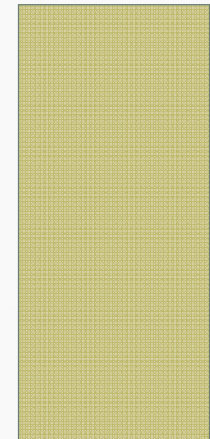




INVESTMENT MANAGEMENT MODELS

PRESENTATION TO THE INVESTMENT AND FACILITIES COMMITTEE
BOARD OF REGENTS
12/4/14





INVESTMENT & FACILITIES 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 & FACILITIES 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;..."



INVESTMENT & FACILITIES COMMITTEE

- Utilizing a non-discretionary 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 ~\$242.8m
 - Operating pool ~\$807.5m
- Non-discretionary 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)



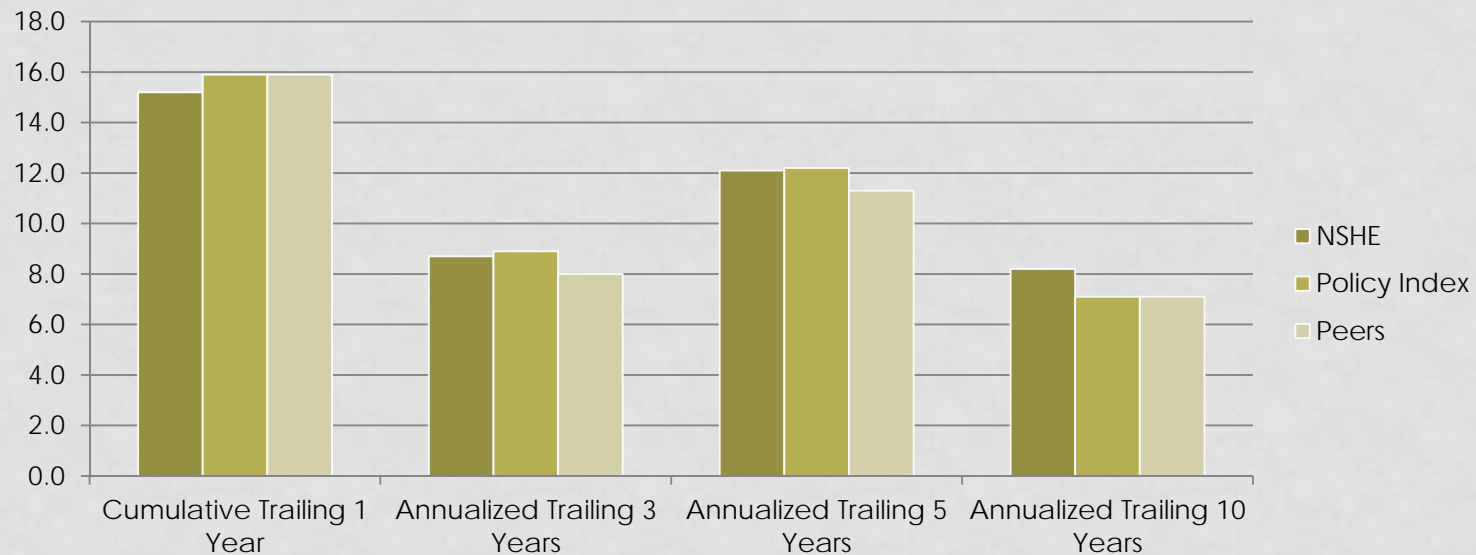


CURRENT MODEL

Model works very well for NSHE

Endowment

Total Return (%)
06/30/2014

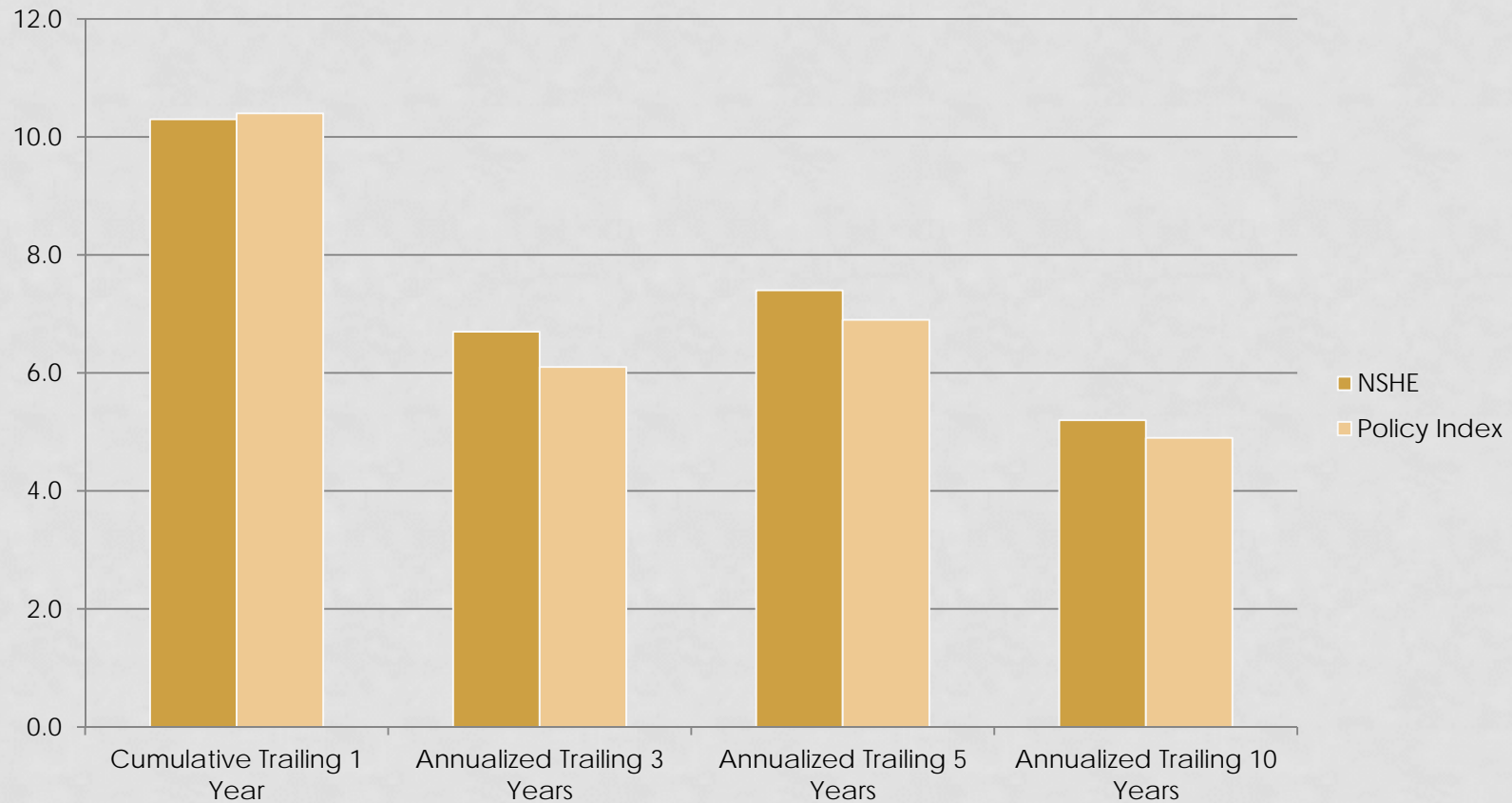


NSHE was able to maintain endowment spending (except for accounts underwater) throughout the entire downturn



CURRENT MODEL

Operating Total Return (%) 06/30/2014



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!

ITS ALL ABOUT TIMING...

- How fast can we (or should we) make decisions?
- *"...a major concern among respondents was the desire for decisions to be made faster and with greater sophistication in volatile, fast moving markets." (1)*
- Nevada open meeting law requirement for a decision
 - 3 days notice for posting AND
 - a quorum of the full Board (not just the Investment and Facilities Committee)

1 Mercer LLC, "Investment Decision-Making Survey" (March 2012)



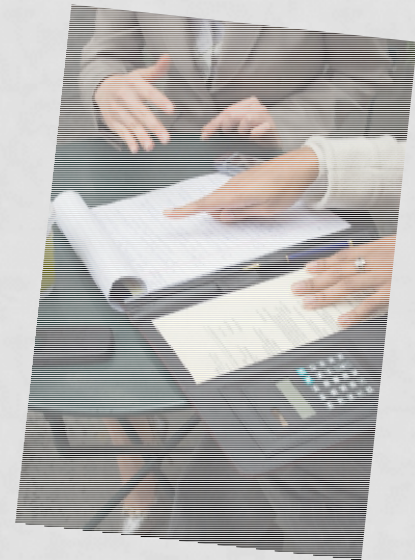
OTHER CONSIDERATIONS

- Profound changes in the institutional investment environment over the last decade, moving at real time.
- Increasing pressure for returns (which are increasingly harder to come by)
- Increasingly complex investment environment
 - More managers & more micro investments
 - More alternative investments
 - More niche strategies
 - More global opportunities
 - Wider number of asset classes
- Evolving legal, regulatory, audit & reporting requirements.



OTHER CONSIDERATIONS

- Increased donor sophistication
 - Are WE a good investment?
- Staffing economy of scale in a medium sized pool
- Checks and Balances
- Succession planning
 - For internal and external turnover
- Trees vs. Forest
 - efficient use of Board's time
 - Management/Governance



ALTERNATIVES?

- Non-discretionary vs. discretionary
- Outsourcing
- Some, or all, investment decision-making is delegated to the firm
- Outsourced Investment Function
 - Chief Investment Officer - OCIO



OUTSOURCING

- What are our peers doing?

*Outsourcing by Nonprofit Organizations**

	Colleges & Universities	Private Foundations	Operating Charities
Total Institutions	831	140	63
Have substantially outsourced the investment function	38	38	30

*Source: NACUBO-Commonfund Study of Endowments, Council on Foundations-Commonfund Study of Investments for Private Foundations and Commonfund Benchmarks Study of Operating Charities

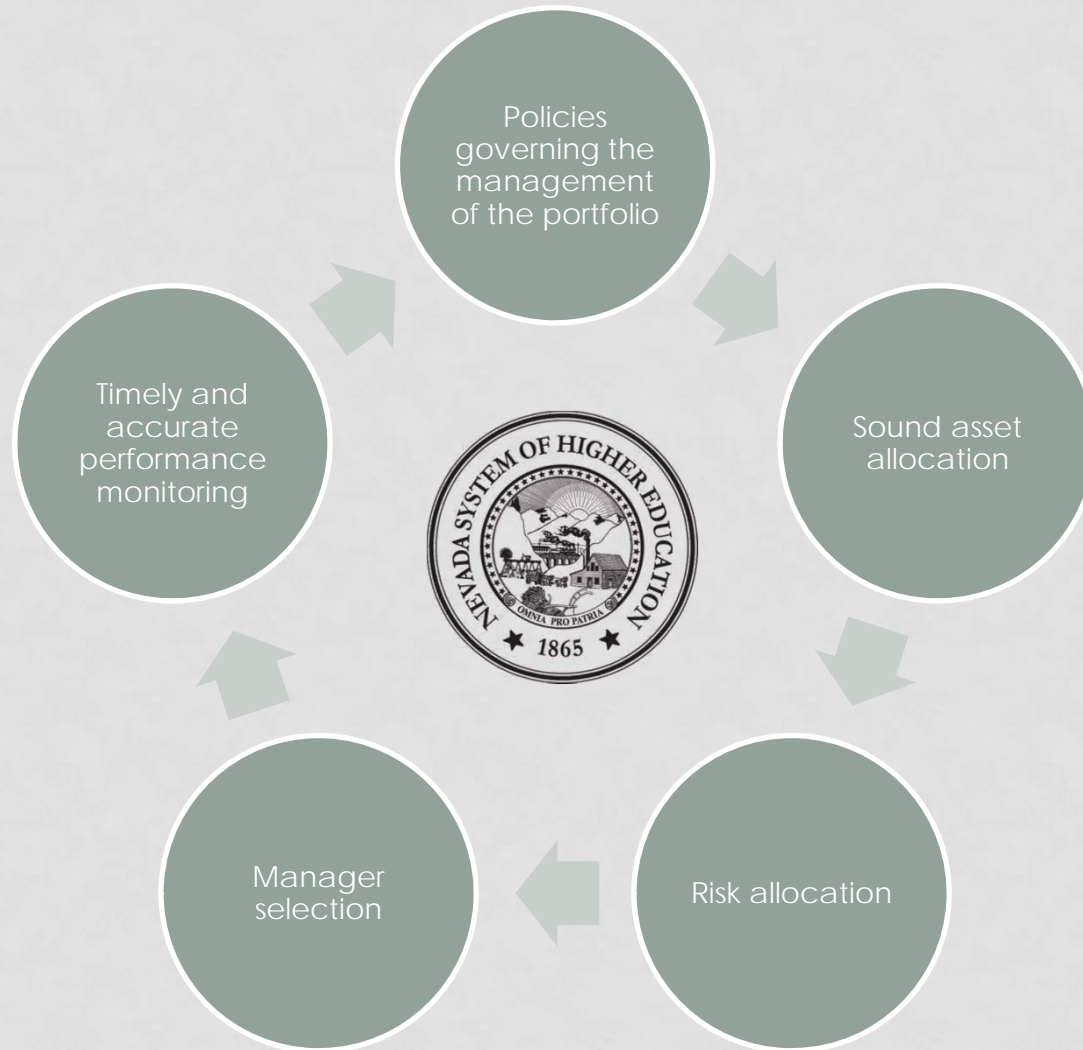
- Global Outsourced Market*

- 2012 = \$300b

- 2015 (projected) = \$450b

*Source: Cambridge Associates "Perspectives" (2012)

OUTSOURCING



OUTSOURCING

- What functions are candidates for outsourcing?
 1. Capital calls
 2. Accounting/ Legal/ Operations
 3. Rebalancing
 4. Reporting & Communications
 5. Manager selection and termination
 6. Asset allocation
 7. Policy Implementation
 8. Policy Development/
Recommendations



OUTSOURCING

- Considerations:
 - Fees & Staffing
 - 30 to 100 basis points*
 - Potential Offsetting savings
 - 1. current fund of fund fees
 - 2. internal staffing
 - Board's obligations and traditional role in operational oversight
 - Accountability
- Challenge – finding a model that is a good fit for NSHE



*CommonFund Institute "Outsourced Investment Management: An Overview for Institutional Decision-Makers" (2013)

OUTSOURCING

- Degree of discretion
 - Policy or procedure level decisions?
 - Implementation decisions?
 - Manager-level decision?
 - Operational transactions?



OUTSOURCING

- Decision points:
 - Risk Budget
 - Return Expectations
 - Liquidity Needs
 - Strategic/ Tactical Ranges
 - Allowable Opportunistic Actions
 - Manager Selection
 - Diversification
 - Manager Fees/ Investment Costs
 - Withdrawals
 - Tax Issues
 - Reporting



QUESTIONS?

