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OCIO Asset Growth to Outpace Broader Industry: Cerulli

By Danielle Verbrigghe February 12, 2019

The outsourced CIO (OCIO) industry is set to expand at a faster clip than the overall institutional asset management industry over the next five years, Cerulli Associates predicts. That's drawing attention from both consultants and asset managers looking to tap into that growth.

The U.S. OCIO market is set to grow at an 8.1% compound annual growth rate (CAGR) through 2023, to reach a projected $1.67 trillion in AUM, Cerulli predicts in a recent research report. That's up from around $1 trillion at the end of 2017. That growth is projected to come despite expectations for market volatility.

"This is a new business that is gaining assets from other places. Most of the inflows we're seeing into OCIO are new business and not replacement business," says Laura Levesque, senior analyst at Cerulli.

Asset managers are taking note.

"What we're seeing is more asset managers trying to figure out how to get a bigger piece of the OCIO providers' business," Levesque says. "Fourteen percent of sales in 2018 came from OCIO assets for these asset managers. That's a pretty significant amount… We expect it to continue to be an important part of their growth strategy."

Managers are hiring more individuals in distribution and client service to specifically focus on the OCIO business. Previously teams handling institutional businesses as a whole would have also covered OCIO.

Part of the growth opportunity comes from the range of institutional investors now looking to outsource. The OCIO business model took off about 15 years ago, initially focused on mid-size defined benefit and corporate plan sponsors, but has now grown based on demand from other types of institutional investors.

The OCIO clientele base has moved from mid-market defined benefit to larger plans, says Rich Joseph, U.S. business leader for Mercer's OCIO business. Now nonprofits, including endowments and foundations, are driving a lot of the new mandates. Healthcare, insurance companies and even intermediaries such as mid-size RIAs are also potential markets for growth, he adds.

"Committees are realizing that just meeting on a quarterly basis just isn't enough to meet their objectives," Joseph says. Using an OCIO can allow them to focus on bigger picture topics when they meet, he says.

There has been an evolution of the competitive environment for OCIOs, with more investment managers getting into the space, alongside traditional consultants, Joseph says. The industry has also undergone consolidation as smaller consultants that have gotten into the space determined they didn't have sufficient resources to make it on their own.

As larger combined firms can have more money to invest in OCIO capabilities and can benefit from economies of scale, smaller firms are finding it harder to compete, Cerulli wrote in the report.

"You're going to see a peak in the number of providers," says **Mike Cagnina**, v.p. and managing director of **SEI Institutional Group**, which had about $84.4 billion in OCIO AUM globally at the end of 2018.

Market conditions over the past seven years have been very favorable, making it easier for new entrants to the space to post positive results, Cagnina explains. That dynamic could shift, and there could be more contradiction.

"I think the services that people offer beyond just the investment component will become important differentiators," Cagnina says.

Another way the industry is evolving is a growing number of asset owners using search consultants to select an OCIO provider. Nearly half of OCIO providers surveyed by Cerulli said they had won at least one mandate through a search firm in 2018.

"It is important for OCIO providers to get on the radar of search consultants," Levesque says.

Four years ago, zero to 5% of SEI's OCIO mandates came via search consultants. Today that is probably closer to 40%, Cagnina says.

"What we're pleased to see is there are some OCIO search consultants that are independent and transparent," Cagnina says. "What we saw three or four years ago [was that] there were many traditional consultants who also provided OCIO searches, who were also your competitor[s]."

Mercer, which has approximately $250 billion in global OCIO assets, including nearly $100 billion in the U.S., estimates search consultants still representing less than 10% of new OCIO mandates. But that is up from roughly 1 to 2% a few years ago, Joseph says.

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