



Building a better working world

## Pension OCIO performance assessment

**Our purpose:** to support the functioning of the outsourced chief investment officer (OCIO) market by driving transparency from providers and providing an educational platform for plan fiduciaries.

**Our philosophy:** provide objective advice by not offering competing OCIO or investment consulting services.

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Accountability is key to a successful long-term partnership with your OCIO. As such, it is important to consider an OCIO's performance relative to the investment objectives that have been set for them.

**Christine Wilson**  
Principal  
Ernst & Young LLP

### Background

Under ERISA, pension plan fiduciaries are required to make decisions in the best interest of their plan participants and beneficiaries. For plan sponsors that have chosen to delegate investment strategy and execution to an OCIO, it is imperative that your role of plan fiduciary remains top of mind.

Through ongoing monitoring of your OCIO's investment performance and fee competitiveness, plan sponsors can demonstrate they're upholding their responsibilities as a plan fiduciary while benefitting from the specialist investment knowledge and economies of scale that are provided by an OCIO.

**>\$35m+**

In annual fees savings experienced by our global clients over the last three years

**35+**

Number of global clients that utilize EY ongoing OCIO monitoring services

**1,600+**

Hours spent on OCIO research in the last year

### Opportunity

As a plan sponsor, getting an objective evaluation of your OCIO's performance can help you get the most out of your OCIO relationship. In addition to providing a detailed assessment of how your OCIO has performed relative to other OCIO providers in the market, EY assesses the structure and level of fees payable under your OCIO arrangement and provides commentary on how total fees paid compare to others in the market. Through our fee insights, our clients have been able to negotiate more competitive fees with the OCIOs, leading to better net investment performance.

Establishing a framework that monitors investment performance, fee competitiveness and quality of service drives accountability in the partnership, increasing the likelihood of a long-term relationship that avoids the cost to re-tender and potentially transition the portfolio to another OCIO.

## Why EY?

As an objective third party, Ernst & Young LLP has access to detailed investment experience and risk strategies from the major OCIO providers. Our research focuses on three key pillars that feed into the insights provided to our clients:

1

Market research and thought leadership to help improve clarity and transparency in the market

2

Regular meetings with OCIO providers, building in-depth understanding of their offering, including investment philosophy, end-game capabilities, manager selection, operational due diligence, etc.

3

Research data collected from each OCIO, allowing us to benchmark client's performance against the wider market and offer insights

This research underpins our services and enables us to provide plan sponsors with an objective evaluation of their OCIO's performance, an opportunity to understand how market capabilities have evolved and what a market competitive fee looks like.

## Our approach

We believe there are five key areas that need to be covered to form a view as to whether your OCIO has performed in line with your expectations and delivered value for money.

<p><b>1. Investment performance</b> – How has your OCIO performed relative to the investment objective/benchmark and relative to other OCIO's return-seeking portfolios?</p>	<p><b>Our approach:</b> We collect market data on OCIO performance and provide perspectives on how the return-seeking portfolios compare with the performance achieved by other OCIO providers.</p>
<p><b>2. Value added through delegated authority</b> – Has your OCIO added value using their delegated authority via their dynamic asset allocation decisions? What about via their investment manager selection decisions?</p>	<p><b>Our approach:</b> Our understanding of the asset management and the OCIO market allows us to draw comparisons between the performance achieved and help you understand the true value add (alpha) generated by your OCIO.</p>
<p><b>3. Risk management</b> – How diversified are the contributors to the return-seeking portfolio's investment return? What other risk management techniques have been used to protect your portfolio? How effective has the liability hedging been?</p>	<p><b>Our approach:</b> We assess the effectiveness of the risk management toolkit used by your OCIO, drawing on our insights of what we are seeing across the wider market. We comment on and rationalize the diversification within the portfolio and test how closely the liability hedge has tracked its benchmark.</p>
<p><b>4. Fee competitiveness</b> – How do the fees paid to your OCIO compare to what we are currently seeing across the OCIO market?</p>	<p><b>Our approach:</b> We use the fee data collected as part of our market fee surveys and live selections, which we have been conducting since 2013. We assess the appropriateness of the various fee components payable in the context of wider market developments.</p>
<p><b>5. Quality of service provided</b> – How does the quality of advice and reporting delivered by your OCIO compare with the wider OCIO market?</p>	

## Is it time to change your OCIO provider?

Changing OCIO providers can be challenging, especially a provider that has partnered with you through your pension investment governance evolution. EY works closely with providers to answer the key questions fiduciaries should be asking. Where there are gaps in performance, service quality or fees, improvement opportunities can be explored to maintain a successful partnership, while fulfilling your fiduciary duties, avoiding undue expenses of an RFP and potential transaction costs. In some circumstances, a fiduciary body may decide to consider new providers and, in that case, these evaluations serve as important documentation from a fiduciary perspective, supporting the effort and associated transaction costs.

Ultimately, a fiduciary body may decide that it is time to test the market to consider alternative OCIO providers. Changing OCIO providers is a fiduciary decision that should be carried out with prudence – our team has significant experience supporting fiduciary bodies in OCIO (re) tender exercises where our in-depth knowledge of the market and diverse team of professionals provide for a high-quality process.

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With so much investment complexity, objective advice based on extensive research can help fiduciaries make their decisions with confidence.

**Adam Berk,**

Principal, Ernst & Young LLP

## Ernst & Young LLP contacts

Please contact us if you would like to know more on how we can support you in your OCIO monitoring ambitions.



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