VIDEOCONFERENCE
BOARD OF REGENTS and its
INVESTMENT COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION

System Administration Conference Rooms
5550 West Flamingo Road Suite C-1, Las Vegas
2601 Enterprise Road, Reno
Great Basin College, Berg Hall Conference Room
1500 College Parkway, Elko
Friday, March 27, 2009

Members Present:	Mr. James Dean Leavitt, Chair Mr. Mark Alden Mr. William G. Cobb Mr. Ron Knecht
Members Absent:	Mr. Michael B. Wixom
Other Regents Present:	Dr. Raymond D. Rawson
Others Present:	Dr. Mike Reed, Vice Chancellor, Finance Mr. Hank Stone, System Counsel and Director of Real Estate Planning Ms. Ruby Camposano, NSHE Ms. Sherri Payne, CSN Ms. Kathleen Badgett, DRI Dr. John Rice, GBC Mr. Mac Taylor, GBC Ms. Annie Macias, NSC Mr. Craig Scott, TMCC Mr. David Frommer, UNLV Mr. Brent Morgan, UNLV Dr. Mike Sauer, UNLV Dr. Neal Smatresk, UNLV Mr. John Carothers, UNR Ms. Mary Dugan, UNR Ms. Cary Groth, UNR Mr. Tom Judy, UNR Mr. Steve Mischissin, UNR Mr. Ron Zurek, UNR Mr. Jim Manning, WNC Mr. David Breiner, Cambridge Associates Mr. Bill Atlas, Cambridge Associates *{via telephone}* Ms. Liz Quillin, City of Henderson Mr. David Main, Commonfund

Mr. Deane A. Albright, Persing & Associates, Ltd.
Dr. Richard Blakey, Reno Orthopaedic Clinic

Chair Leavitt called the meeting to order at 9:01 a.m. with all members present except Regent Wixom. Chair Leavitt reported that Regent Rawson would be standing-in for Regent Wixom.

1. Approved-Minutes – The Committee recommended approval of the minutes from the January 30, 2009, meeting *(Ref. INV-1 on file in the Board office)*.

Regent Alden moved approval of the minutes from the January 30, 2009, meeting. Regent Knecht seconded. Motion carried.

2. Approved-Purchase of the Reno Orthopaedic Sports Medicine Complex from University Investors – UNR (Agenda Item #6) – The Committee recommended approval for the University of Nevada, Reno, to purchase the Reno Orthopaedic Sports Medicine Complex from University Investors *(Ref. INV-6 on file in the Board office)*.

Dr. Mike Reed, Vice Chancellor, Finance, felt the Committee had the necessary material *(on file in the Board office)* to understand the action requested and asked if there were any questions.

Mr. Ron Zurek, Vice President, Administration & Finance, UNR, added that the money for the cash sale of $737,500 would be obtained from the property acquisition and rental income accounts. Mr. Zurek reported that no state general funds would be used for the purchase. The plans are to lease the building in combination with other campus functions.

Regent Alden moved approval for the University of Nevada, Reno, to purchase the Reno Orthopaedic Sports Medicine Complex from University Investors. Regent Knecht seconded.

Regent Knecht requested a representation from Mr. Zurek or Vice Chancellor Reed that, in addition to not using state general funds, there are no opportunity costs for any academic department or other part of UNR’s mission. Mr. Zurek stated that he is prepared to make that representation.

Regent Cobb reported that his firm had represented the Reno Orthopaedic Clinic in the past.

2. Approved-Purchase of the Reno Orthopaedic Sports Medicine Complex from University Investors – UNR (Agenda Item #6) – *(continued)*

Upon a roll call vote, the motion carried. Regents Alden, Knecht, Rawson and Leavitt voted yes. Regent Cobb abstained.

3. Information Only-Asset Allocation and Investment Returns (Agenda Item #2) – Cambridge Associates presented a report on asset allocation and preliminary investment returns for the pooled endowment and pooled operating funds as of February 28, 2009.

Mr. David Breiner, Cambridge Associates, referred to the report dated March 27, 2009, *(on file in the Board office)*, which summarized the endowment returns and operating fund returns.

Mr. Breiner stated that the endowment returns, calendar year to date through February 2009, total assets, were down 6.9%, somewhat better than the benchmarks, and trailing one year negative 27.4%, slightly behind the policy benchmark. The endowment returns were above their peers over one, three, and five year periods and in line over a 10 year period.

Mr. Breiner continued that the operating fund, calendar year to date through February 2009, was down 3.1%, which is above policy, and trailing one year 17%, which was below the policy benchmark.

Mr. Breiner stated that page 5 indicated the next level of detail for the endowment pool over various time periods at the asset class level. Risk assets were hit hard last year, which drove the negative results. For the most part, all the managers in the endowment pool have performed in line, or better than their benchmarks, with few exceptions. In the real assets area, Wellington had a difficult time in their commodity and resource diversified fund. Wellington had a hard year and underperformed. The hedge fund managers did better than the equity markets but the performance was below the benchmark.

Mr. Breiner reported that the operating fund was not hit as hard as the endowment fund, but it was down 17%, trailing one year through February 2009. Equity managers did better than their benchmarks but most of the other managers lagged, including PIMCO.

Mr. Breiner indicated that the asset allocation for the operating pool, U.S. Equities, is near the bottom of the range and is being monitored. Changes are not recommended at this time.

Mr. Breiner continued that the operating fund was examined from two perspectives – liquidity and asset class. The majority of the assets have daily

3. Information Only-Asset Allocation and Investment Returns (Agenda Item #2) – *(continued)*

liquidity, which is $235 million, allocated between cash, bonds and a portion of the common stocks. There is $196 million allocated in bonds and cash accounts that offer daily liquidity, which has been positioned towards the designated comfort level of $150 million.

Mr. Breiner felt that liquidity takes precedence over everything else. Vice Chancellor Reed noted that the Committee has recently increased the comfort zone of the cash account from $120 million to $150 million in an attempt to adjust the comfort level, given the market conditions. Mr. Breiner stated that when the cash and bonds are added, the asset class mix has $248 million.

Regent Knecht felt the perspective is to look forward, which should be the basis for decisions that are made. He requested consideration to reduce the allocation to the policy goal and minimize the opportunity cost from too much liquidity. Regent Knecht thought that at some point the economy would get better, and there should be an appropriate balance between liquidity and returns. He would like Cambridge Associates to comment on this at the next meeting and possibly have an action item on the next agenda. Chair Leavitt requested that this be placed on the agenda for the June 12, 2009, meeting.

Regent Cobb asked if it was possible to split the endowment cash fund to invest in both the Wells Fargo Government (Agency) Money Market Fund and Wells Fargo Heritage Money Market Fund as requested at the Investment Committee meeting of January 30, 2009. Ms. Ruby Camposano, Director, Banking & Investments, reported that the NSHE was able to invest in both funds.

4. Information Only-Operating Pool Reserve Update (Agenda Item #3) – Ms. Ruby Camposano, Director, Banking & Investments, reported on the activities and the most current balance of the reserve account of the operating pool fund.

Ms. Camposano reported that the operating reserve as of March 26, 2009, was negative $63.4 million, but that it had a strong rebound in the past few weeks.

5. Approved-Modification of the Dawson Building Lease – NSC – The Committee recommended approval to modify the existing lease with the City of Henderson to install an elevator in the NSC Dawson Building *(Ref. INV-5 on file in the Board office)*.

Regent Rawson asked about the time table for the Mezzanine construction. Ms. Annie Macias, Special Assistant to the Vice President for Finance & Administration, NSC, replied that there is approximately 5,000 square feet of space not utilized on the Mezzanine. There is speculation of having four classrooms in that area. A timeline has not been determined.

5. Approved-Modification of the Dawson Building Lease – NSC – *(continued)*

Regent Alden asked about the cost being raised from $1 to $2,001 a year. Mr. Hank Stone, System Counsel and Director of Real Estate Development, explained that the $2,000 increase is a pass-through from the city for the elevator contract for maintenance of the elevator.

Regent Alden moved approval to modify the existing lease with the City of Henderson to install an elevator in the NSC Dawson Building. Regent Cobb seconded.

Regent Cobb understood that the City of Henderson was making a major investment for this change. Ms. Liz Quillin, Attorney, City of Henderson, added that the college will pay for the elevator and the city will handle the design work. Mr. Stone explained that the actual cost of the construction is between $110,000 and $140,000. Approximately $83,000 has been funded by the State Public Works Board. Actual net cost to NSC will not exceed $57,000.

Regent Cobb requested a letter of acknowledgement and appreciation be sent to the City of Henderson.

Motion carried.

6. Approved-Existing Facility and Infrastructure Needs (Agenda Item #7) – The Committee recommended approval of a revision to Board policy *(Section 23, Title 4, Chapter 10)*, intended to reduce the backlog of deferred maintenance projects and preserve the useful life and functionality of existing facilities *(Ref INV-7 on file in the Board office)*.

Vice Chancellor Reed explained that this policy for maintaining capital facilities had been presented to the Committee on a number of occasions. Approval of this request would expedite work with the business officers to put the procedures and guidelines in place for the implementation of this policy.

Regent Alden moved approval of a revision to Board policy *(Section 23, Title 4, Chapter 10)*, intended to reduce the backlog of deferred maintenance projects and preserve the useful life and functionality of existing facilities. Regent Cobb seconded.

Vice Chancellor Reed said that this policy will allow capital that would be separate from requests for new facilities. Engineering studies have reported that there is a 10 year $500 million backlog in facilities maintenance.

6. Approved-Existing Facility and Infrastructure Needs (Agenda Item #7) – *(continued)*

Regent Knecht requested more information concerning the substantive change and the impact on the budget in the next biennium. Vice Chancellor Reed replied that the new policy will address the existing capital needs and allow the System to begin developing campus budget priorities concerning capital maintenance and requests by having a strategic mechanism in place. Regent Knecht noted that this would generate a series of budget numbers on a formula-driven systematic basis rather than a reactive basis.

Regent Knecht asked about the approximate impact of moving to this formula in the next budget cycle. Vice Chancellor Reed reported that the business officers have not yet met to begin discussing the completion or project rate that would be included as an ongoing procedure. Regent Knecht felt there would be some cost or management savings involved. He would like to see a report of the net effect in the change of policy, the balance between improved maintenance and condition and the cost saving. Vice Chancellor Reed felt this information could be included in the annual property reports submitted by the campuses. Regent Knecht requested that those facts be highlighted for easy recognition.

Regent Rawson thought there was so much emphasis on building "new" that maintenance had been neglected. It is seen on every campus and it is detrimental to the System. He felt this was a move in the right direction.

Motion carried.

7. Information Only-Hospitality Campus Pre-Development Agreement – UNLV (Agenda Item #4) – UNLV presented information regarding the Pre-Development Agreement of the UNLV Hospitality Campus Project *(Ref. INV-4 on file in the Board office).*

Dr. Neal Smatresk, Executive Vice President and Provost, UNLV, explained that UNLV has entered into discussions about creating a hospitality campus in a public/private partnership. This briefing is to update the Committee.

Mr. David Frommer, Executive Director of Planning & Construction, UNLV, explained that in June 2005, the concept of developing a cooperative arrangement between the hotel college and a private sector partner for a hotel conference center, to be used as a platform for research integration in a real operating environment, was presented to the Board. Subsequently, there have been three more updates to the Investment Committee.

Mr. Frommer continued that a notion of a Letter of Intent was signed in February 2009. This is a non-binding cooperative agreement for UNLV and the selected development partner to work together, and serves as a further expression for the

7. Information Only-Hospitality Campus Pre-Development Agreement – UNLV (Agenda Item #4) – *(continued)*

developer/partner to better stand with UNLV in terms of working with their equity-in-debt partners to acquire financing and equity partners for the project. Mr. Frommer said it will largely define the working relationship to seek financing, obtain a ground lease for the land and to work with the existing facilities at the Stan Fulton Building. There are various issues to work out to arrive at a solid agreement.

Regent Alden left the meeting.

Mr. Frommer said there are hopes to bring the ground lease forward to the June 2009 Board of Regents' meeting. Dr. Smatresk added that the ground lease is very favorable.

Regent Rawson observed that there are many escape clauses and noted that everyone would be held harmless. He asked about red flags. Mr. Frommer responded that there are numerous contingencies being addressed in the agreements.

Regent Rawson asked about the governor's budget seriously impacting the project. Mr. Frommer replied that, at this point, there is no impact. The main participation of costs anticipated right now, is the site consisting of 6.8 acres; 5 acres is for the hotel conference center. Integrated with the *Master Plan* is the Hotel College Academic Building and the existing Stan Fulton Building, which is currently in service. There may be some modifications to the Stan Fulton Building to make this piece work.

Mr. Frommer thought the main financial impact on the capital side is that if the site is improved and the Stan Fulton Building or Hotel College Academic Building site is positively impacted by those improvements, collaboration with the developer will have to be investigated to make sure the cost share is appropriate, based on the benefit UNLV receives from any improvements that they do. Incrementally it would make sense for UNLV to participate and support their own projects.

Regent Knecht felt that the construction industry's difficulties should be factored into the hotel and hospitality campus and program. Mr. Frommer responded that there are contingency dates requiring financing be secured at certain points in the agreement.

Dr. Smatresk replied that, on the programmatic side, there are 2,700 students in the Hotel School. It is not experiencing a decline in enrollment; it is one of the strongest enrolled sectors nationally and internationally.

7. Information Only-Hospitality Campus Pre-Development Agreement – UNLV (Agenda Item #4) – *(continued)*

Mr. Stone thought that, from the discussions with the UNLV committee and the private developer, there was a hierarchy of due diligence that will occur. The biggest economic roadblock to the completion of the due diligence is the negotiations with the county for the Tropicana wash. Part of the assumed deal structure will be for the developer to carry some costs of what is required, but the negotiations will determine what that cost will be and the ability to fit it in. Once that occurs, there will be an economic due diligence with some type of research project. This will unfold in steps which will be presented to the Investment Committee so that when specific action approval is requested it will have context.

Regent Cobb recommended changing the Indemnification Agreement language to say "hold harmless NSHE and UNLV." Mr. Stone said that although UNLV was used throughout the document, the introductory paragraph said that UNLV is a defined term for NSHE. The Board of Regents is the only entity that can enter into an agreement.

8. Information Only-Real Property Report for February 2009 – UNLV – UNLV presented the 2009 Real Property Report *(Ref. INV-8 on file in the Board office)*.

Dr. Mike Sauer, Vice President, Finance & Business, UNLV, explained that the report is a consolidated and comprehensive account of the NSHE holdings on behalf of UNLV and the UNLV Foundation. He noted that the changes since the last report were highlighted.

9. Public Comment – None.

10. New Business – None.

The meeting adjourned at 10:16 a.m.

Prepared by:	Nancy Stone Administrative Assistant IV
Submitted for approval by:	Scott G. Wasserman Chief Executive Officer of the Board of Regents