Frequently Asked Questions: Who does what?

Non-profit outsourcing versus the in-house management model

Lisa Schneider, CFA, Managing Director, Non Profits & Health Care Systems

In this FAQ, we will discuss:

1. Russell's approach to investment outsourcing non-profit portfolios,
2. What can and can't be outsourced in an evolving investment outsourcing landscape, and
3. The investor's continuing fiduciary role in outsourcing relationships.

Outsourcing, or OCIO, is clearly evolving, but what does outsourcing mean in our industry today and how does Russell approach it?

Outsourcing boils down to the delegation of the day-to-day management for all or a portion of a portfolio. There is more than one way to divide responsibility for the many tasks that go into running an institutional investment program. There are certain things that only the client can do and certain things that always fall squarely into Russell's areas of responsibility. But there are some other tasks where the decision is going to depend on whether the client is looking to delegate as much of the investment process as possible or whether they want a more consultative relationship, retaining many of the day-to-day duties in house.

What are some typical examples of activities that are delegated in an outsourcing relationship?

Manager selection and fee negotiations are the most obvious examples, but it goes much beyond that to include things like tactical tilts around the strategic asset allocation targets; dynamic use of both active and passive management; and daily risk management including the use of exposure management strategies. These all fall into the list of investment activities that are often delegated.

We also see the delegation of administrative and operational duties such as Donor Accounting, Planned Giving Administration, Securities Gift Processing, Regulatory Reporting and Audit Support to name just a few.

Is there anything that can't be outsourced?

Yes. While Russell acts as a co-fiduciary in every outsourcing relationship, non-profit organizations retain their fiduciary obligations—which means they continue to conduct governance oversight. Their focus, however, shifts. For example, rather than approving things such as manager changes or tactical tilts (which are really daily portfolio management decisions), in an outsourcing relationship, the investment committee's focus shifts to ensuring that the OCIO's decision-making and implementation processes remain sound.

Another example is asset allocation. While Russell is often given some discretion around strategic asset allocation, our clients ultimately approve policy targets—because strategic asset allocation is a direct reflection of risk tolerance, and risk tolerance is unique to each investor.

So the investment committee retains a hands-on role in many ways?

Absolutely. In fact, "outsourcing" is not the best term for these relationships. It's more an extension of staff, whereby our clients focus on the "long lever" decisions and we focus on the day-to-day implementation of these decisions.

How do these relationships typically start? Is it a flip of the switch, or more of an evolution?

We've seen both, but it's more common for relationships to evolve toward outsourcing. For example, we might start by assuming responsibility for a client's manager selection decisions and portfolio rebalancing, and that may then migrate over time to full asset allocation discretion within the client's approved investment policy targets.

Why is the outsourcing approach gaining momentum?

It really boils down to the world getting more complex and resources being squeezed. In this environment, it's difficult for an investment committee who meets quarterly to stay on top of timely market shifts, which has translated to investors looking to delegate some tasks so that they can focus on getting the big picture right.

When might an investor choose *not* to delegate as much as possible?

A lot of this has to do with scale. Very large organizations have the option of building an investment staff to take care of many of the day-to-day tasks that smaller and medium-size organizations have little choice but to delegate. It also has to do with how much time is left after they have given full attention to really understanding and articulating their objectives, constraints, fee budgets, risk tolerances and so forth.

And, finally, what is next in this area?

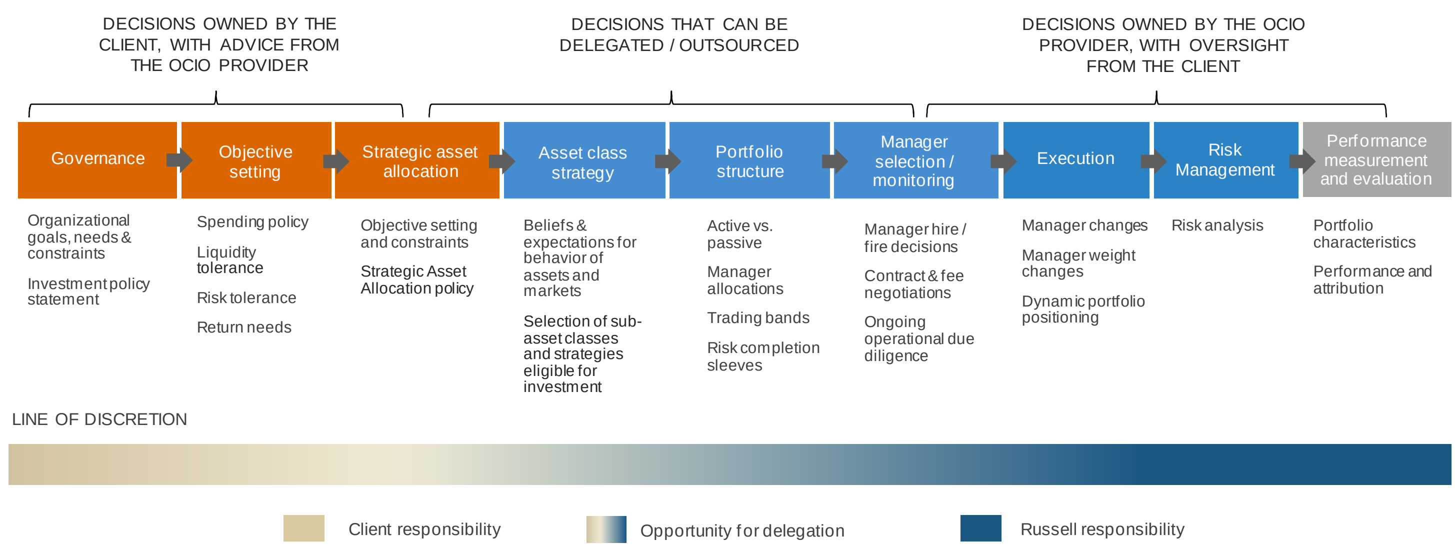
Well, you never know for sure. Resources continue to be stretched. The investment world continues to get more complex. So the conditions that have led to an increase in outsourcing seem set to persist. We expect this to mean that the practice will continue to gain ground, even among some of the larger organizations that might not have considered it in the past.

Appendix

Non-profit investment program management options

There are many ways to divide responsibility for the tasks involved in running an institutional investment program. Some essential fiduciary responsibilities cannot be delegated by the investment committee, while others are widely accepted as the responsibility of your service provider. Between these two extremes lie a number of outsourcing and delegation options.

Functional responsibilities overview



RELATED READING

Santo-Walter, A., Schneider, L. (2017, March). "Non-profit investment outsourcing guide." *Russell Investments*.

ABOUT RUSSELL INVESTMENTS

Russell Investments is a global asset manager and one of only a few firms that offers actively managed multi-asset portfolios and services, which include advice, investments and implementation. Russell Investments stands with institutional investors, financial advisors and individuals working with their advisors—using our core capabilities that extend across capital market insights, manager research, asset allocation, portfolio implementation and factor exposures to help investors achieve their desired investment outcomes.

FOR MORE INFORMATION:

Call Russell Investments at **800-426-8506** or visit **russellinvestments.com/institutional**

Important information

Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax and investment advice from a licensed professional.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

Russell Investments' ownership is comprised of a majority stake held by funds managed by TA Associates with minority stakes held by funds managed by Reverence Capital Partners and Russell Investments' management.

Frank Russell Company is the owner of the Russell trademarks contained in this material and all trademark rights related to the Russell trademarks, which the members of the Russell Investments group of companies are permitted to use under license from Frank Russell Company. The members of the Russell Investments group of companies are not affiliated in any manner with Frank Russell Company or any entity operating under the "FTSE RUSSELL" brand.

First used: September 2014 (Reviewed for continued use: November 2017)

AI-26103-11-20