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OCIO Assets on Pace to Exceed $4T by 2026: Study

Chestnut Advisory Group estimates OCIO assets growing at a steady rate in the next five years.

By Justin Mitchell

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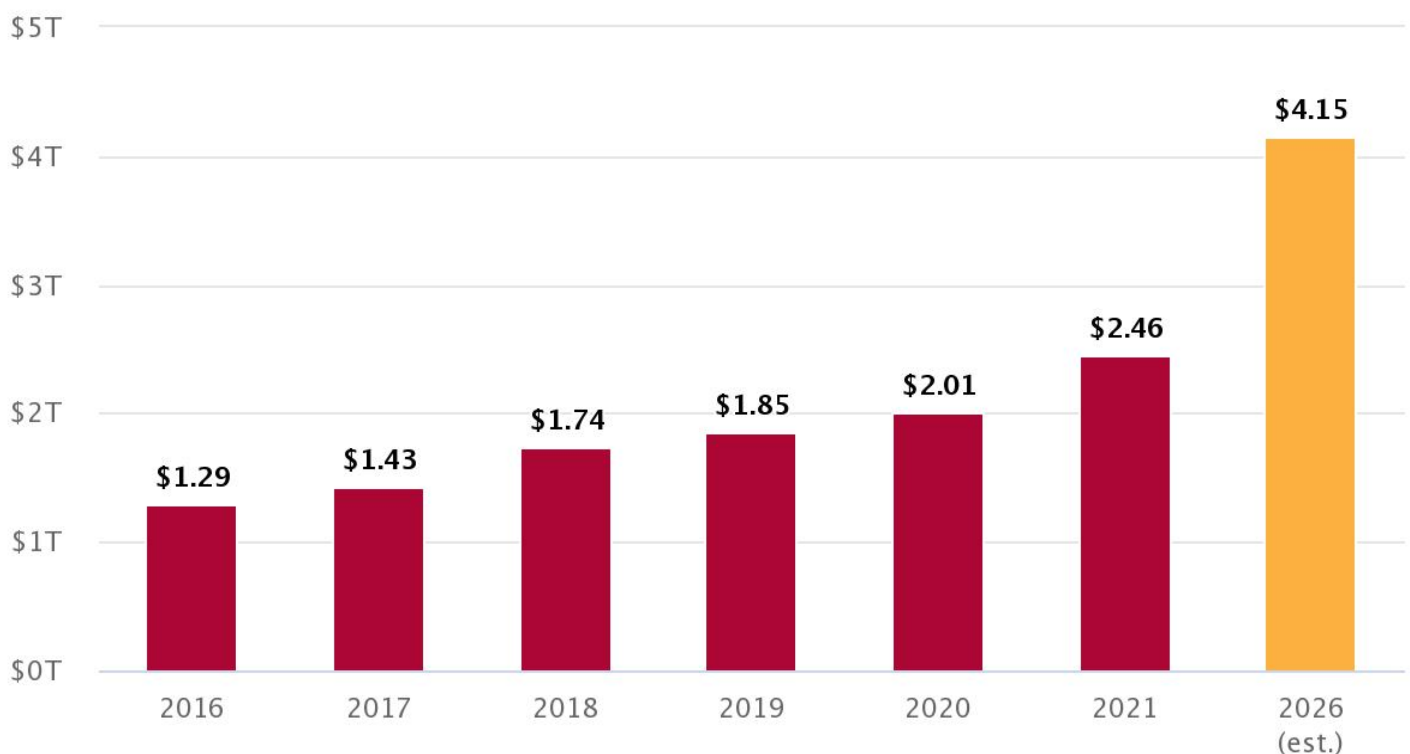
The market for outsourced chief investment officers, or OCIOs, is set to expand unabated in the next several years to exceed the $4 trillion mark, according to new research from Chestnut Advisory Group.

Global OCIO assets under advisement, or AUA, were at an estimated $2.46 trillion in 2021, according to Pensions & Investments' yearly study of the OCIO space. Chestnut projects that by 2026, that will have increased to $4.15 trillion, a 69% increase.

Sixty-eight percent of OCIO respondents to a Chestnut Advisory survey expected OCIO growth to increase over the next two years.



“Our forecast sounds really big and ambitious, but … our assumptions are actually pretty modest,” said **Amanda Tepper**, chief executive officer of Chestnut, a growth strategy consultant dedicated to asset managers and OCIOs, during a Nov.18 webinar.

AUA in the OCIO space has grown at an 11.3% compounded annual growth rate since 2016, Tepper explained, and this forecast implies only an 11% annual rate. What is more, last year AUA grew at an over 20% rate.

Moreover, signs are abundant that interest in OCIOs is as strong as it has ever been across the institutional investment space, according to a panel discussion co-hosted Thursday by Chestnut Advisory and Pensions & Investments.

The coronavirus pandemic has accelerated three key underlying trends that were driving strong growth in the OCIO sector before the crisis hit: increased investment complexity, improved transparency, and the ease of hiring an OCIO.

Traditionally, investment committees meet about four times a year to consider asset allocation changes. This approach was “massively challenged” by the incredible market volatility that occurred when the pandemic hit, Tepper said. One OCIO called this a “stress test for traditional governance,” she added.

“If you didn’t rebalance early on, you got pummeled, and if you did rebalance, you did pretty well,” she said.

Panelist **Brad Alford**, founder of Alpha Capital Management, a search consultant that works primarily with foundations and endowments, said his firm saw an “uptick” in interest in early 2020 as a consequence of the volatility.

“Actually, Covid really scared a lot of these committees [who] saw their portfolios get hit pretty hard in the first half of 2020,” he said.

For the most part, Alford said, the interest in OCIOs is coming from smaller endowments and foundations, while those with $500 million in assets or above tend to be less interested. Smaller institutions “want to have their fingers on the market more,” and believe OCIOs are better equipped to help them in this regard, Alford said.

As FundFire has reported, foundations and endowments appear especially “ripe” for OCIO services. But, the panel also saw increased interest from other institutional investors, including defined benefit pensions, defined contribution pensions and corporate pensions. Notably, British Airways recently hired BlackRock to run its corporate pension, according to sister publication Ignites, citing increased investment complexity as one of the reasons.

Beyond fears fostered by market volatility, another major factor driving the decision to hire OCIOs is help with governance. Indeed, 75% of respondents to the Chestnut survey selected governance in their top two concerns.

Governance was a concern even before the pandemic, **Samantha Davidson**, head of Mercer's OCIO business in the U.S., said during the panel. These governance issues include fee optimization, risk reduction, improving performance and creating more time for boards to focus on other issues, she said.

More immediately, several other catalysts are driving an increased push right now, Davidson said. One of them is market volatility, but another is the so-called "great resignation," wherein a great deal of companies and institutions are experiencing turnover as people move on to different positions or exit the workforce altogether.

"Those kinds of investment leadership transitions also are a frequent catalyst for looking [at] and re-evaluating your governance approach," Davidson said.

Davidson also pointed to innovation and mission alignment, including environmental, social and governance investing, diversity and inclusion and regulatory concerns, as other drivers of OCIO adoption.

The wide array of options offered in the current OCIO market and competitive fees, is also driving repeat business, Alford said. Beyond that, many institutions are looking at where the market has been and where it is going, and think perhaps they need some help.

"We've done searches for all kinds of different [investment] committees, and the feeling from a lot is that the last 10 years have been pretty easy," Alford said. "It's been a raging bull market for almost 12 years, and things are going to be much more complex going forward."

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