



OCIO and fiduciary management: what trustees need to know

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A semantics problem with real consequences

OCIO and fiduciary management are frequently used as shorthand for the same thing. That casual overlap is understandable, but it obscures an important difference that goes to the heart of investment decision-making.

It is tempting to dismiss that as semantics. Yet language matters, particularly in pensions, where labels shape expectations, governance and accountability. A background in philosophy has left me perhaps more sensitive than most to the loose use of terms in investment, especially the word 'philosophy'. Unless an investment philosophy comes with clearly defined assumptions, terminology and logically inferred conclusions, then it's not a philosophy!

How FM operates in practice

In practice, the UK model is a chain of delegation. Trustees retain ultimate responsibility, consultants shape the advice, and fiduciary managers take discretion within agreed guardrails. Confusion arises when those guardrails quietly move. Over time, what begins as implementation support can become decision making power.

The line between fiduciary management and OCIO is often blurred. Where does one end and the other begin?

“In my experience some OCIO are implementation only. Others use the OCIO label but are essentially bespoke FM and then there those with the view that vanilla FM is more of a commoditised offering through the tailoring of key building blocks.”

Michele Hirons-Wood, Capital Cranfield

What does OCIO actually replace?

To understand the distinction, it helps to start with what OCIO was originally designed to replicate.

At larger defined benefit schemes, this role was historically performed by an in house investment team. These teams were typically small, often five to fifteen people, operating within parameters set by the trustee

board. Those parameters usually related to the level of discretion the team could take around a strategic asset allocation, rather than freedom to redefine it.

The strategic asset allocation itself was commonly determined with input from an investment consultant, based on the scheme's objectives, funding position and risk tolerance. Once set, the in house team was responsible for implementing that strategy and for making active decisions to improve outcomes over time.

That activity might include dynamic asset allocation, tactical tilts or trading around positions. In many cases, the team would also be given a clear performance objective, for example to outperform the strategic benchmark by a defined margin. If the benchmark was expected to deliver gilts +2%, the task might be to add a further +1% through active implementation.

In other words, the in-house team did not own the strategic direction of the scheme. It was responsible for executing it, and for adding value within boundaries set by the trustees.

This is the role that OCIO was intended to replace.

How fiduciary management differs

Fiduciary management looks similar to OCIO on the surface, but the underlying allocation of responsibility is different. As with OCIO, trustees set the scheme's objectives, define the governance framework and agree the level of delegation. That framework is often shaped with input from a consultant. The key difference is what happens next.

In a fiduciary management arrangement, responsibility for the strategic asset allocation typically sits with the fiduciary manager. The fiduciary manager is therefore accountable not only for implementing the strategy, but for determining the structure of the strategy itself. That distinction matters. Where an OCIO operates within a strategic benchmark set by the trustees, a fiduciary manager is responsible for defining that benchmark. Active decisions about asset allocation, risk positioning and timing sit within the fiduciary mandate, rather than being constrained by a consultant defined SAA.

Consultants may still be involved, but their role changes. Rather than setting strategy, they usually provide oversight, monitoring and challenge, helping trustees assess whether the fiduciary manager is operating within the agreed parameters and delivering against objectives. In short, fiduciary management involves a deeper level of delegation. Trustees are not just outsourcing implementation. They are delegating responsibility for strategic investment decisions, and with that, a greater share of accountability for outcomes.

Why this distinction matters

This is why the OCIO versus fiduciary management debate is more than a question of labels. The two models imply different governance structures, different accountability lines and different answers to a simple question: who is responsible? That question becomes especially important as schemes mature, funding positions improve and decisions carry greater scrutiny.

The test that cuts through the labels

Much of the confusion between OCIO and fiduciary management comes from inconsistent use of terminology. In practice, there is a simple test that cuts through most of the noise. The key question is not what the service is called, or what type of organisation is providing it. The question is who is responsible for the strategic asset allocation.

If trustees retain responsibility for the SAA, even where implementation and day to day decision making are delegated, the arrangement is best described as OCIO. If responsibility for the SAA sits with the investment manager, the arrangement is fiduciary management. That distinction determines how governance works in practice, where accountability sits, and how performance should be judged. It also explains why services that look similar on the surface can imply very different levels of delegation.

The table below sets out how these responsibilities typically differ.

FM vs OCIO responsibilities

	Fiduciary management	OCIO
Sets investment objectives	Trustees, typically with consultant advice	Trustees, typically with consultant advice
Sets strategic asset allocation	Fiduciary manager	Trustees, always with consultant advice
Sets delegation rules	Trustees, typically with consultant advice	Trustees, typically with consultant advice
Provides performance reporting	Fiduciary manager or consultant	OCIO provider or consultant
Can TUPE in existing investment staff?	Maybe	Maybe
Responsible for performance	Fiduciary manager	Trustees or consultant for SAA benchmark, OCIO for relative outperformance

What matters is not the label attached to a service, but where responsibility truly sits. For trustees, clarity on that point is essential. It underpins governance, shapes accountability and provides a defensible basis for judging outcomes over time.

Clarity over labels

Debates about OCIO and fiduciary management often get stuck on labels. That is understandable, but it misses the point. What matters for trustees is clarity over responsibility, particularly for strategic decisions that shape risk, return and outcomes over time. Being precise about who owns the strategic asset allocation is not an academic exercise. It is a practical foundation for good governance, clear accountability and informed decision making as schemes move through the next stage of their journey.

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