

## Market Musings 05/26

For Professional Investors only

# OCIO momentum builds as large schemes seek bespoke oversight

Large schemes, growing complexity

The UK's largest defined benefit pension schemes are often assumed to represent the gold standard in governance. Led by experienced trustees and supported by advisers, in-house teams and external experts, they have developed robust processes in line with the scale of assets they oversee.

But when it comes to investment decision-making, scale has not guaranteed better outcomes.

### Delegation and decision making clarity

As with all important decisions, trustees understandably feel a strong sense of responsibility for investment decision-making. That accountability, however, is heavily reliant on professional advice. Given the technical complexity involved, it is not always clear where accountability lies when outcomes differ from expectations.

One response to this challenge has been a growing interest in OCIO models which offer a clearer distinction between oversight and execution.

**Industry analyses point to around a 21% rise in UK fiduciary/OCIO AuM between 2023 and 2024, led by multi billion pound deals among bigger schemes.**

### Separating strategy from implementation

Working with an OCIO means that advisers and trustees still work together on the long-term objective by setting a strategic asset allocation. But the OCIO is delegated to implement the strategy. This helps distinguish between the impact of the strategic decisions, which remain a trustee responsibility, and implementation decisions such as dynamic shifts, security or fund selection which are down to the OCIO.

The other advantage of moving to an OCIO is that there is no need to sweep out all the existing investments. By giving the OCIO the power to change investments, they can be kept or switched on merit. The difficulty with using a fiduciary manager approach is that most require new investors to switch en masse into their internal funds. By giving the OCIO power of attorney over their investments, the pension scheme can keep their existing arrangements in place causing little or no disruption. This can be a sensible way of delegating investment decisions. The OCIO can then provide its expert stewardship over the investments, making swift changes when necessary and ensure risks are monitored.

## Sharper accountability

Combining an OCIO using a power of attorney model with existing structures is one way schemes are seeking to strengthen investment governance. Delegating implementation to a dedicated investment team allows trustees to focus on oversight, objectives and risk while execution sits with those best placed to act quickly as conditions change.

This matters in an environment where funding positions, market volatility and asset complexity place greater demands on decision making. Investment governance is increasingly tested not on structure alone, but on its ability to support timely and accountable action.

Perhaps most importantly, clearer delegation makes it easier to understand where ownership for outcomes sits. Strategic choices remain with trustees. Implementation sits with the OCIO. For schemes reviewing how their governance operates in practice, that clarity is becoming as valuable as control itself.

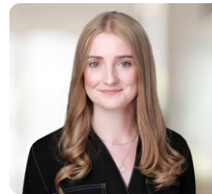
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