

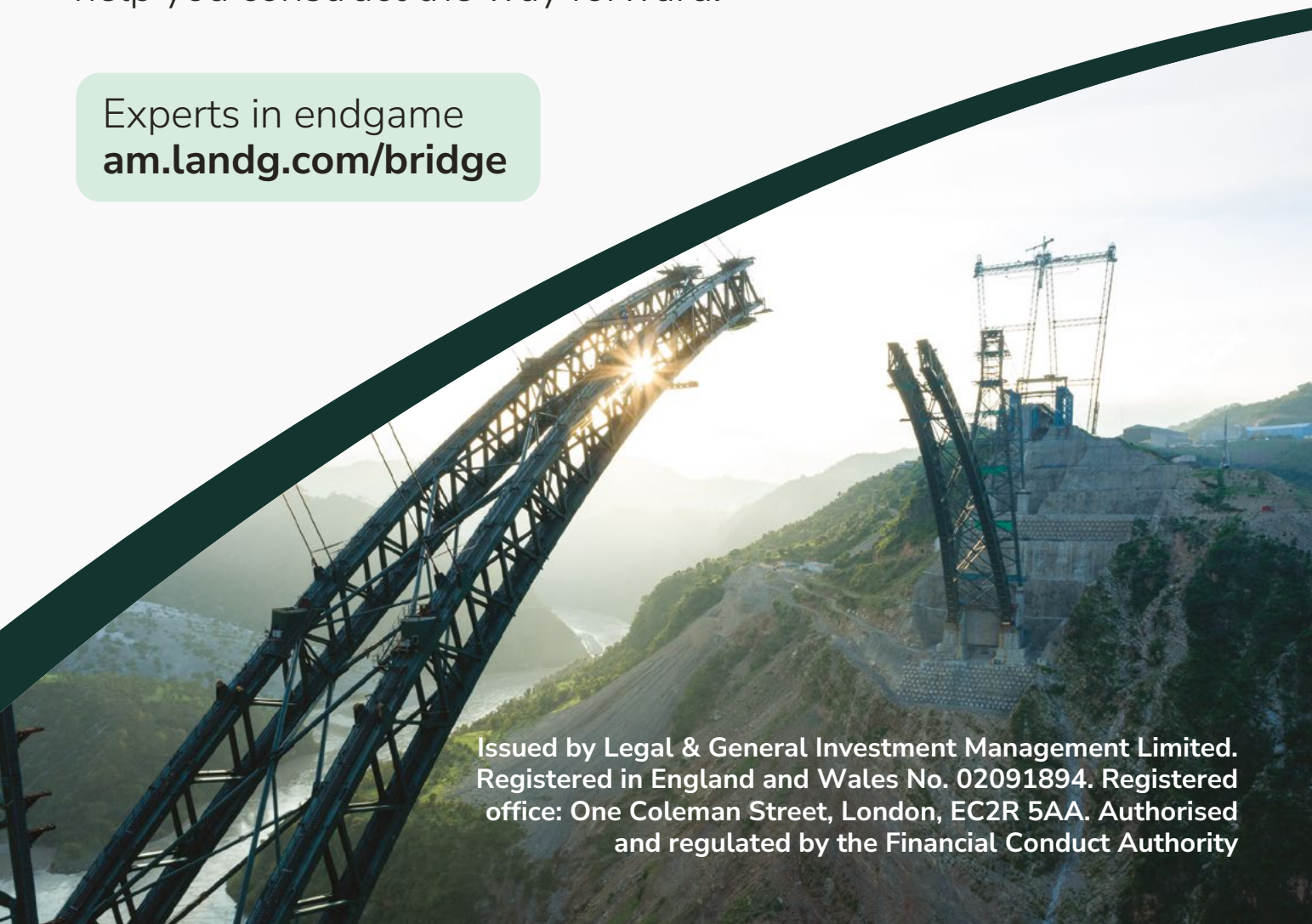
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► **Providing flexibility and support:** L&G head of solutions distribution, Lara Edmonstone-West, and L&G head of delegated solutions, Tim Dougall, speaks to Pensions Age about how fiduciary management outsourced CIO (OCIO) can best support the evolving needs of UK pension schemes **p44**

Fiduciary management/ OCIO focus: A trusted partnership



L&G head of solutions distribution, Lara Edmonstone-West, and L&G head of delegated solutions, Tim Dougall



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How has the UK fiduciary management and OCIO market evolved, and what does the terminology mean today?

Tim Dougall: Fiduciary management and OCIO have moved from being relatively specialist governance solutions to an established part of the market. Traditionally, in the UK, the term fiduciary management was primarily associated with DB schemes, and it meant the combination of advice and delegated portfolio management, whereas OCIO was the broader concept.

Globally, it tends to be referred to as OCIO. In the UK, the term OCIO has been more associated with larger, multi-billion-pound delegated mandates, particularly in the pension space. So, it was sometimes viewed as fiduciary management for small or mid-sized schemes, OCIO for larger schemes.

Traditional fiduciary management models often delegated all decisions to the fiduciary manager, including investment advice and portfolio management. Today, even mid-sized schemes may use OCIO models that involve working alongside a strategic investment consultant, who provides overarching strategic guidance. The OCIO provider may still offer some investment advice, but its main role is typically to manage the delegated portfolio. Some schemes may also choose to delegate only part of the portfolio, such as the cashflow-driven investment (CDI) allocation, or to split responsibilities across different advisers. For example, a larger mandate might involve a specialist private markets adviser working alongside the fiduciary management or OCIO provider.

But really, the distinction matters less than the underlying question, which is: Which decisions does the client want to retain, which should be delegated, and which governance model is best to support the objectives? It is not an all-or-nothing decision anymore.

Sometimes in the past it was viewed



Lara Edmonstone-West



Tim Dougall

Providing flexibility and support

➤ **L&G head of solutions distribution, Lara Edmonstone-West, and L&G head of delegated solutions, Tim Dougall, speak to *Pensions Age* about how fiduciary management and outsourced CIO (OCIO) can best support the evolving needs of UK pension schemes**

as a handover of the keys. That's definitely not the case today. There are lots of different flavours of delegated portfolio management, as you'd expect with a more mature market. But still, I think it's true that the strongest models allow trustees to retain control over the key decisions, such as their overall objectives and the risk appetite, and then delegate the day-to-day implementation to a specialist.

➤ **What is driving increased interest in fiduciary management and OCIO among UK pension schemes?**

Lara Edmonstone-West: The difference is what schemes are looking to achieve. For years, they focused on closing the deficit, and now many schemes are really focusing on protecting the funding improvements they have had, and in some cases making surplus assets work harder. In parallel, governance

demands have continued to increase, and regulation and endgame choices are becoming more complex. So, although schemes are better funded, the investment decisions haven't become any easier.

It requires trustees to think about their assets and liabilities holistically, which is why fiduciary management and OCIO work really well. A delegated framework enables schemes to achieve faster implementation. Their OCIO provider works within clearly agreed parameters and guardrails, and it doesn't require the trustees to meet every time market conditions change or an opportunity arises. So, it isn't just about reducing trustee workloads; it's also about enabling faster implementation.

➤ **Is fiduciary management only for smaller schemes with limited internal resources?**

Edmonstone-West: Smaller schemes often value the access to specialist resources, the economies of scale, and the lessons from some of the larger schemes.

When we work with the larger schemes, they typically need multiple managers brought together. They might have complex legacy illiquid holdings, their liability hedge might be a bit more sophisticated, and liquidity requirements more stringent, but they need to be able to look at it all as one portfolio. For the larger institutions, OCIO is more like a strategic partnership, working alongside the internal team or alongside an external investment consultant.

So, I don't think this is as clear-cut as saying one model fits a particular size of scheme. It really comes down to governance capacity, complexity and the control the client wants to retain.

We can provide a very cost-effective pooled approach for smaller schemes, alongside fully segregated and open-architecture solutions for larger schemes. There we would combine our L&G funds with external managers and segregated mandates, making it tailored for what the individual client needs.

➤ How are better-funded DB schemes changing what they need from their fiduciary manager?

Dougall: There are two things that are different today. Schemes are typically more mature, and there's a range of funding levels, but some schemes are much better funded. So, for some schemes there will still be a focus on repairing a deficit, but for others the focus will be on deciding the endgame strategy and how best to manage that.

The key challenge for a mature scheme is that the risk needs to be managed much more closely. It's really not the same challenge as it was 10 or 20 years ago. Then, you had a deficit, you were investing in a broad range of growth assets, and it was about finding a range of investment opportunities that could generate returns. You didn't need such

close management versus the liabilities – that is different now.

Twenty years ago, trustees spent most meetings discussing individual underlying manager mandates. Today they're discussing endgame objectives, surplus, cashflow matching and bond investment, liquidity and governance. The conversation has moved from managing managers to managing outcomes.

Also, the industry has sometimes presented endgame as a binary choice between running on or buying out. But really a good endgame portfolio should move the scheme towards its preferred destination without closing off sensible alternatives. So, if you're thinking about a run-on strategy, it requires more than continuing to hold growth assets. You need to be thinking about really disciplined cashflow, liquidity and liability management, because the risk needs to be managed much more closely.

Conversely, if you're targeting buyout, you need to think about things such as whether you are hedging unnecessary risks and what the sensitivity of the portfolio is relative to buyout pricing.

So, DB trustees need a fiduciary manager or OCIO provider who can connect all of that up, who can be thinking about the investment strategy and the practical delivery, including making pension payments, thinking about collateral management, thinking about legacy illiquid assets, the management of those, but also thinking about insurance transactions.

➤ How does L&G's insurance heritage strengthen its fiduciary management and OCIO proposition?

Dougall: I think it really helps, both for schemes targeting run-on and those targeting buyout. Obviously, it's helpful on the buyout side because we know how insurers are investing, so we can think about the sensitivity of the portfolio to buyout pricing, and consider whether assets would be suitable for transfer to an insurer.

But life insurers themselves, as L&G is, are basically running very large run-on portfolios. At L&G, we have a roughly £90 billion* annuity portfolio where we're managing a CDI strategy across a broad range of bonds, private market assets and other alternatives to target a long-term return while seeking to avoid downside risk.

The lessons from that translate to both run-on and buyout portfolios for DB pension schemes.

"The strongest models allow trustees to retain control over the key decisions... and then delegate the day-to-day implementation to a specialist"

Edmonstone-West: Our insurance heritage gives us this incredibly powerful perspective on what the liabilities and cashflow needs are for pension schemes. In reality, the insurers and the pension schemes face all of those same challenges that Tim [Dougall] mentioned. So that experience that we can draw from the management of our annuity book, the liability hedging, the cashflow management, public, private-market and real assets, it all comes together to give us a 'balance-sheet' mindset, that holistic view. That supports our clients regardless of their destination.

We certainly don't assume that buyout is the right destination for every scheme just because we are an insurer. But our insurance heritage means that we have the specialist tools and expertise needed to really deliver for our clients across the full range of endgame investment options.

➤ How important is access to both public and private markets in constructing institutional portfolios?

Dougall: It's very important, but you need more than simply having a long list

*Source: L&G internal data, 30 June 2026.

of asset classes you can access. You need to think about what role each of those asset classes plays in the total portfolio. Owning private assets is easy; integrating them successfully is a lot harder.

Looking at the DB market and private market investment, if you go back 10 or 20 years there was a much stronger focus on higher-return, higher-risk private market assets, such as opportunistic private equity, infrastructure and real estate. Today, where schemes are choosing to add new private market assets to their portfolios, particularly if they are considering long-term run-on, they are more likely to focus on potentially lower-risk assets with more certain cashflows. That includes areas such as investment-grade private credit, which is also widely used by insurers because it can help to meet cashflow needs. Schemes may also look at core or core-plus infrastructure, real estate and, increasingly, natural capital. In DC, by contrast, there is still broader interest in higher-return, more opportunistic private market asset classes.

Public markets can provide liquidity, transparency and efficient exposure. Private markets potentially mean different sources of return, contractual income, and access to a wider opportunity set, but you can also get a lot of extra complexity, valuation uncertainty and illiquidity.

So you've got to consider those private market assets alongside the benefit that they bring.

Private market exposures shouldn't be a separate collection of interesting investments; they have to earn their place within the liquidity, cashflow and risk-management requirements of the total portfolio.

➤ What distinguishes a strong investment strategy on paper from one that delivers successfully in practice?

Dougall: A good strategy needs to be investable, implementable and resilient, not just theoretically attractive. A successful portfolio depends on getting

every layer right, from asset allocation and security selection, to manager research, implementation and ongoing oversight.

Strategy and asset allocation establish the direction, but outcomes depend on selecting the right underlying pieces. Increasingly these days, where DB schemes are much more focused on CDI management, security selection becomes really critical, particularly in the credit portfolios, where it's really about avoiding deterioration in the quality of the assets. Deep credit research is critical.

"The conversation has moved from managing managers to managing outcomes"

When looking at third-party managers, you need to look beyond historical performance. You need to be thinking about the investment process, people, governance and operational robustness.

And then of course a great investment idea only creates value if it gets implemented. You need to have strong implementation capabilities when managing a portfolio, as well as making sure transitions are handled well, and ongoing portfolio rebalancing and cash management processes are robust. You've got to manage the total portfolio as a whole.

Overall, you shouldn't be thinking about things in silos; you need good governance and accountability to bring everything together. And that's really where we believe that L&G, as an OCIO provider, can add value by bringing all the pieces together holistically.

➤ How should ESG and responsible investment be incorporated within a delegated mandate?

Edmonstone-West: It absolutely is still high up the agenda and we believe it is one of our strengths at L&G, the

focus that we put on the ESG and responsible investment.

To us, responsible investment is most effective when we embed it in portfolio construction, manager oversight and stewardship, rather than reporting post-event.

When we work with clients, our starting point is always to talk about their objectives, what their investor beliefs are and the applicable requirements. So that is then translated into the design of the mandate, the managers who are selected and then what's required for stewardship and reporting.

It's part of the day-to-day work because it does impact those long-term cashflows that Tim [Dougall] has spoken about, the valuations and the overall resilience of a client's portfolio.



➤ What role will technology and AI play in the next generation of fiduciary management and OCIO?

Dougall: We see AI as a way to deliver better outcomes for clients by strengthening investment decisions, identifying risks and opportunities earlier, and responding more quickly as circumstances change. It helps us to look at the interaction between different asset classes, liquidity, cashflows and managers.

For this you need really good data, particularly for OCIO mandates, where the complexity can be a challenge. You're looking at lots of different asset classes and managers with lots of different data feeds. You need to be able to bring that information together in a flexible way so that AI can view it.

Some historic closed platforms are not necessarily set up to support AI-enabled analysis. The combination of a strong data layer and open-architecture systems allows us to build new tools very quickly, but we keep the judgement and accountability with the investment professionals. AI helps us to carry out

more advanced analytics, but we're not asking AI to make the decisions.

➤ OCIO is expanding beyond DB pension schemes. What are you seeing from charities, endowments, insurers and other institutions?

Dougall: Different institutions have different objectives and missions, but they often face a similar governance challenge.

The point of an OCIO model is that it's flexible: it's not a one-size-fits-all product, but an approach that starts by understanding what the client needs to achieve, the risks they face, and the particular issues they want to address. From there, the provider can design a governance structure, investment portfolio and management framework around those requirements.

For example, charities and endowments often prioritise sustainable capital distributions so they can meet their charitable commitments, alongside capital preservation, inflation protection and portfolio liquidity. Some may also have legacy real assets that need to be integrated into the overall portfolio risk framework. Responsible investment is also very important for many charities, and they may have specific requirements they want reflected in the portfolio.

Insurers, by contrast, operate under different regulation and are typically very focused on liability management, capital efficiency, liquidity and regulatory constraints. There are some similarities with DB schemes running on, but there are also important differences.

DC investors are different again, with long time horizons and the need to support members through different stages of life.

The common thread is that all these

institutions want access to high-quality, complex institutional capabilities without needing a large internal governance structure. In other words, they want to access the best available expertise in a simple and efficient way.



➤ What should trustees and institutional investors look for when selecting a fiduciary manager or OCIO partner for the coming decade?

Edmonstone-West: It is really important that trustees look for a partner that understands their objectives, can look at the whole portfolio and has the full range of capabilities.

Governance is so important, are the retained and delegated responsibilities clearly defined? And, are there suitable oversight and escalation arrangements in place that everybody understands?

That total portfolio capability, that holistic view: Is that provider able to connect the liabilities, those public and private assets, along with the liquidity and the cashflows and endgame planning all together under one umbrella or investment framework?

Now, something that's really important for DB schemes in the next decade is CDI and bond management. Schemes are rapidly maturing. So, you need to ensure that the provider that you're partnering with has that depth in credit research, security selection and portfolio-management expertise to ensure that the cashflows can be generated reliably, that the credit risk is managed and that they can support the benefit payments. If those capabilities can be integrated with LDI and the rest of the portfolio, that's great.

There is also open architecture,

and what we mean by that is: Does the provider use the right combination of internal and external capabilities? Do they meet the client's objectives, but critically, have potential conflicts of interest been identified and are they managed? That's a great question for trustees to ask.

Implementation and operations: There will be complex changes. Can they be managed reliably? Can the cashflows and the collateral be managed efficiently? And can the provider respond effectively?

Also, when you're choosing a provider, you buy people. Have you got an experienced core team? Do they have access to wider and deeper specialist resources? We're talking about investment strategy, credit, private markets, research, risk and operations. You are getting access to an entire organisation.

Ultimately, what should trustees continue to crave in the next 10 years? It is transparency. It is continuing to understand costs, performance, risks, decisions, and how the portfolio is brought together.

But the words that I love are 'flexibility' and 'adaptability'. This is considering how the model evolves as the client's funding position, cashflow requirements, governance arrangements, or endgame objectives, change.

Trustees have so much to think about right now, which is why we are seeing increased demand for OCIO and fiduciary management. We believe the right partnership could make the next decade really successful.

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