



OUTSOURCED CHIEF INVESTMENT OFFICE

PRESENTATION TO THE INVESTMENT COMMITTEE
BOARD OF REGENTS
9/8/16



INVESTMENT COMMITTEE & ENDOWMENT (TODAY)

- Utilizing a non-discretionary (advisory) consultant...
- Consulting Services from Cambridge
 - Been in this role with System since 1985
 - Contract rebid in 2011, runs through 2016
 - Providing services for both pools
 - Endowment pool ~\$220m
 - Operating pool ~\$760m
- Non-discretionary (advisory) model
 - Cambridge Associates LLC (consultant) and NSHE staff bring recommendations
 - The Committee votes on a recommendation to the full Board
 - The full Board votes on the recommendation (usually as part of the Committee Chairs Report)
 - NSHE staff execute actions



CURRENT MODEL

Investment Committee task list:

- Hire & fire fund managers
- Make short term allocations and rebalancing
- Discuss and implement investment strategy
- Monitor portfolio
- Review benchmarks
- Make policy/ set goals
- Governance



- And we do this in 90 minutes - 4 times a year!



INVESTMENT COMMITTEE

- Investment and Facilities Committee exists under the authority of Handbook: Title 1, Chapter 1, Article VI
 - Similar structure to other Board committees
 - 4-6 Regents, annual appointments
 - Chancellor, Vice Chancellor of Finance, Director serve as ex officio non-voting members

"...The Investment and Facilities Committee shall:

1. *Formulate and recommend to the Board appropriate investment policies to govern the investment program of the NSHE;*



INVESTMENT COMMITTEE

2. Review and evaluate reports from the *investment managers of the NSHE concerning investment and reinvestment transactions within the limits of the investment policies approved by the Board;*
3. Make such recommendations deemed appropriate concerning *investment and reinvestment transactions consistent with the investment policies approved by the Board and with agreements, if any, with the investment managers of the NSHE;... ”*

OUTSOURCING

- What functions are candidates for outsourcing?
 1. New Fund Subscriptions YES
 2. Capital calls YES
 3. Accounting/ Legal/ Operations YES
 4. Rebalancing YES
 5. Reporting & Communications YES
 6. Manager selection and termination YES
 7. Asset allocation - Strategic NO / Tactical YES
 8. Policy Implementation NO
 9. Policy Development/
Recommendations NO

Tasks 7, 8 and 9 will remain an
Internal BOR function

OCIO TIMELINE

- **Approval to bid - December 2015**
 - Spring 2016 RFP
 - 16 bidders
 - Selection committee of NSHE staff, UNLV Foundation & UNR representation
- **Interviews – May, 2016**
 - 4 finalists
- **Recommendation – June 2016**
 - Utilize 2 OCIO's with a split Endowment pool
 - Negotiations through summer 2016
- **Implementation – Fall 2016**
 - Transition most assets to 2 OCIO's
 - Retain Legacy Asset Pool during transition

CAMBRIDGE ASSOCIATES MODEL

- NSHE owns all assets directly
- Cambridge Associates acts as our agent in selecting/hiring/evaluating/firing individual managers (within NSHE investment policy)
- Funds are invested on our behalf, in our name
- Fees:
 - OCIO Fee
 - Individual fund managers will have separate fee structure paid directly

RUSSELL INVESTMENTS MODEL

- Russell is the OCIO and fund manager (for majority of funds)
- NSHE owns shares of multiple Russell Investment Funds
- Russell then invests those pooled funds (our and other investors) in assets of their choosing
- Fees
 - The OCIO fee and fund management fees are combined for most funds (hedge funds and private capital funds have additional management fees)

THE LEGACY POOL

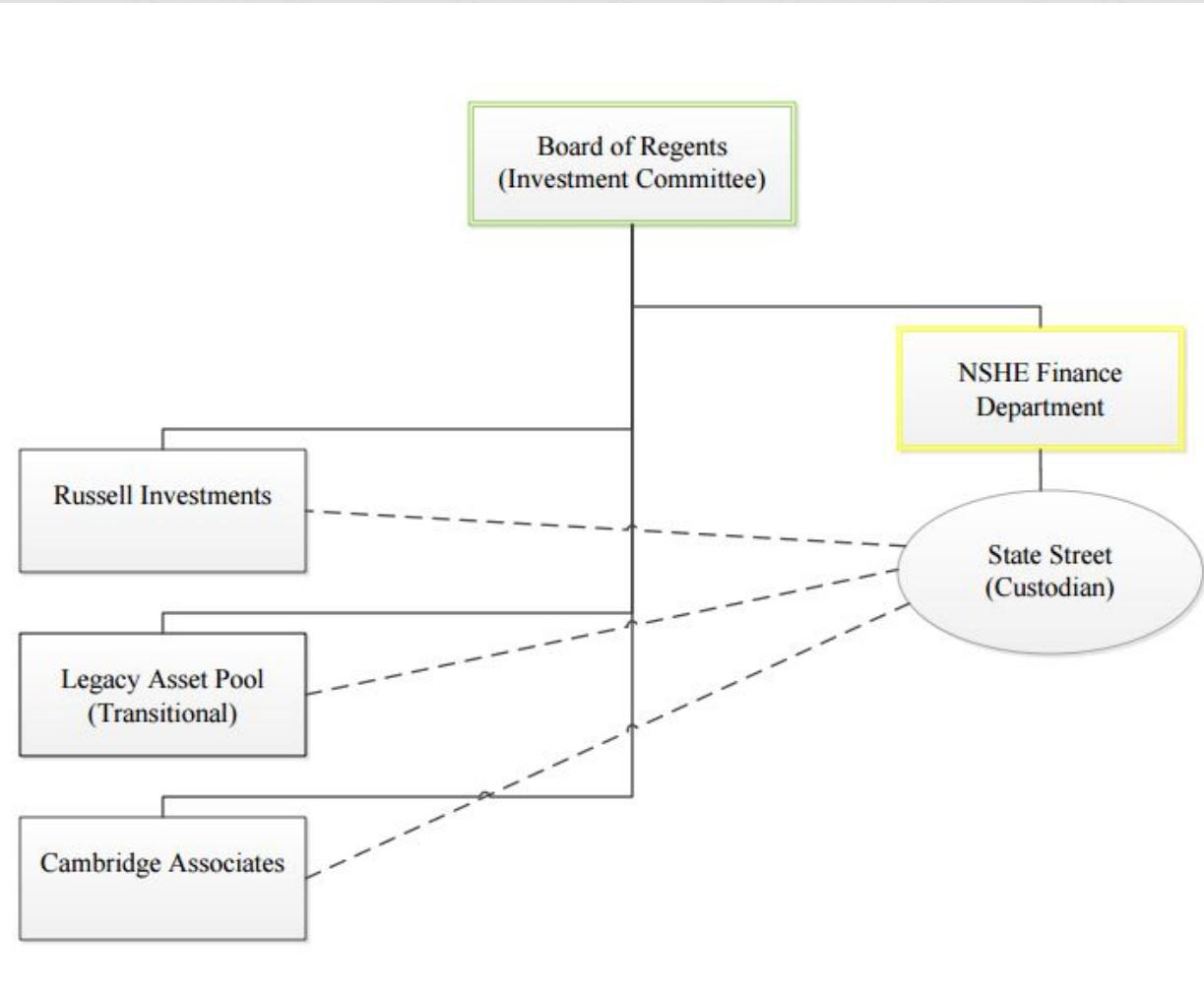
- NSHE has identified certain alternative investments that should remain in our portfolio and not be part of the outsourcing process
 - Long term, non-liquid assets
 - No discretionary role needed
 - Will wind down over time

ROLE OF THE CUSTODIAN

- The custodian (State Street) holds/tracks the money/assets on our behalf
- Reporting
- Fiduciary role
- Risk Mitigation



ONE ENDOWMENT – 3 POOLS





INVESTMENT COMMITTEE POST OCIO

1. Asset allocation
2. Policy Implementation
3. Policy Development/
Recommendations
4. Monitor OCIO performance



FEES

- Current Fees/costs
 - Advisory fee
 - Fund manager fees
 - NSHE staff
- Cambridge OCIO
 - OCIO fee
 - Fund manager fees
 - Custodian fee
- Russell OCIO
 - OCIO + fund manager fees + custodian

EVALUATING SUCCESS

- Risk mitigation
- Increased returns net of fees
- Greater level of service
- Decreased burden on internal staff

OPERATING POOL

- Liquidity analysis
- Range of investments vs. OCIO fees

QUESTIONS?

