

Olaolu Aganga & Stephanie Thomas

Episode 254: Demystifying OCIO for Insurance Companies



GUEST Q & A

Stewart: Welcome to another edition of the InsuranceAUM.com podcast. My name's Stewart Foley, I'll be your host. Hey, welcome back. It's nice to have you. We're thrilled that you've joined us today. We've got a really good podcast for you today and we've got a really good friend of mine as well. And the topic is Demystifying OCIO for Insurance Companies. And we're joined by Olaolu Aganga, US Chief Investment Officer from Mercer. And my longtime friend, Stephanie Thomas, Senior

Investment Consultant at Mercer. Welcome, ladies. Thank you for being on. We're thrilled to have you.

Olaolu: Thank you for having us.

Stephanie: Yeah, we're excited to be here, Stewart, and it's really nice to touch base on a more formal basis like this.

Stewart: Absolutely. So let's get started. I actually kind of halfway know this answer for you, Stephanie, but let's start with Olaolu. Where did you grow up and what was your first job, not the fancy one?

Olaolu: That's a great question. I grew up in both Nigeria and Botswana. My family's from Nigeria. We moved to Botswana when I was seven. So I went to school there and I got to college in the US, Northampton, Massachusetts. And my first job, I was 16 and it was in college, it was washing dishes.

Stewart: You were washing dishes and you were 16 in college?

Olaolu: I started college, I was 16, yes.

Stewart: Wow. More on that in a minute. Stephanie, how about you?

Stephanie: Well, I grew up in Prescott, Wisconsin, just across the border from Minneapolis. And my first job, like most kids in the town, was picking corn tassels. And I started at age 12 and I've been working ever since.

Stewart: Okay. So here's a question that's going to get you in trouble. Are you a Vikings fan or a Packers fan?

Stephanie: I am a diehard Packer fan.

Stewart: Wow. All right. That's big news, especially you live in the Twin Cities, so.

Stephanie: I do live in Minnesota, but yeah my-

Stewart: We'll not give out your address.

Stephanie: Right? My first favorite team is the Packers, and my second favorite team is anyone who plays against the Vikings.

Stewart: There you go. Wow. So you really are a Packers fan. That's awesome. I'm a Packers guy too. I'm actually a shareholder. I love it. I'm thrilled. So this OCIO thing for insurance companies has gained a lot of traction, but I think it's still misunderstood, and I'm really thrilled that we're talking about this today on the podcast. And my first question is for you, Olaolu. Stephanie and I have known each other for a long time, and she talks about the perch or the vantage point that she gets from being part of Mercer. What does that mean to you?

Olaolu: When people think of Mercer, the brand and name recognition means many things depending on which industry you're in. But we are a part of Marsh-McLennan. Now this is an insurance-focused audience so for me, I think this is really important. Mercer and Marsh-McLennan, there are two lines of businesses. The first is risk and insurance services, so one of the largest brokers of insurance risk consulting. The second is consulting, so either investment consulting or traditional consulting. And both are complementary. So to the vantage point that you spoke about, what that means is sitting within Mercer, our clients have a number of different profiles, whether it's insurance, defined benefit, not-for-profit, what have you, but being within an insurance company that has a very strong line of business and brokerage and risk management, we're able to tap into experts that are dealing with our clients directly on their day-to-day problems. So for us, it is not just the investment portfolio, it's really the partnership and strategic thinking.

Stewart: That's super helpful. So you've got a friendly relationship with the asset management side of the business. Is it fair to say that you're courted a fair amount? I mean it seems to me traditionally asset managers often have very skilled professionals who do nothing but cover the investment consulting community. Can you talk a little bit about that?

Stephanie: Yeah, I can take that one, Stewart. We do have the privilege of meeting with a lot of asset managers, which to your prior question about the vantage point, you get to see the evolution, what's happening in new product development, new ideas, things like that, that are being developed on that AM side. And we look across investments for the entire industry and then we curate or cultivate them for our insurance clients. But we take a bigger, broader view. So we really enjoy being able to have open dialogue with asset managers. On the flip side of that, we're still always trying to figure out what's best for our clients and make sure that we have their best interests at heart and that partnership comes first and foremost. So it's about understanding the evolution of what's happening and what's available in the market, but then also how it fits into a very specific portfolio, be that life, health, P&C or captive.

Stewart: It surprises me as long as I've been in this business how much it continues to evolve. It is astonishing. Even in the last two, three, four years, and even in 2024, the pace of play I've not seen this much interest in insurance and I've not seen this many interesting asset classes. It is a challenge to oversee that wide of a spectrum as a single person or as a small team, there's an awful lot to know. And there are several consultants in this space, but I think it's fair to say, and I don't have the numbers off the top of my head, but Mercer is the clear leader from an AUM perspective in this space. What separates you? What sets you apart? What has led to this leadership position?

Olaolu: So I would say both from an AUM and AUA standpoint, so we have north of \$500 billion under management, \$16 plus trillion under advisement. But if I had to stress, the size sometimes someone can see it and think it's scary. The size is actually a byproduct of our success. So it is the work that we do for clients and then we get referred and so on and so forth. And the expertise that I'd mentioned earlier, not just from an insurance standpoint internally, but the cross section and our platform, given the size that we're in, all the managers are trying to be on our platform. So we have investment professionals with a deep expertise internally, but then we also get the best of all the other asset managers giving us their ideas to be able to try and attract capital.

So what that means from an OCIO perspective is part of why we are head and shoulders above competitors is because we bring the best of both worlds and the model that we use with our clients is not an either/or. You may have a small team, you may have a big team, it doesn't really matter. Our goal is to be able to find the model that works well for clients. And not too many firms have that type of flexibility, either extension of staff as well as full discretionary OCIO. We do the gamut.

Stewart: And it's interesting because when I went from running money internally at an insurance company to being a third party asset manager, the challenge for me was staying close enough to the liabilities. And what I mean by that is knowing the business. Because the underlying operation of the particular client is really paramount to understanding what the best investment asset allocation is. And so how do you accomplish that? It's hard. And does your affiliation with Marsh-Mc help you? Are there resources there that help with that process?

Stephanie: So I'll take the first stab at that. So absolutely, we know insurance really well, back and forth. And I'm in the insurance consulting practice on the general account, but I can pull resources, and do pull resources from, Guy Carpenter, Oliver Wyman, Marsh, there's expertise there that lies across the platform in enterprise risk management, in captive insurance, and in actuarial consulting. So we can absolutely bring those pieces in. But I think when someone thinks OCIO or outsourced chief investment officer, they think, "Oh, you're going to come in and take over." And that's really not at all what this looks like in this evolution of OCIO looks like.

In fact, we don't even like to call it that. We really like to refer to it more as extension of staff. And what that really means is where you really need the support and the admin and the operations and maybe some of the manager due diligence, that is part where you can really lean into Mercer to help you with those pieces. But you will always have the organizational strategy and even a hand in asset allocation to help guide us. You are going to know your organization best. We're here to provide you with tools and resources and consulting expertise to really get the best out of your portfolio that you need.

Olalu: I was just going to build just a little bit on what Stephanie said with regards to the strategy. And I've worked at a few other firms. I would say definitely here at Mercer, there is a focus and prioritization on the specialization from a client standpoint. So that segment and client expert is needed and we have that across our whole business. So those client segment experts are really the ones that work with the top of the house or whoever it is to understand the liabilities and that determines the strategy. Before you do anything else, it's the objectives and the strategy. Some folks just jump straight into the investment portfolio, as I mentioned. That's not what we do.

Stewart: That's really helpful as well. So is OCIO your primary focus these days? Or what other conversations are you having?

Stephanie: I would say the needs of a client are always what we're primarily focused on, and that varies across the spectrum. And so for some who have a large investment team, they may need help with research and we have software and tools that are available to them to help them with their alternatives research if they want to do that. We also have a spectrum of what you would call typical advisory consulting, and whether that is on the entire portfolio or a section of the portfolio, again, we can advise just on the alternatives piece, if you need help optimizing across private equity, private credit, infra, real estate, hedging, we have over 200 people on our research team that can help in all of those categories for an optimization of just that, if that's what you're looking for. And then we have it all the way up to the delegated or OCIO platform if someone needs more support than what a typical consulting advisory contract would be.

But I was surprised when I came to Mercer, the size and type of insurance companies that we service is really, really broad. And that being said, we will work on a strategic asset allocation for a very large, well-known insurance company and/or health company because they want a second opinion with an independent lens that's not affiliated with an asset manager product. We do projects obviously, and we have conversation about principle-based bond definition, which is an important hot topic right now about the residual tranches on those capital charges and changing any IC rules. Those are hot topics that we have and we have this benefit of such a broad view of aggregating the voice of the insurance platform, aggregating it together to find solutions across all kinds of sizes of clients.

Stewart: Super helpful. When we're talking about alternatives for insurance companies, how much of that is private credit versus other things?

Olalu: So I can start, and Stephanie can definitely pick up. I'll start with the flip side of that. If you're looking at just the assets of an insurance company, a lot of it is fixed income oriented. So cashflow generating, bond-like, that profile that you see for public markets is it really does extend into the private markets realm. The familiarity with the asset class and the profile to fixed income instruments, granted private credit is a slightly different animal there, but the numbers are the numbers. There's a pretty big interest and investment pool for private credit, its floating rate, the tenor is shorter than some of the other private market instruments. But it doesn't mean that the demand for the rest of the private market asset classes aren't there. It's just a little bit skewed in the numbers. And Stephanie, you're seeing that as well as we're working with these clients directly.

Stephanie: Stewart, back to your point, this is what makes insurance investing fascinating because there is this evolution in product development that's happening and a lot of that evolution we're seeing right now in private credit, particularly in ABF, right? But we're also seeing investment grade alternatives come out. Back 10 years ago, an investment grade alternative was not a thing, and now you're seeing those evolutions, you're seeing evolutions in really creative structures, not only in rated notes, but even in some bond issuances and such. So what's happening across platforms, you have to be able to maneuver and across all alternatives and privates as the new hot topic comes up. And that's what makes this business frankly really fun and really fascinating.

Stewart: It's a really good point. It's challenging to stay current on all of the different things that are coming to market, some of which don't have much history, but sometimes, I mean I can go back to the early '90s when the mortgage market, I mean that was some of the best value out there when they first came out and everybody hadn't piled into the asset class already. So being able to get your arms around new strategies and asset classes, being able to get your arms around quickly seems like it could be a competitive advantage. Does my logic flow for you guys? Does that make sense to you?

Olaolu: It does. And also right now I stand back and some of the things are a little fascinating. I'll just pick on private credit because we're talking about it that it seems like it is now in vogue, lots of capital flowing in here, so on and so forth. But a lot of this activity was done by banks pre-2008, when they could do that. And what we've been seeing more is just the capital charges that have been imposed and the regulatory environment banks operating, just pushed that out, pushed that out into the private markets. But when you really examine a lot of the work that's being done, it's the stuff that was done 10 years ago, greater than that, by a new name, slightly different form, but it's not too unfamiliar.

Stephanie: My running joke is that it used to be called esoteric credit, but that was a scary term for risk teams. So then they relabeled it to non-traditional credit and now it's called ABF. It's really an evolution. It's all the same thing underneath, maybe some more nuance for the way they're structuring it now and maybe a little smarter in how they're putting together some of these credits. But yeah. But it's fun. It keeps us on our toes, that's for sure. And we've got really, really good resources to help us navigate so clients don't have to tread those waters alone.

Stewart: That's interesting and helpful. I've heard the term 'thought partner', and we use the term thought leader. Can you talk a little bit about the difference between those two terms and how you view them?

Olaolu: At Mercer, we do both, where with clients in particular, it is more the thought partner. Because we view our role as being experts in certain areas, with the clients being experts on their own situation. And the only way we can get to an ideal outcome is if we have a combination of both sides really thinking through the best customized, tailored outcome for this client. But at the same time, we do have deep expertise both within the team, within the organization, and we are constantly working on white papers, we're constantly working on projects. We're constantly releasing things on LinkedIn and publishing to show the thought leadership that is enclosed internally. And then that also the thought leadership that we post and circulate attracts other clients, and then it's how we work together that is the partnership that Stephanie and team are front and center every day working on.

Stephanie: Yeah, I would just say really well said. You know your organization better than anyone else, and we're here to help support that. And whether that's through a delegated model where we really help support that admin and ops and the backend or pure advisory or even if you want to do it yourself and you just need some research support, we can manage across all of that.

Stewart: Yeah, that's super interesting. You have a relationship with investment that is doing the manager database piece for you, is that widely known or how does that relationship work?

Stephanie: We have a software system called MercerInsight, powered by eVestment, and it is a relationship where our database of manager research sits on top of eVestment. So you can get a subscription to eVestment and actually have the toggles turned on for a fee to our manager research across both public and private, and you can get access to Mercer's manager research that is updated continuously.

Stewart: That's super. I really appreciate it. I've got quite a good education. I do feel like you've demystified, as billed, I think you've demystified OCIO. And I say for that, great job. And what are some of the key takeaways that you want our audience to have today before we move on to the fun questions?

Stephanie: I would say the key takeaways are OCIO can mean as much or as little as you need it to mean. And it doesn't mean replacing your entire in-house team. It can mean enhancing that in-house team. And there are cases where we have OCIO with the CIO still in place and he still stays on. So that's really important to understand that it's not just a one and done right for everybody solution, there's a spectrum of it, I think is the most important part that I'd like to get across. A lot of them do have other parts.

Olaolu: The other part that I wanted to make sure that I stressed is the AUM and AUA that we have is really, really, really as a result of the fact that we do our jobs really well. But that means at the same time that we take client service and service excellence to another level. The AUM is not an indication of your team. Your team is your team. So when you are working with a firm such as ours, we prioritize the expertise who's sitting across from us and making sure that all clients feel a personal experience. I wanted to put that out there because sometimes folks can say, "Oh, you guys are big," and as a result, that could be scary. It really isn't. Pick up the phone, odds are you're getting Stephanie or a small handful of people. I'm giving out your number to everyone, Stephanie.

Stewart: It's perfect.

Stephanie: Great.

Stewart: I know she's busy as it is. So onto the fun stuff. And thank you very much for that. Stephanie, the first one's for you. And I want to tell you that I was recently in LSU with Rip Reeves and I was fortunate enough to speak to his class, and I'm looking out at between 50 and 60 seniors in college and ask how many people had jobs. And a couple of hands went up, but a lot of hands didn't go up. I guess the question I have is what advice would you give that class as you sit here today as an accomplished professional in the insurance asset management space?

Stephanie: And a mother of three teenagers. Don't forget that.

Stewart: And a mother of three teenagers. Absolutely true. I'm actually going to go see my daughter tomorrow at the University of Denver. Go PIOs. And they just won their 10th national championship in men's DI hockey, and so we're going to the home opener tomorrow night. This is their first time on the ice at home, I believe, since the national championship. So we're super excited. But what advice would you give those students?

Stephanie: Well, that's almost as good as a Packer game there, Stewart. So it's funny because I'm giving a lot of advice to my children and their friends, and I would say the transition from college to working life is one of the hardest, trickiest periods of your life. And you're broke, you don't know what to do, you're not sure which direction to take. So what I tell people is go towards something that's interesting. And by that it has to pay the bills, it has to pay your student loans. But it's interesting enough where you keep following that path and eventually the path will show itself to you. It's very rare that any of us can pick a destination and land there in a 40-year career. Pivot, be flexible, lean into technology that's going to be available to this generation that wasn't available to my generation, and just go towards what you find is fascinating. Because at this stage of my career, I love what I do every day. And it's complicated, it's hard, it's challenging, it's always moving around and it's super fun, and I'm really glad I landed here.

Stewart: That's good advice. I really like that advice. Okay, so, Olaolu, this is for you, and this is a little different question. So this one's for a lunch table of up to four, you're one of them. Who would you most like to have lunch with, alive or dead? We can cue the Jeopardy! music. You've got time to think.

Stephanie: Can Ryan Reynolds be serving lunch? Does he count as one of the four or can he at least be serving?

Stewart: That's up to you two to come up with. So you can have one guest, two or three guests, alive or dead.

Olaolu: I would say all alive. I would love to throw Jerome Powell in the mix. It's been a fascinating few years. Really, that aspect would be great as, not just the US but globally, we have gone through coming off of the COVID inflationary period, my focus now is... I don't know who's minister of Foreign Affairs, as we are talking and almost rethinking and renegotiating our strategic relationships with other countries. So the trade aspect of things for me, that'll be fascinating. Now those two in and of itself is pretty deep, so I need to throw in Will Ferrell, right? Somebody that can make that an alive conversation. So that's three and then-

Stewart: And you're done. You're the fourth.

Olaolu: That's three. That's four, yeah. That's wonderful.

Stewart: There you go. That's fantastic. It's been great to have you two on. Thank you so much. I really enjoyed it, and I think our audience got a great education as well.

Olaolu: Thank you.

Stephanie: Thanks, Stewart. It's always nice to see you.

Olaolu: Great seeing you.

Stewart: Thank you so much. It's nice to see you both as well. We've been joined by Olaolu Aganga, US Chief Investment Officer for Mercer, and Stephanie Thomas, Senior Investment Consultant at Mercer. Thanks for joining us. If you have ideas for a podcast, please shoot me a note at stewart@insuranceaum.com. Please rate us like us and review us on Apple Podcasts, Spotify, Google Play, Overcast, or wherever you listen to your favorite shows. My name's Stewart Foley. We'll see you next time on the InsuranceAUM.com podcast.