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Date: 6/7/16

To: Members, NSHE Board of Regents Investment Committee

From: Vic Redding, Vice Chancellor – Finance

Re: Outsourced Chief Investment Officer Recommendation

The purpose of this memo is to summarize the results of the Outsourced Chief Investment Officer (OCIO) RFP process and provide my recommendations for next steps in the OCIO process. Consistent with prior Committee discussions, this model assumes that the NSHE Board of Regents, through its Investment Committee, retains full strategic decision making authority in areas such as strategic asset allocation and spending rate determination. The OCIO would have the discretionary authority to make manager selections within that Board established asset allocation and provide other services in a fiduciary capacity such as manager monitoring, investment valuation and reconciliation, capital calls, and performance reporting.

As directed by the Investment Committee at its December 2015 meeting, I finalized and circulated an RFP for OCIO services for the Endowment Fund and the Operating Fund. The RFP was distributed on 12/17/2015 and closed 2/11/2016. NSHE received 16 proposals for consideration. A selection committee with representatives from my office, UNR, UNLV Foundation, and our OCIO consultant Your Second Opinion LLC evaluated and ranked the proposals. This RFP committee interviewed 4 finalists in person during the week of May 9, 2016. The RFP committee considered a number of different criteria including:

- Experience and expertise, including performance history,
- Operating approach/method of achieving investment performance,
- Servicing capability,
- Costs/ fees, and
- Other factors including corporate structure, governance, track records, and internal controls, and approach to regulatory/ audit compliance.

Upon completion of the interviews, the RFP Committee identified 2 firms whose proposals and qualifications indicated they would be a best fit for NSHE's needs in this area. These two firms are as follows (not ranked but listed in alphabetical order):

- Cambridge Associates
- Russell Investments

The RFP committee provided an unqualified recommendation for either of these firms to provide OCIO services for NSHE.

Both of the above mentioned firms will be in attendance at your June 9 Investment Committee meeting. After consultation with Committee Chair Melcher, I have asked each firm to prepare a presentation of not more than 30 minutes which would include (but not be limited to) the following areas:

- Proposed approach to assisting NSHE's Board of Regents with achieving their strategic goals for each Fund,
- Firm background, specifically including staff (and their qualifications) who would be assigned to the NSHE account,
- Proposed approach to assisting the NSHE Board and its Investment Committee in exercising its governance role in areas such as:
 - Review and development of the spending policy
 - Review and approval of the strategic asset allocation
- Examples of routine and ad hoc reporting

Should the Investment Committee decide to continue with the OCIO process with one or both of these firms, the Committee may take action on June 9 to recommend to the full Board the direction to enter into contract negotiations. The Committee has several options including:

1. Place one or both Funds (Endowment and Operating) with one firm,
2. Place one Fund with each firm,
3. Split one or both Fund(s) between the two firms.

Of these three options, I recommend that the Board move forward with option number 3, with the Endowment Fund only at this time. Specifically, I would recommend that NSHE enter into contract negotiations with both firms with the intention that each manage approximately 50% of the Endowment Fund, subject to successful contract negotiations. Further, I recommend the Chancellor be authorized, after consultation with the Committee Chair and review by the Vice Chancellor for Legal Affairs, the authority to enter into one or more agreements for OCIO services for all, or a portion, of the Endowment Fund, with a report to the Committee at its September 2016 meeting. I make this recommendation with the following rationale:

1. NSHE was fortunate that the RFP process produced 2 qualified bidders with slightly different approaches, however each is compatible with NSHE's objectives as an institutional investor.
2. The assets of the Endowment Fund totaling approximately \$221M are of a size that is sufficient that even split, will place NSHE in the appropriate tier as an institutional investor with regard to fees and investment opportunities.
3. As an investor, utilizing 2 firms simultaneously will allow NSHE to monitor relative performance real-time under this new OCIO model.

While slightly more work for staff reconciling the work of 2 firms, I believe the potential benefits to NSHE outweigh the costs.

The Operating Fund, as currently structured, does not justify the fee structure of the OCIO model in my opinion. As such, I am recommending that my office continue to discuss the structural makeup of the Operating Fund with the NSHE institutions and the 2 bidders, and will provide a further recommendation on the Operating Fund at the September 2016 meeting of the Investment Committee.

I look forward to assisting the Investment Committee in this discussion however possible at its meeting on June 9. If you have any questions in advance, or would like any additional information prepared prior to the meeting, please contact me.