

21st century investment governance for large asset owners

Recognising efficiencies, tapping into expertise, and making the best use of your limited time and resources.



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The past decade has brought profound change for asset owners of all kinds.

The regulatory, social, and economic landscapes have fundamentally shifted, and the investment universe has expanded significantly.

These changes pose major challenges to in-house teams at large asset owners including DB pension plan sponsors, insurers, sovereign wealth funds, and wealth management firms. Often the cost of keeping up with these changes can seem prohibitive – but equally, the cost of failing to keep up can be significant.

Fortunately, the investment solutions on offer to help navigate these changes have evolved significantly, too.

The new outsourcing model

The traditional model of outsourcing – whether you call it fiduciary management, implemented consulting, outsourced chief investment officer (OCIO), or investment solutions – tended to involve entire

portfolios. A typical client has most likely been an endowment or DB pension plan with \$200m-1bn of assets under management.

In recent times, however, there has been a significant shift in the investment landscape. Much larger institutions, including insurance companies and sovereign funds, are also assessing how external investment solutions can help them.

Those with \$1bn or more in assets are exploring outsourcing options, and many with \$10bn or more are also considering external offerings for at least a part of their portfolio.

Technology has transformed how outsourcing providers can interact with clients. In the past, appointing an external asset management partner meant a time-consuming and sometimes costly transition from one platform to another. Now, however, investment solution providers can simply slot into an asset owner's existing arrangement, ensuring minimal disruption.

Motivations for change

The reason for choosing an outsourcing partner will vary from client to client – but there are some key themes we have observed over the past few years.

The regulatory landscape is challenging internal teams like never before. In Europe, wide-ranging and complex legislation has placed a significant amount of investment management and reporting pressures on in-house teams. An outsourcing partner that can facilitate and streamline these and other reporting needs can save valuable time and resources.

Many corporate DB plans are considering their 'end game' strategy – usually, but not always, an insurance buyout. As this gets closer, maintaining an internal investment team may become less of a priority. An outsourcing partner can help a pension plan reach buyout in a more efficient way, while also helping prepare for the transition.

Meanwhile, wealth management has transformed in recent years. The focus of wealth managers now goes far beyond achieving the best returns for clients' investment portfolios. Instead, firms are far more holistic in their offerings. Clients want help with all aspects of their financial lives – real estate, insurance – so outsourcing investment management can free up this

resource for wealth managers.

Outsourcing can help multi-national companies with pension arrangements across multiple geographies, too. An external partner can provide a way of efficiently adapting investment portfolios for local or regional requirements, with the benefit of local expertise, whilst keeping consistent and efficient global framework. At the same time, a well-resourced partner can provide a top-down cohesive view and approach to risk management, complemented by economies of scale, cutting-edge risk management systems and tools.

The search for alternatives

In the last 10 years, institutional investors' allocations to alternatives have exploded – and their appetite shows no signs of abating. Assets under management in private markets could hit \$15trn by the end of 2025, according to PwC.¹

Allocations to private equity, private debt, infrastructure and real estate have been shown to improve the diversification qualities of portfolios and can boost long-term returns. However, as large institutions invest more into alternatives, strategies are becoming more complex and resource intensive. While these asset classes are increasingly becoming part of the mainstream, they remain proportionally more expensive and resource intensive than listed equity or fixed income.

As such, many large clients are choosing to outsource all or part of their alternatives portfolio to experts who can access a broader range of managers often at a more cost-effective rate. At Mercer, our Investment Solutions team are not restricted by internally-run alternatives funds, instead they use our independent global manager selection resources and significant scale to source what we believe to be the best providers, at the most appropriate cost.

Delivering a more efficient solution to clients

Although outsourcing for large clients is a relatively recent trend, this is something Mercer has been doing for over 10 years within our Investment Solutions business. Clients have been able to access our global manager selection capabilities, potential fee savings, cutting-edge analytical tools as

well as our ability to remain separate from individual manager selection decisions.

As we own the world's largest proprietary manager database, we have a unique insight into global investor trends from managers of all sizes – and even the industry itself. With research of 7,459 investment managers at our fingertips and over 5,841 ESG-rated strategies on MercerInsight^{®2}, we are well placed to help our clients identify nascent trends, risks and potential opportunities.

We have scale: with \$415bn in discretionary assets under management², we are the global market leader for full discretionary OCIO assets under management³ - our strong relationships with asset managers can secure competitive pricing, improving the cost effectiveness of an investment portfolio.

Most importantly, we are not in competition with the managers we analyse and select for client portfolios. Our analysis covers all geographies, asset classes, strategies, and styles to blend together the optimum combinations for individual client needs.

Investment Solutions are about recognising efficiencies, tapping into expertise, and making the best use of your limited time and resources.

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FOOTNOTES

1 Source: PwC, 'Prime time for private markets: The new value creation playbook', January 2021. <https://www.pwc.com/gx/en/private-equity/assets/pwc-prime-time-for-private-markets-2021.pdf>

2 Source: Mercer, as at 31 December 2021.

3 Source: 2021 Outsourced CIO Survey (ai-cio.com), for full discretionary OCIO AUM.