can Be Delegated →	✓

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