



**YOUNGSTOWN
STATE
UNIVERSITY**

**BOARD OF TRUSTEES
INVESTMENT COMMITTEE
Allen L. Ryan, Jr., Chair
Charles T. George, Vice Chair
All Trustees are Members**

**BACKGROUND MATERIALS
Thursday, December 8, 2022**

1. Discretionary vs. Non-discretionary Investments

Tab 1



FIDUCIARY EDUCATION: DISCRETION (OCIO) VS. NON-DISCRETION

EVOLUTION OF INVESTMENT CONSULTING & INDUSTRY TREND

Over the past decade, the institutional investment industry has transformed in many capacities.

One area that has evolved is how organizations, including many higher education institutions, work with an investment partner.

Historically, institutions most commonly worked with an investment partner in a traditional consulting framework. This structure still exists today, where Boards and Committees hold all decision-making power while their investment partner brings best practices and recommendations in areas such as policy, asset allocation, and investment managers, among other topics. The Board/Committee will then decide to approve or not approve the investment partner's recommendations.

An industry trend that has gained a lot of momentum over the past five to seven years, although its inception dates back to years ago, is partnering with an investment consultant in a "discretionary" service model. Today, this discretionary service model is more commonly referred to as outsourced chief investment officer, or "OCIO".

The amount of institutions seeking an OCIO investment partner has increased significantly, as Boards and Committees today have been more receptive to outsourcing some level of investment decision-making to its investment partner, while maintaining the authority to set the investment process and guidelines the investment consultant may operate within.

CONSIDERATIONS WHEN EVALUATING SERVICE OFFERINGS

WHY INSTITUTIONS ARE OPTING FOR AN OCIO SERVICE MODEL?

- Transfer of investment risk from the Board/Committee to the investment consultant
- Increase in fiduciary oversight for the investment consultant – code 3(38) (OCIO) vs. 3(21) (non-discretion)
- Delegation of decision-making to a qualified investment professional, team of professionals, or firm
- The ability to be nimble and move quickly in implementing investment decisions amid complex and volatile markets
- Alleviates cumbersome investment operations and time burden to execute investment transactions
- Allows institutional stakeholders to prioritize and focus on what's most important to them, which is running the organization, while investment oversight is not lessened
- Promotes more accountability to investment performance

OTHER CONSIDERATIONS THAT MAY BE PERCEIVED DISADVANTAGES

- Some providers have a one-size-fits-all approach
- Some providers have, and will use, proprietary strategies – creates conflict of interest
- With an OCIO offering, the Committee does lose some decision-making authority
- When not properly educated and informed, Committee may lose touch with portfolio(s)

VARYING LEVELS OF DISCRETION

ROLES & RESPONSIBILITIES



INVESTMENT INITIATIVE	NON-DISCRETION		OPERATIONAL DISCRETION		DISCRETION (OCIO)	
	INSTITUTION	CONSULTANT	INSTITUTION	CONSULTANT	INSTITUTION	CONSULTANT
Investment Policy	Collaborative		Collaborative		Collaborative	
Strategic Asset Allocation	Collaborative		Collaborative		Collaborative	
Illiquid Manager Changes (> Annual Liquidity)	Approves	Recommends	Approves	Recommends	<i>Varies</i>	<i>Varies</i>
Liquid Manager Changes (< Annual Liquidity)	Approves	Recommends	Approves	Recommends	Monitors	Implements
Tactical Adjustments	Approves	Recommends	Approves	Recommends	Monitors	Implements
Trading & Implementation	Monitors / Implements	Assists / Implements	Monitors	Implements	Monitors	Implements
External Cash Movements	Approves	Assists in Transfer	Approves	Assists / Implements	Approves	Assists / Implements

NEXT STEPS FOR THE INVESTMENT COMMITTEE

The current investment structure that exists between Clearstead and Youngstown State works well. Nothing is broken.

As the University's investment consultant, one of our responsibilities is to provide the Committee with education on industry trends and investment themes that may be of value to YSU, as well as share our firm's capabilities.

A discretionary (OCIO) assignment often comes with higher fees. Clearstead values its partnership with YSU and **would not** pursue a change to the current fee structure.

Should YSU be interested in Clearstead's role evolving to an OCIO service model, next steps would be:

- Clearstead to gather Committee feedback / questions and follow up with responses
- The investment advisory agreements would need to be updated to reflect a level of discretionary authority
- Clearstead would review the Investment Policy and guidelines and propose revisions, if necessary, to update roles and responsibilities
 - Revisions would be presented in red-line format to identify delegation of a certain level of discretion to the investment consultant
- Clearstead would work with University stakeholders to be granted trading authority at PNC Bank (University's primary custodian) and any other custodians/managers
 - No authority for external cash movements will be given to Clearstead