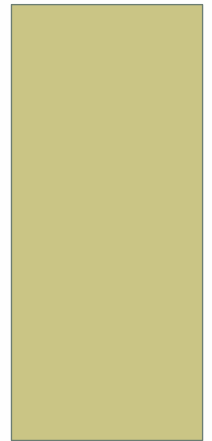


OUTSOURCED CHIEF INVESTMENT OFFICE

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



I 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

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**

OCIO TIMELINE

- Approval to bid - December 2015



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



ONE ENDOWMENT – 3 POOLS

INVESTMENT COMMITTEE POSTOCIO

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

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

