

# Worldwide Employee Benefits Network

DB and DC OCIO Discussion

November 15, 2023

# Introduction - Definition of two governance models

There are also hybrid models

## Advisory Model

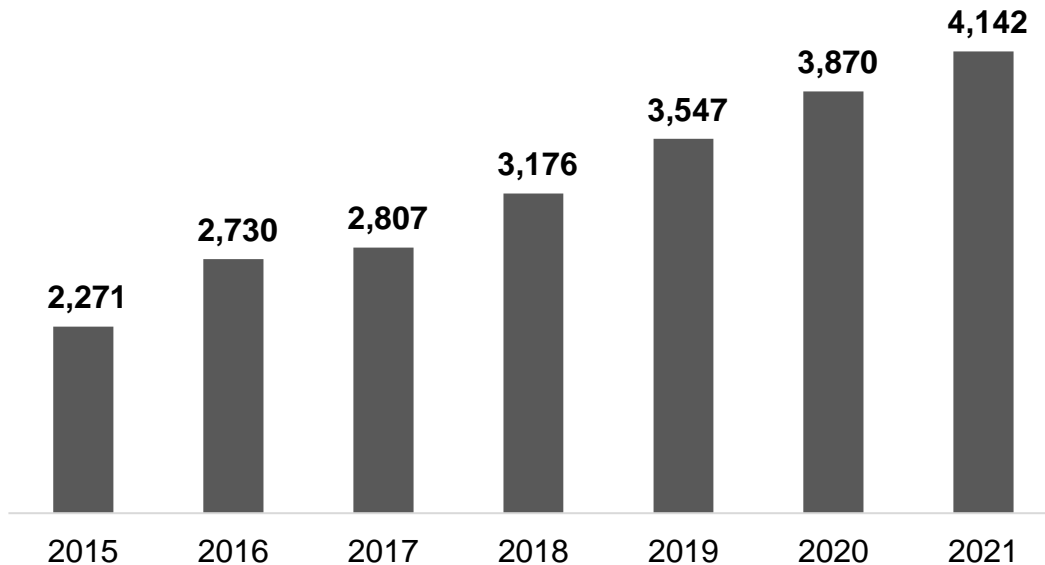
- Also called ERISA 3(21)
- A paid professional who provides investment recommendations to the plan sponsor/trustee
- The plan sponsor/trustee retains ultimate decision-making authority for the investments
- Operational responsibilities remain with the plan sponsor

## OCIO Model

- Also called ERISA 3(38), Delegated, Fiduciary Management
- Committee owns strategy decisions
- Given full discretionary authority and control to make the actual investment decisions (within agreed bounds)
- May select, monitor, remove and replace the investments of the plan
- Includes significant operational support

# OCIO has been a trend for institutional investors

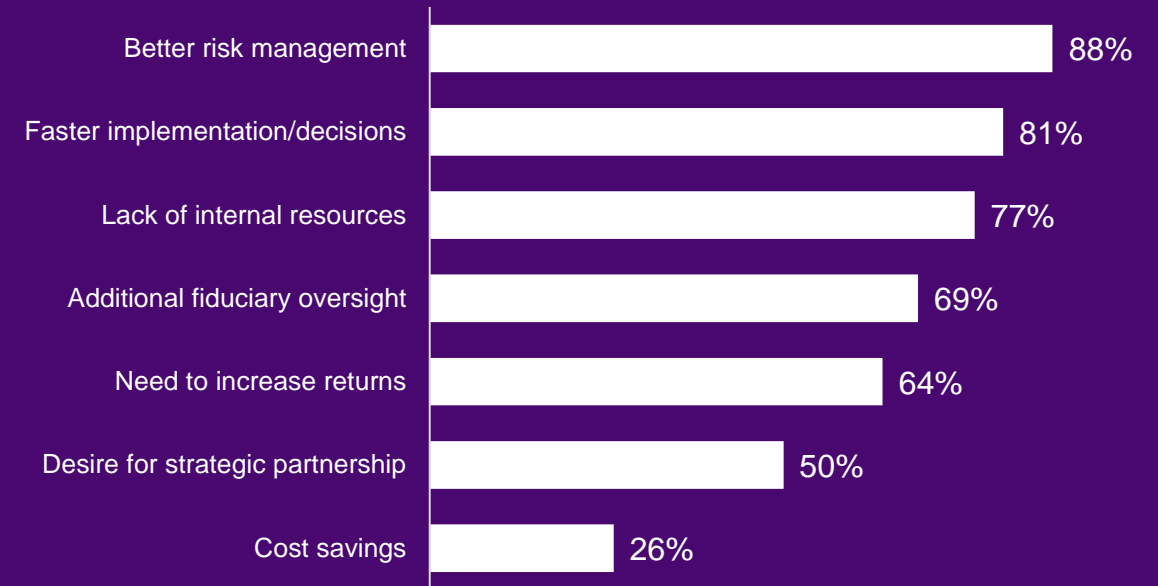
Number of OCIO clients among largest OCIOs



The number of asset owners using an OCIO has nearly doubled over 6 years through 2021<sup>1</sup>

Sponsors are utilizing OCIOs for many reasons<sup>2</sup>

Percent of very important or important factors listed by asset owners who utilize OCIOs



<sup>1</sup>Source: Pensions & Investments: "OCIO growth assisted by volatile times". Figures as of March 31 each year. Number of OCIO clients compares global client count for all OCIO providers with \$50B+ in AUM as of 03/31/2022 who report complete data.

<sup>2</sup>Source: ai-CIO, 2023 Outsourced-Chief Investment Officer Survey, Survey conducted from April 19, 2023 through May 23, 2023 with 57 participants.

# Defined Benefit Plans

## Allocation of responsibilities under different models

		Advisory 3(21)	OCIO 3(38)	
		Plan Sponsor responsibility with Consultant support	Plan Sponsor responsibility with Consultant support	Consultant responsibility
Strategy	Investment goals and objectives	✓	✓	
	Asset allocation, funding and risk management strategy, including ALM	✓	✓	
	Coordination of investments with other DB plan strategies and actions	✓	✓	
Portfolio management	Portfolio construction and asset allocation	✓		✓
	Risk factor exposure	✓		✓
	Manager search and selection	✓		✓
	Product vehicle selection	✓		✓
Operations	Manager contracting, guidelines, fee negotiations and transitions	✓		✓
	Rebalancing, liquidity management, payment instructions	✓		✓
	Liaison to investment managers, custodian, reporting reconciliation, etc.	✓		✓
	Audit and regulatory support	✓		✓
Monitoring	Monitor/maintain the investment policy statement	✓	✓	
	Plan performance and Consultant review	✓	✓	
	Monitoring of the glide path (if applicable)	✓		✓
	Investment Committee meetings, reporting and education	✓		✓

# Defined Contribution Plans

## Allocation of responsibilities under different models

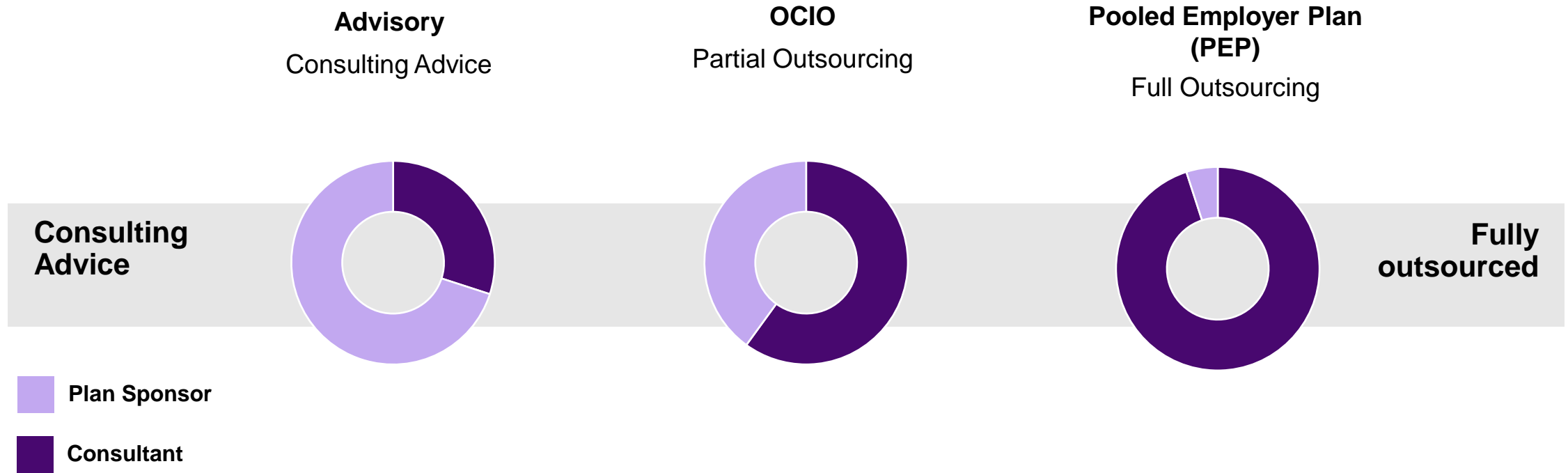
		Advisory 3(21)	OCIO 3(38)	
		Plan Sponsor responsibility with Consultant support	Plan Sponsor responsibility with Consultant support	Consultant responsibility
Strategy	Establish plan objectives	✓	✓	
	Set plan design and engagement/communication strategy	✓	✓	
	Approve appropriate investment structure and policy	✓	✓	
Portfolio Management, Implementation & Operations	Investment manager and vehicle selection, fee negotiations and portfolio transition management	✓		✓
	Select QDIA based on IPS guidelines	✓		✓
	Develop operational logistics and documentation, including coordination of plan expense payments and related controls	✓		✓
	Day-to-day administration of investment program working with recordkeeper, managers, and trustee	✓		✓
Monitoring	Monitor/maintain the investment policy statement	✓	✓	
	Progress against plan goals and objectives, including participant behavior, retirement readiness and plan effectiveness	✓	✓	
	Other services and related fees, including recordkeeping fees	✓	✓	
	Investment manager performance, including reporting to committee	✓		✓
Governance & Regulatory Support	Investment committee reporting and education	✓		✓
	Audit and regulatory assistance	✓		✓
	Legislative updates	✓		✓

# Comparison of OCIO model for DB and DC

Value of the potential benefits differ

	Defined Benefit	Defined Contribution
3(38) Fiduciary Role	Yes	Yes, value can be significant due to DC litigation
Portfolio construction	Significant	Moderate
Ongoing portfolio management	Significant	Moderate
Manager selection	Benefits the company	Benefits the participants
Manager contracting and guidelines	Yes	Yes
Fees	Savings ultimately benefit the company	Savings benefit the participants
Time savings	Yes	Yes, especially when lineup changes are needed

# PEP - an emerging option for DC plans



# View of the OCIO landscape

	Consulting Firms	Investment Advisors	Manager of Managers	Asset Managers
Example Firms	<ul style="list-style-type: none"> <li>▪ Aon</li> <li>▪ Mercer</li> <li>▪ WTW</li> </ul>	<ul style="list-style-type: none"> <li>▪ NEPC</li> <li>▪ Morgan Stanley/Greystone</li> <li>▪ Cambridge</li> <li>▪ CAPTRUST</li> </ul>	<ul style="list-style-type: none"> <li>▪ Russell</li> <li>▪ SEI</li> </ul>	<ul style="list-style-type: none"> <li>▪ BlackRock</li> <li>▪ BNY Mellon</li> <li>▪ Goldman Sachs</li> <li>▪ SSgA</li> <li>▪ Vanguard</li> </ul>
Potential Advantages	<ul style="list-style-type: none"> <li>▪ Transparent fees and objectivity</li> <li>▪ Actuarial experience allows for integrated plan management</li> <li>▪ Single point of contact for investment and actuarial services</li> </ul>	<ul style="list-style-type: none"> <li>▪ Specific areas of expertise</li> <li>▪ Strong individuals</li> <li>▪ Flexible service models</li> </ul>	<ul style="list-style-type: none"> <li>▪ Potential to bundle with trust &amp; custody and/or transition management services</li> <li>▪ Fund of funds model may be more appropriate for smaller plans</li> </ul>	<ul style="list-style-type: none"> <li>▪ Familiar name-brand</li> <li>▪ Potential to bundle with trust &amp; custody and investment management</li> <li>▪ Trading experience</li> </ul>
Potential Disadvantages	<ul style="list-style-type: none"> <li>▪ Lack of investment name-brand</li> <li>▪ Reliance on third party managers for trading</li> </ul>	<ul style="list-style-type: none"> <li>▪ Actuarial / liability expertise</li> <li>▪ More limited resources and scale in some cases</li> </ul>	<ul style="list-style-type: none"> <li>▪ Actuarial / liability expertise</li> <li>▪ May earn fees from investment vehicles, trading</li> <li>▪ Transfer of fiduciary duties from committee may be more limited</li> </ul>	<ul style="list-style-type: none"> <li>▪ Potential conflicts and/or lack of independent oversight when using their own products</li> <li>▪ May earn fees from investment vehicles/trading</li> <li>▪ Transfer of fiduciary duties from committee may be more limited</li> </ul>



# Managing conflicts

Questions and issues to consider when selecting an OCIO

**Fee transparency**

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**Independence and objective fiduciary for strategy advice**

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**Independence and fiduciary role for manager decisions**

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**Additional sources of revenue / services**

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**Incentives when selecting managers**

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