



Strong governance must be non-negotiable in an outsourced investing model

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In the first issue of the CSO Series, I suggested that outsourcing to an institutional investment management firm is logical as it represents the shortest possible distance between nonprofit organisations and endowments, and a chief investment officer (CIO).

The office of the CIO plays a critical role in ensuring investment strategies align with long term objectives and fiduciary responsibilities. But that role does not operate in isolation. It sits within an industrial strength ecosystem of oversight, checks and balances, discipline and support conveyed captured by a single, often misunderstood word: **governance**.

Before examining what that ecosystem looks like in practice, it is worth spending some time on what governance means in the context of an Outsourced CIO (OCIO) relationship.

What “governance” really means in an Outsourced CIO model

Governance is one of the most frequently invoked, and probably least clearly explained words in institutional investing. In an OCIO, that lack of clarity matters, because governance is not a sideshow to outsourcing. It is the mechanism that makes outsourcing work.

At its core, governance is about **who decides what, and how those decisions are made**. In an outsourced CIO arrangement, governance carries additional weight.

It is the framework that ensures delegation strengthens fiduciary oversight rather than diluting it. For non profit organisations and endowments, whose capital is intended to serve a mission across generations, that distinction is pivotal.

First Guardian Master Fund and Shield Master Fund: A cautionary case study

A stark recent reminder of why governance matters in outsourced investment relationships is the collapse of Australia’s **First Guardian Master Fund and Shield Master Fund**. Together, these investment schemes exposed around 12,000 investors to losses exceeding \$1 billion, largely through

failures in governance, controls and oversight rather than obscure market risks.¹

The Australian Securities and Investments Commission (ASIC) has described the conduct uncovered as “*misconduct on an industrial scale*”,² pointing to weak product due diligence, conflicted remuneration, poor risk management and ineffective supervision across the investment supply chain.

The relevance for asset owners using outsourced models is clear. In the First Guardian and Shield cases, responsibility for governance was fragmented or implicitly assumed to sit elsewhere, among product manufacturers, advisers, research houses or platform gatekeepers.

In practice, no party exercised effective end to end oversight. For boards and investment committees, the lesson is not that delegation is dangerous, but that delegation without clearly defined governance is.

Outsourcing investment responsibilities heightens the need for clarity around decision rights, independent challenge, escalation pathways and ongoing monitoring. Strong governance is what ensures capital is not simply managed, but stewarded with discipline, transparency and accountability, particularly when complexity increases and trust is placed in external partners.

Delegation is not abdication

The defining feature of an outsourced CIO model is delegation. Day to day investment decisions, such as portfolio construction, manager selection, rebalancing, risk calibration, are entrusted to a specialist partner, the OCIO, with the resources and focus to manage complexity continuously, not episodically.

Strong governance ensures that this delegation is deliberate and bounded, rather than open ended.

Boards and investment committees do not step away from responsibility when they appoint an outsourced CIO, rather they step up a level. Their role shifts from debating tactical decisions to setting the strategic parameters within which those decisions are made.

¹ First Guardian, Shield superannuation disasters expose deep flaws in Australia’s \$4.3 trillion retirement system, ABC News, 19 September 2025

² ASIC Watch: Shield, First Guardian Collapses Force Supply Chain Accountability, FNArena, 12 December 2025

That includes defining long term objectives, articulating risk tolerance, clarifying liquidity and spending needs, and embedding the organisation's values and purpose in the investment framework.

Governance draws a clear line between **strategic ownership and operational execution** and ensures that line is understood and respected by both parties.

Process matters as much as outcomes

For non profits and endowments, fiduciary responsibility is not assessed solely by outcomes. How decisions are made matters, particularly in difficult markets.

Governance provides the structure that makes this visible. It documents how risk is assessed, how managers are selected and monitored, how conflicts are managed, and how performance is evaluated over appropriate time horizons.

These processes matter most when markets are volatile, when investment decisions are hardest, and when the temptation to react is strongest.

In this sense, governance is less about eliminating mistakes, after all, markets will always surprise. It's more about ensuring decisions are **repeatable, defensible and mission aligned**. It guides behaviour when judgement is tested and provides a steadying influence when emotions may be running high.

Reporting as dialogue, not theatre

Reporting is often mistaken for governance. It isn't, but it is where governance becomes tangible.

In a strong outsourced CIO framework, reporting is not a recital of quarterly returns. It is a structured conversation about what

has changed, what matters, and what trade offs are being made on clients' behalf. The focus is forward looking as much as retrospective: evolving risks, opportunities emerging, and assumptions being tested.

This dialogue allows boards to exercise informed oversight without drifting back into micromanagement. It also builds trust because trust is born not from constant control, but from confidence in process, transparency of reasoning and consistency of execution.

Governance provides continuity across time

Finally, governance delivers something that is easy to overlook but essential for institutions designed to last – continuity.

Boards change. Committee members rotate. Staff and volunteers move on. Market regimes come and go. A robust governance framework endures across these transitions, providing institutional memory and consistency of intent.

In an outsourced CIO model, this continuity is particularly valuable. It ensures that today's investment decisions remain anchored to long term objectives established years earlier, even as individuals change. For organisations charged with stewarding capital in perpetuity, this is not a technical benefit. It is the essence of fiduciary care.

In short, governance in an outsourced CIO model is not a constraint on investment excellence. It is what enables it. By aligning expertise with purpose, delegation with accountability, and investment activity with mission, strong governance turns outsourcing into a genuine extension of the institution, rather than a loss of control.

It is not an administrative exercise. It is the architecture that holds the whole structure together.

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