Minutes are intended to note (a) the date, time and place of the meeting; (b) those members of the public body who were present and those who were absent; and (c) the substance of all matters proposed, discussed and/or action was taken on. Minutes are not intended to be a verbatim report of a meeting. An audiotape recording of the meeting is available for inspection by any member of the public interested in a verbatim report of the meeting. These minutes are not final until approved by the Board of Regents at the December 2013 meeting.

BOARD OF REGENTS* and its
INVESTMENT AND FACILITIES COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION
Great Basin College
GBC Theater
1500 College Parkway, Elko
Thursday, September 5, 2013

Members Present:	Mr. Kevin C. Melcher, Chair Mr. Michael B. Wixom, Vice Chair Mr. Cedric Crear Mr. Ron Knecht Mr. James Dean Leavitt Ms. Allison Stephens
Others Present:	Mr. Daniel J. Klaich, Chancellor Mr. Vic Redding, Vice Chancellor, Finance Ms. Brooke Nielsen, Vice Chancellor, Legal Mr. Nicholas Vaskov, System Counsel and Director of Real Estate Planning Ms. Ruby Camposano, Director of Banking and Investments Dr. Neal J. Smatresk, President, UNLV Dr. Marc Johnson, President, UNR

For others present, please see the attendance roster on file in the Board office.

Chair Kevin C. Melcher called the meeting to order a 3:24 p.m. with all members present.

1. Information Only-Public Comment – None.

2. Approved-Minutes – The Committee recommended approval of the minutes from the June 6, 2013, meeting *(Ref. IF-2 on file in the Board office).*

Regent Crear moved approval of the minutes from the June 6, 2013, meeting. Regent Leavitt seconded. Motion carried.

3. <u>Approved-Asset Allocation and Investment Returns</u> – The Committee made the following recommendations:

1. Approval for rebalancing:
   - Endowment Fund –
     - i.) A $0.5 million redemption from the pool for the regular quarterly distribution to campuses for the quarter ending September 30, 2013;
     - ii.) A $1.1 million addition to the Real Assets allocation;
     - iii.) Cash for the above sourced from the following U.S. Equity managers:
       1.) $0.6 million partial redemption from Vanguard Institutional Index,
       2.) $1.0 million partial redemption from Vanguard Mid-Cap Index.
   - Operating Fund – Lower the current overweight to U.S. Equity, viewed as overvalued, with a $15 million partial redemption from Vanguard Institutional Index, with the proceeds to be reinvested in PIMCO Low Duration ($7.5 million) and Short-Term Bonds and Cash ($7.5 million).
2. Approval to reposition the Endowment's Real Assets allocation:
   - i.) Terminate the Wellington Diversified Inflation Hedges investment and liquidate the portfolio in response to a poor return outlook for commodities and Treasury Inflation Protected Securities *(TIPS)*, which constitute 50.0 percent of the manager's strategic targets;
   - ii.) Incept a new $11.0 million (~5.0 percent) allocation to RS Global Natural Resources Strategy;
   - iii.) Broaden the mandate for the current $4.1 million (~2.0 percent) allocation to EII Realty from a U.S. strategy to a global strategy.
3. Approval to update the Real Assets component of the Endowment's Policy Index: 5.0 percent to the S&P NA Natural Resource Index, 2.0 percent to FTSE EPRA/NAREIT Developed RE Index, and 1.0 percent to the CIA Private Natural Resources Benchmark, with a combined policy weight of 8.0 percent.

Mr. David Breiner, Cambridge Associates, said page 2 of the report *(on file in the Board office)* showed the return performance of the Endowment for the second quarter ending June 2013, at -0.8 percent, to approximately $220 million. The trend in the quarter was choppy for capital markets, mainly based on shifts in policy and the markets' response to the Fed's perceived intent to reduce stimulus. The pattern for the portfolio was losses in emerging markets, real assets and bonds, which offset gains in U.S. stocks and hedge funds to a lesser degree. Mr. Breiner stated the pattern was very similar for the calendar year through June 2013.

Mr. Breiner indicated the return in the Operating Fund was -0.7 percent in the second quarter, as outlined on page 3. Bonds did not offer much protection and, in fact, there were losses in Long-Term Bonds and TIPS, which offset the gains in U.S. Equities. The second quarter was the worst for TIPS returns on record.

Mr. Breiner said the Endowment rebalancing proposal was on page 9. The allocations were updated through July 2013, based on performance estimates. Total Equities are slightly over target, and Real Assets are slightly underweight the target when using the updated figures. Cambridge's proposal is to sell $1.6 million from U.S. Equities; use

3. Approved-Asset Allocation and Investment Returns – *(continued)*

$500,000 for the quarterly distribution to campuses, and reinvest the balance of $1.1 million in the Real Assets allocation, bringing it to the new target. The rationale for selling U.S. Equities is to harvest gains, and the assessment that U.S. Equities are over-valued. The specific recommendation is to sell $0.6 million from the Vanguard Institutional Index Fund and $1 million from the Vanguard Mid-Cap Index Fund.

Regent Knecht asked about Cambridge's view of likely economic growth and an overall level of investment returns for the very long-term. Mr. Breiner said Cambridge does not invest many resources in economic projections. It is difficult to find a strong relationship between gross domestic product growth and an investment return. He is not optimistic the returns of the future will match what has been seen, and the outlook is for modest performance.

Regent Knecht, referring to standard models, understood the problems of looking back and trying to correlate the recorded returns and recorded growth, but the problem is the forward looking expectations on returns. Mr. Breiner said Cambridge's outlook has not been based on projecting economic growth and then extrapolating to returns, but to ask what would happen if evaluations revert to "normal" long-term averages over the next 10 years. Mr. Breiner indicated it was just a thought exercise that leads to a fairly uninteresting level of returns going forward – the expectations are low.

Regent Knecht felt it was a relevant question in regards to slow economic and productivity growth, and there are those who feel it will continue for some time. Regent Knecht said the Committee should be aware the models say if low economic growth is expected, to expect much lower than historical returns. Mr. Breiner indicated it could have a bearing on the spending policy.

Regent Leavitt moved approval for rebalancing:
Endowment Fund –

i. A $0.5 million redemption from the pool for the regular quarterly distribution to campuses for the quarter ending September 30, 2013;
ii. A $1.1 million addition to the Real Assets allocation;
iii. Cash for the above sourced from the following U.S. Equity managers:
    1.) $0.6 million partial redemption from Vanguard Institutional Index,
    2.) $1.0 million partial redemption from Vanguard Mid-Cap Index.

Regent Stephens seconded. Motion carried.

3. Approved-Asset Allocation and Investment Returns – *(continued)*

Mr. Breiner stated the Operating Fund figures on page 10 were updated through July 2013. The Cash figures were updated through August 27, 2013. The resulting recommendation is to harvest the gains in U.S. Equities, which are overvalued, by selling $15.0 million of U.S. Equities to bring it back to target, and then rotate $7.5 million into Intermediate Term Bonds and revert the other $7.5 to Cash. The Cash is a default option to protect the capital because there is no other recommendation at this time. Mr. Breiner suggested having a Global Tactical Asset Allocation Fund in the Operating Fund which would offer daily liquidity, a broad mandate to invest across assets and offer more tactical positions. Chair Melcher asked this to be placed as an item on the December 2013, agenda.

Vice Chair Wixom moved approval for rebalancing: Operating Fund – Lower the current overweight to U.S. Equity, viewed as overvalued, with a $15 million partial redemption from Vanguard Institutional Index, with the proceeds to be reinvested in PIMCO Low Duration ($7.5 million) and Short-Term Bonds and Cash ($7.5 million). Regent Crear seconded.

Ms. Walker, Cambridge Associates, said highlights of the role of Real Assets in the portfolio in the Endowment Fund were contained on page 41. The primary function is to seek protection against unexpected inflation, which typically hurts returns for both Equities and Bonds. An additional advantage is diversification benefits. Real Assets tend to have a low or negative correlation to Bonds and Equities. The low correction of returns provides diversification benefits to the total portfolio, lowers overall portfolio volatility and enhances long-term compound returns.

Ms. Walker reported the Endowment currently has exposure to the assets outlined on page 42; Natural Resources Equities, Commodities, Inflation-Linked Bonds and Real Estate Securities *(REITs)*. Regent Knecht wondered about the likelihood of inflation surging. Ms. Walker reported Cambridge does not make economic projections but attempts to construct portfolios that would have the highest chance of withstanding a number of different environments.

Ms. Walker stated the summary of manager recommendations on page 12. The first recommendation is to terminate Wellington Diversified Inflation Hedges *(DIH)* investment and establish a 5.0 percent or $11.0 million allocation to RS Global Natural Resources strategy. Wellington has a 25.0 percent target allocation to commodities, and a 25.0 percent target to TIPS, neither of which Cambridge views favorably going forward. Page 14 shows valuation risks graphically, and page 15 contains a comparison of manager characteristics. Page 29 shows the average performance patterns of managers, and page 28 shows return analyses for the trailing five-year period and since Wellington DIH inception.

3. <u>Approved-Asset Allocation and Investment Returns</u> – *(continued)*

Ms. Walker explained the recommendation on page 21 is to broaden the current allocation to EII Capital Management (which is currently a $4.1 million position or approximately 2.0 percent allocation) from a U.S. real estate security strategy to a global mandate. EII Capital Management has been in the Endowment portfolio since 2000 and delivered 11.2 percent annualized return since then. The Endowment has become increasingly geographically diversified. The international securities markets have grown over the past 13 years, which gives more reason to expand to other areas besides the U.S. Also, right now, U.S. real estate securities are viewed to be overvalued. Cambridge advocates giving this long-standing manager more flexibility to pursue more attractive valuations across geographies.

Regent Leavitt moved approval to reposition the Endowment's Real Assets allocation to:

i.) Terminate the Wellington Diversified Inflation Hedges investment and liquidate the portfolio in response to a poor return outlook for commodities and Treasury Inflation Protected Securities *(TIPS)*, which constitute 50.0 percent of the manager's strategic targets;

ii.) Incept a new $11.0 million (~5.0 percent) allocation to RS Global Natural Resources Strategy;

iii.) Broaden the mandate for the current $4.1 million (~2.0 percent) allocation to EII Realty from a U.S. strategy to a global strategy. Regent Knecht seconded. All motions carried.

Ms. Walker reported the proposed new benchmark recommendations were on page 33, which are 5.0 percent to the S&P NA Natural Resource Index, 2.0 percent to FTSE EPRA/NAREIT Developed RE Index, and 1.0 percent to the ClA Private Natural Resources Benchmark, which roughly approximates the weightings and the manager benchmarks of 8.0 percent that were approved in February 2013.

Regent Leavitt moved approval to update the Real Assets component of the Endowment's Policy Index: 5.0 percent to the S&P NA Natural Resource Index, 2.0 percent to FTSE EPRA/NAREIT Developed RE Index, and 1.0 percent to the ClA Private Natural Resources Benchmark, with a combined policy weight of 8.0 percent. Regent Knecht seconded. Motion carried.

4. <u>Information Only-Operating Pool Reserve</u> – Mr. Ruby Camposano, Director of Banking and Investments, provided a report on the activities and most current balance of the Reserve Account of the Operating Pool fund.

Ms. Camposano reported the balance of the Reserve Account in the Operating Pool as of September 4, 2013, was positive \$29.2 million, up by approximately \$3.16 million from August 30, 2013. Chair Melcher requested the weekly updates to continue.

5. <u>Approved-Acquisition of Real Property Located at 182 E. 9th Street, Reno – UNR</u> – The Committee recommended approval of the acquisition of real property for \$450,000 at 182 E. 9th Street, Reno, NV, located on the southern border of the University of Nevada, Reno main campus *(Ref. IF-5 on file in the Board office)*.

Dr. Marc Johnson, President, UNR, said the property is a private, occupied house. The university is trying to acquire all property on Lake and Center Streets, between 8th and 9th. Management of the property would be handled by the UNR Real Estate office.

Regent Knecht inquired about backup documentation for the appraisal summary. He is concerned about the number and vintage of comparable sales. Mr. Ron Zurek, Vice President, Administration and Finance, UNR, will check, but felt there were no less than three equivalent comparisons. Mr. Zurek said detailed information is available upon request. Regent Knecht thought property values have been on a roller coaster and \$450,000 sounded high.

Regent Leavitt moved approval for the acquisition of real property for \$450,000 at 182 E. 9th Street, Reno, NV, located on the southern border of the University of Nevada, Reno main campus. Vice Chair Wixom seconded. Motion carried.

6. <u>Information Only-Graduate and Family Student Housing Lease Amendments – UNR</u> – President Johnson discussed some proposed ground lease adjustments requested by Balfour Beatty and clarifications outlined by Ms. Brooke Nielsen, Vice Chancellor, Legal Affairs *(Ref. IF-6 on file in the Board office)*.

President Johnson said a ground lease was approved for a public-private venture with Balfour Beatty Campus Solutions with the agreement that UNR will do the ground lease and Balfour Beatty will construct, own, and collect the rent on the building. Negotiation of the operating management, planning agreement and closing of the contract with Balfour Beatty, were completed on August 2, 2013, and demolition began three days later. President Johnson stated during negotiations with Balfour Beatty and its lender, UNR was asked to consider several adjustments to the ground lease. He said UNR agreed to good faith negotiations by bringing potential changes to the ground lease to the Board.

6. Information Only-Graduate and Family Student Housing Lease Amendments – UNR – *(continued)*

Ms. Nielsen stated the documents were negotiated and the project was underway, but Balfour Beatty requested several changes to the basic ground lease approved by the Board in March 2013. She pointed out the ground lease already had a provision saying should the developer get a lender for this project, suggestions for amendments to the ground lease would be considered in good faith. Balfour Beatty has asked for several amendments to be considered. Ms. Nielsen added there are some clarifications to the language that are not substantive but would improve the basic language of the ground lease. She felt when this item returns, the changes will be apparent, non-substantive clarifications. Ms. Nielsen indicated there were other issues needing clarification such as insurance, condemnation, the capital reserve account, timing to complete the project, and the right of first offer from UNR to purchase the project in case of default. Ms. Nielsen reported the final agreement on terms was reached yesterday, September 4, 2013, which is why it is not being presented to the Committee for action.

Regent Crear asked about the $300,000 expenditure noted in the reference material *(on file in the Board office)*. Mr. Zurek explained there were more costs than the developer anticipated, in particular the sewer connection fee and Washoe County prevailing wages. The financial model Balfour used to produce its expected rate of return was short approximately $600,000 and UNR agreed to split the loss. In return Balfour will pay for the demolition and bring the Internet system into the complex. Chair Melcher noted this was approved at the February 2013, meeting. Regent Crear asked if staff could double-check the information. He felt $300,000 was substantial and did not know where the money was coming from. Mr. Zurek said the $300,000 is coming from the student housing reserve. He indicated UNR had to realize the short-fall and make the decision to either cut the losses and run and start the process again, or determine if there was enough value in the project going forward to be willing to make the $300,000 contribution.

Chair Melcher assured Regent Crear there was oversight with the process by UNR contacting himself, Chairman Page, and Chancellor Klaich before proceeding. It was part of the approval responsibility given to the Chancellor by the Board. Chair Melcher believed this type of frustration on non-traditional financing for capital projects would continue because of the lack of state money for capital projects.

Regent Stevens thought making a $300,000 decision was much more than anticipated when authority was given to the Chancellor. Chair Melcher clarified the Chancellor felt the decision should be made by the Board. Regent Stevens would like to make sure everyone is of the same mindset. She would not like to see dollar thresholds, but $300,000 is significant. Chair Melcher recommended when the Chancellor makes a decision in unification with a committee chair, notification should be sent to everyone.

Regent Crear left the meeting.

7. Approved-Easement at East University Avenue and South Maryland Parkway – UNLV – The Committee recommended approval to correct a previous easement deficiency and approval for a permanent easement at the intersection of East University Avenue and South Maryland Parkway with Clark County for access, maintenance, and repair of a crosswalk, traffic signal loop detectors, curb ramps, and pedestrian poles for the UNLV Transit Center *(Ref. IF-7 on file in the Board office)*.

Mr. Gerry Bomotti, Senior Vice President, Finance and Business, UNLV, said, while trying to improve the intersection of Maryland Parkway and University Drive, the Regional Transportation Commission of Southern Nevada *(RTC)* determined there was no easement in the area. The RTC is asking UNLV to grant it an easement for what already exists, which will be an improvement to the project. The RTC will also continue to maintain it.

Regent Leavitt moved approval to correct a previous easement deficiency and approval for a permanent easement at the intersection of East University Avenue and South Maryland Parkway with Clark County for access, maintenance, and repair of a crosswalk, traffic signal loop detectors, curb ramps, and pedestrian poles for the UNLV Transit Center. Regent Stephens seconded.

Vice Chair Wixom was disturbed by the last clause in the agreement which stated, "Up to the limitation of law, including, but not limited to, N.R.S. Chapter 41 liability limitations, each party shall be responsible for all liability, claims, actions, damages, losses, and expenses, caused by the negligence, errors, omissions, recklessness or intentional misconduct of its own officers and employees." He felt the phrase leads to some ambiguities. He was also concerned about liability issues. Ms. Nielsen said the item refers to Nevada Revised Statutes *(NRS)* Chapter 41, which addresses claims against the state for tort liability. She clarified that in the event of any Tort action, damages are limited to $100,000. She agreed it was vague, but it is the limitation that appears in NRS Chapter 41. Vice Chair Wixom assumed it was a benefit to UNLV and the county, but his concern is that the way it is drafted may limit the protections under NRS Chapter 41. Ms. Nielsen stated the benefits would not be limited.

Motion carried. Regent Crear was absent.

8. Information Only-Appointment of a Public Member to the Investment and Facilities Committee – The Committee discussed the appointment of advisory, non-voting public members to the Investment and Facilities Committee and decided no action was necessary.

Vice Chair Wixom felt any potential member would have to be evaluated and selected, which is rife with possible problems. In order to be balanced, multiple advisory members would be necessary. He would not know how to balance the multiple advisory members. He thought this would create issues and was not sure what it was designed to solve.

8. Information Only-Appointment of a Public Member to the Investment and Facilities Committee – *(continued)*

Regent Stephens felt the role of public officials would insure the public interest is represented. She thought the Regents represent the public. She does not have a clear understanding of what the role of an additional, non-voting, public member would be. Other states may have this, but they do not elect their board of regents.

Regent Knecht did not believe the Investment and Facilities Committee, in a certain sense, ministers to various stakeholders. He cannot imagine a reason for appointing a public member to the Committee.

Chair Melcher asked if there was an opposing view to those already stated by Vice Chair Wixom, Regent Stephens or Regent Knecht. Regent Leavitt recommended not taking any action.

9. New Business – Vice Chair Wixom said Cambridge Associates will present a discussion at the December 2013, meeting regarding Global Tactical Asset Allocation strategies in daily-liquidity mutual fund vehicles.

10. Information Only-Public Comment – None.

The meeting adjourned at 4:53 p.m.

Prepared by:	Nancy Stone Special Assistant & Coordinator to the Board of Regents
Submitted for approval by:	R. Scott Young Deputy Chief of Staff to the Board of Regents