

**Authors**

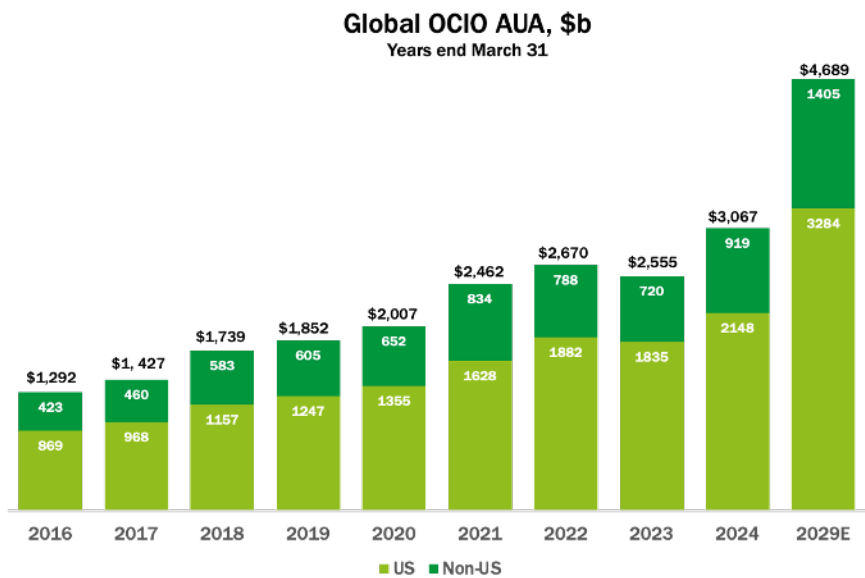
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The OCIO industry has more than doubled in the past 8 years and we expect this rapid growth to continue. Chestnut's forecast of \$4.7T in 2029 OCIO AUA implies a robust 8.9% CAGR over the next 5 years globally. Naturally, this rapid growth has attracted the attention of solutions providers of all types: specialists, consultants, asset managers and other service providers that are part of this ecosystem. In a free and mature investment industry, one can logically conclude that the OCIO business model is clearly meeting one or more important asset owner needs.

Chestnut Advisory Group is a boutique, practitioner-led management consulting firm dedicated to asset managers and investment solutions providers.

The Chestnut Solutions Institute is an independent forum for investment solutions providers and their partners, dedicated to advancing the future of the investment solutions industry.



Source: Chestnut Advisory Group and Pensions & Investments

## The Growth of OCIO: Meeting a Market Need or a Wolf in Sheep's Clothing?

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The rapid growth of OCIO has also attracted a number of commentators and critics whose views of the OCIO model range from cautionary to pessimistic:

[OCIO - The Good, the Bad and the Ugly](#)

[Why OCIO Risk is Always High](#)

[Vanguard's Former OCIO Clients Must Stand Their Ground](#)

[Slow Down, OCIOs Aren't a Cure-All](#)

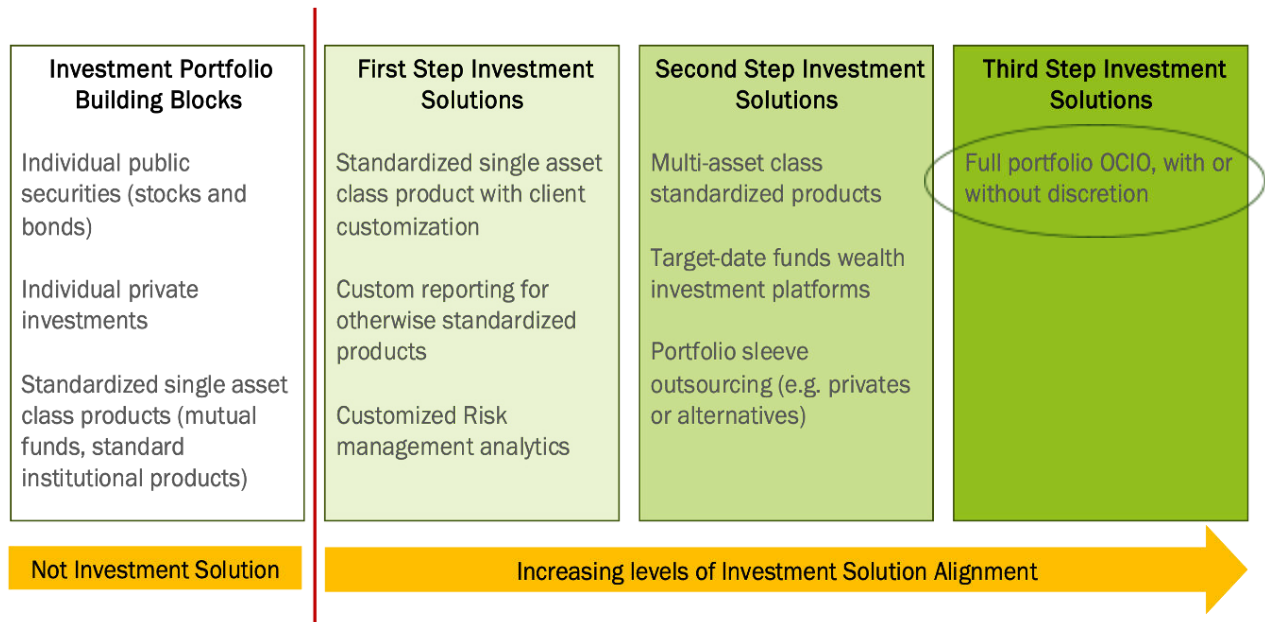
All these critics make valid points that call for care and diligence in delegation and decision making, and the latest article focuses on **what can go wrong** in an OCIO relationship, primarily through the lens of cost, conflicts and administrative challenges. Our research indicates, however, that hundreds of asset owners are moving to OCIO after carefully considering **what tends to go right** with delegation: vastly improved governance, better portfolios, enhanced risk management, improved diversification, communication, reporting and often lower cost, especially at smaller asset levels.

In this article we would like to present some research-based evidence so asset owners and institutions can form their own balanced views. But first, let's define OCIO along a continuum of investment services/solutions.

*The Chestnut Solutions Institute defines investment solutions as all investment products and services whose primary goal is to meet the specific needs of a unique investor or set of investors.*

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## A Framework to Define Investment Solutions

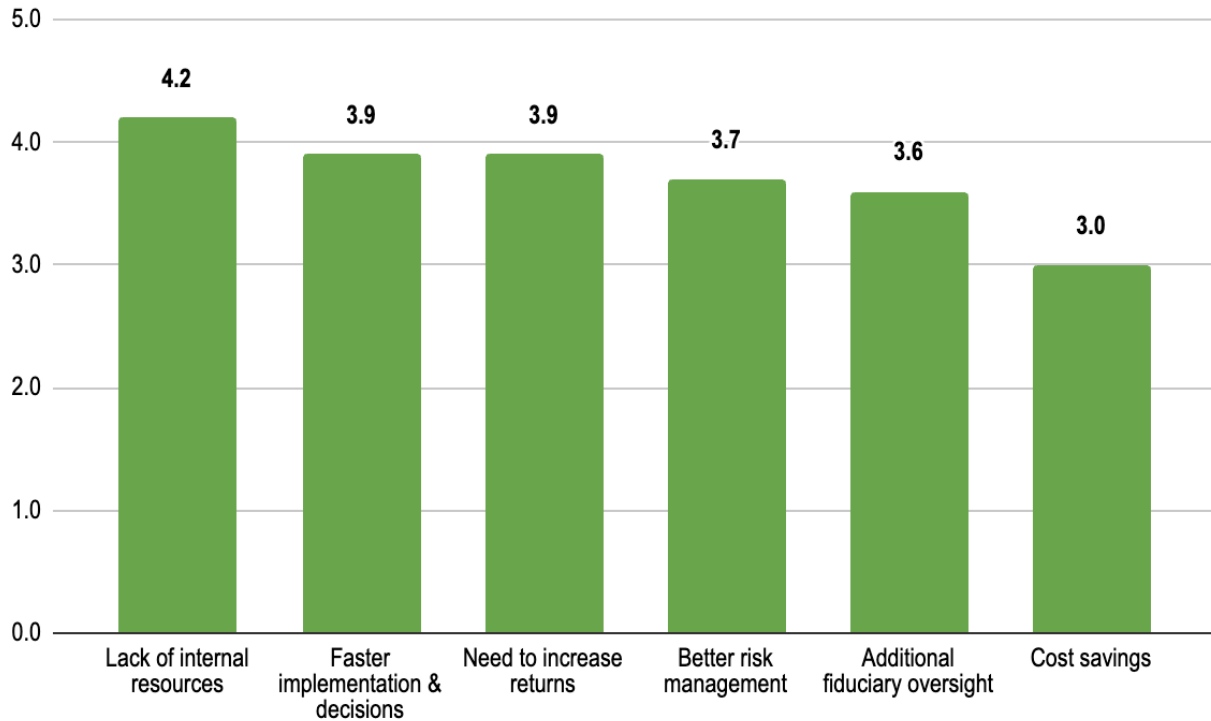


Source: Chestnut Advisory Group

From the chart above you can see that OCIO is the final stop along a continuum of investment solutions that have been utilized by investors of all types for decades and is a logical evolution of investment capabilities offered by providers. One concern about OCIO we do agree with is the assertion that fiduciary responsibility cannot be fully outsourced; we think both asset owners and providers understand that. However, the law does allow for the formal delegation of specific responsibilities, thereby potentially significantly limiting the oversight responsibilities of the asset owner to monitoring the OCIO provider, rather than every aspect of the investment process, operations and resources. For evidence, let's turn to **why** investors hire OCIOs:

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**Reasons for Hiring an OCIO**  
Ranked by Importance (Scale of 1-5)

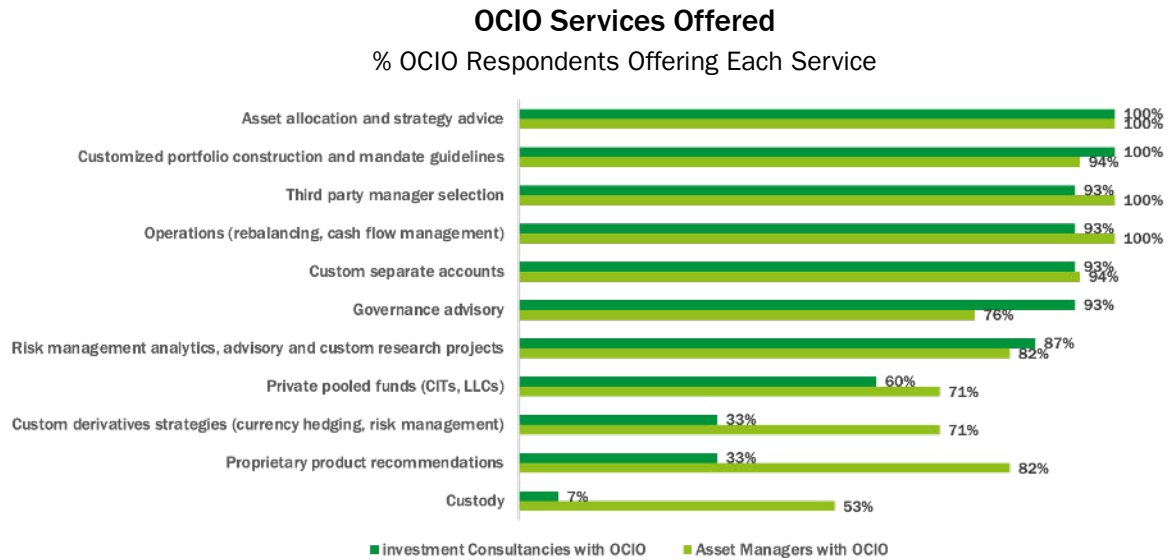


Source: CIO Magazine, 2024 investor survey

Contrary to many commonly-made assertions, cost savings is not one of the top 5 reasons investors themselves say drove their decision to hire an OCIO. Our research indicates that Investors are increasingly choosing OCIO in the expectation that an OCIO relationship can deliver a better holistic outcome as measured by each investor's specific needs.

The Chestnut Solutions Institute introduced our [Asset Owner Solutions Toolkit](#) in a recent public webinar. The toolkit includes transparent frameworks to help stakeholders evaluate the increasingly wide range of capabilities offered by OCIOs - many of which are illustrated in the chart below.

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Source: Chestnut Advisory Group

Critics' concerns about OCIOs include conflicts of interests (offering proprietary products), providers declining to utilize appropriate strategies such as LDI, and loss of control over investment policies. However, from our research, in most cases investment policy and asset allocation remain the domain of the asset owner, OCIOs typically bend over backwards to provide flexibility, and the vast majority of OCIO providers offer "open architecture" and access to a vast array of third party managers and funds. Further, those who use in-house products in their OCIO portfolios often offer steep fee discounts for those products as well as other value-add services as detailed in the chart above.

Conflicts of interest are inherent in every part of the fiduciary chain: plan sponsor, investment consultant, asset manager, OCIO search consultants, and the solutions provider. This is a fact of life and great care must be taken to understand and manage these conflicts across the board, not just with OCIOs.

As the concluding paragraph from one of the critical articles cited above so appropriately summarizes, *"...the OCIO model is not a silver bullet. All investment models have their pros and cons. And the right model today is not necessarily the right one in future. There will be future innovation in the market given the funding level improvement a number of schemes have experienced of late. What is therefore important today is having a model which is well understood, properly governed and flexible."*

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To learn more about the Chestnut Solutions Institute and Chestnut Advisory Group, please visit our website at [www.chestnutadvisory.com](http://www.chestnutadvisory.com)

## About the Authors



### **Ravi Venkataraman, CFA**

Managing Partner and co-owner of Chestnut Advisory Group

Prior to joining Chestnut, Ravi was the Global Head of Investment Solutions at MFS Investment Management, where he led a team that delivered bespoke investment advisory and consulting services to clients. His team was also responsible for investment thought leadership and education for MFS's client facing teams. He was previously responsible for global consultant relations and institutional defined contribution at MFS.

Before moving to MFS, Ravi was the President and Chief Investment Officer of Mercer Investments, having founded Mercer's OCIO business and one of the industry's earliest leaders in the fiduciary management space. Prior to creating the OCIO business, he was a Worldwide Partner and region head where he served as senior investment consultant to multinational corporate and public retirement plans, sovereign wealth funds and endowments and foundations.

Ravi holds a Masters Degree in Economics from Tufts University and is a CFA charter holder. His past Board memberships include being the Chair of MFS's Retirement Investment Committee, Chair, Steering Committee of the Active Managers Council and Chair of Generation Citizen, a non-profit organization focused on civic education in middle and high schools in Massachusetts.

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### **Amanda Tepper**

Managing Partner, founder and co-owner of Chestnut Advisory Group

Prior to founding Chestnut Amanda served as Global Director of AllianceBernstein's senior portfolio management team, a group that crafted and delivered the firm's investment insights to institutional and retail clients and consultants. Previously, Amanda developed deep experience in sell-side equity research as Associate Director of Equity Research at Bank of America and as an *Institutional Investor* All-America Team - ranked equity analyst at JPMorgan.

Before moving to the sell-side Amanda was an investment banker in JPMorgan's retail industries group. She began her investment career on a corporate bond trading desk.

Amanda holds an MBA from Wharton and a BA from Brown University. Her past Board memberships include the Investment Advisory Committee for the Endowment of the Art Students League of New York, The Global Advisory Council for 100 Women in Finance, Girls Inc. of New York, and the Andover Development Board of Phillips Academy.