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 June 2014, meeting.

BOARD OF REGENTS* and its
INVESTMENT AND FACILITIES COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION
Building D, Room 101
College of Southern Nevada
6375 West Charleston Boulevard, Las Vegas
Thursday, March 6, 2014

Video Conference Connection to:
System Administration – Reno
2601 Enterprise Rd., Reno
and
Great Basin College – Elko
Berg Hall Conference Room, 1500 College Parkway, Elko

Members Present: Mr. Kevin C. Melcher, Chair *{attended in Reno}*
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 and Administration
Dr. Marcia Turner, Vice Chancellor, Health Sciences
Dr. Steven Zink, Vice Chancellor, Information Technology
Mr. Scott Wasserman, Chief of Staff and Special Counsel to the Board
Mr. Nick Vaskov, System Counsel and Director of Real Estate Planning
Mr. Jamie Hullman, NSHE
Dr. Maria Sheehan, President, TMCC
Mr. Donald Snyder, President, UNLV
Dr. Marc Jonson, President, UNR
Mr. Chester Burton, President, WNC
Mr. David Breiner, Cambridge Associates
Ms. Wendy Walker, Cambridge Associates
Mr. Jason Kezelman, PIMCO

Student body president in attendance was Mr. Ziad Rashdan, ASUN-UNR. No faculty senate chairs attended.

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

Chair Kevin Melcher, attending the meeting from Reno, requested Vice Chair Michael Wixom conduct the meeting from the Las Vegas location. Vice Chair Wixom called the meeting to order at 3:12 p.m. with all members present except Regent Crear.

1. Information Only-Public Comment – None.

2. Approved-Consent Items – Consent items were considered together and acted on in one motion except for item #2f, which was withdrawn, and item #2i, Property Inventory Reports, which was considered separately.

   2a. Approved-Minutes – The Committee recommended approval of the minutes from the December 5, 2013, meeting *(Ref. IF-2a on file in the Board office)*.

   2b. Approved-Granting of a Permanent Easement and Public Highway Agreement to NDOT / Granting Slope Easement – UNR – The Committee recommended approval to grant a Permanent Easement Deed and Public Highway Agreement with NDOT for the construction of a roadway expansion adjacent to the Main Station Field Laboratory property (Parcel 021-010-05) *(Refs. IF-2b(1), IF-2b(2), IF-2b(3) on file in the Board office)*.

   2c. Approved-Granting of Permanent Easements to NV Energy for Gas and Electrical Utilities – UNR – The Committee recommended approval of two Grants of Easements, gas and electrical, to NV Energy for the construction and operation of utility lines, located on a portion of the main campus (Parcel 003-180-17), for the construction of a graduate and student housing facility at UNR *(Ref. IF-2c on file in the Board office).*

   2d. Approved-Lease with Great Full Gardens, Inc. – UNR – The Committee recommended approval of the lease with Great Full Gardens, Inc., d/b/a Great Full Gardens Express, to operate retail space in the Joe Crowley Student Union *(Ref. IF-2d on file in the Board office).*

   2e. Approved-Lease with Family Yogurt II – UNR – The Committee recommended approval of a lease with Family Yogurt II to operate retail space in the Joe Crowley Student Union *(Ref. IF-2e on file in the Board office).*

   2f. Withdrawn-Clark County Land Dedication for Tropicana Avenue Project at Paradise Campus – UNLV – *(Ref. IF-2f on file in the Board office).*

   2g. Approved-U.S. Bank Retail Lease for Agreement – UNLV – The Committee recommended approval to enter into a lease agreement with U.S. Bank for the lease of space in the Student Union *(Ref. IF-2g on file in the Board office).*

2. Approved-Consent Items – *(continued)*

2h. Approved-Acceptance of Naples Street Land from Clark County and Granting Easement for Public Access and Maintenance – UNLV – The Committee recommended approval for acceptance of land near UNLV that will be transferred to Board of Regents' ownership (APN's: 162-22-701-003 and 162-22-308-010); approval of an easement to allow continued pedestrian access to the 7,567 square foot vacation area; approval to grant Clark County the ability to enter the property for the purpose of maintenance at the county's expense; and approval to grant the Chancellor the authority to execute any ancillary documents, including but not limited to, all required agreements, conveyances, easements and rights-of-way deemed necessary and appropriate to implement the project after review by the Vice Chancellor for Legal Affairs *(Ref. IF-2h on file in the Board office).*

Regent Knecht moved approval of the Consent Agenda, with the exception of items 2f, which was withdrawn, and 2i. Regent Stephens seconded. Motion carried. Regent Crear was absent.

Regent Crear entered the meeting.

The following Consent Item was considered separately:

2i. Approved-Property Inventory Reports – The Committee recommended approval of Consent Item 2i, Property Inventory Reports, including the two omitted pages as submitted.

Vice Chancellor of Finance and Administration, Vic Redding, explained the report is the standard one distributed every year. It was discovered, after the reference material was submitted, two pages from NSC were omitted *(on file in the Board office)*. The pages have since been distributed as a separate handout. Vice Chancellor Redding requested if the report is accepted, it is with the addition of the pages that were omitted.

Regent Stephens moved approval of Consent Agenda item 2i, Property Inventory Reports, including the two omitted pages as submitted. Regent Knecht seconded. Motion carried.

3. Information Only-Bond Market Overview (Agenda Item #4) – Mr. Jason Kezelman, PIMCO, gave a PowerPoint presentation *(on file in the Board office)* regarding a general update on the fixed income market environment and PIMCO's outlook.

Mr. David Breiner, Cambridge Associates, noted the System has an 18-year, very successful, relationship with PIMCO, which has managed over $200 million in three products across the two pools.

3. Information Only-Bond Market Overview (Agenda Item #4) – *(continued)*

Mr. Kezelman, Senior Vice President, PIMCO, stated he is responsible for the firm's university and foundation relationships from the mid-west to the west coast. He will speak about: a PIMCO update; key themes and investment implications; market review, performance and strategy; and outlook.

Regent Knecht asked if PIMCO has a specific viewpoint on what the long-term returns to capital will be relative to the history. Mr. Kezelman said, going forward, PIMCO would expect longer-term fixed income returns to be on the order of possibly 3 percent to 5 percent, depending on what rates do. He expected, between the next three to five years, lower returns out of fixed income.

Regent Knecht wondered what economic growth is likely to be relative to history. Mr. Kezelman said growth in the late 1990's to early 2000's in the United States was, on a real basis after inflation, 4 percent to 6 percent. On a go-forward basis, growth will be tamer – maybe on the order of 3 percent to possibly 4 percent.

Regent Knecht asked about the five year outlook on 10 Year Treasury Notes. Mr. Kezelman explained, taking into account the Federal Reserve paring back stimulus and buying less bonds, over the next year or two, the 10 Year Treasury Notes could revert back to more normal 3.5 percent to 4 percent.

Regent Knecht questioned if weak economic growth would essentially offset the tapering resulting in the Federal Reserve returning to more normal policies. Mr. Kezelman did not believe so. PIMCO's outlook for this year's growth is above market consensus in terms of real Gross Domestic Product growth. Growth will come in above expectations, which would cause yields to normalize on the long end. Short-term rates are expected to earn relatively nothing for the foreseeable future, but the long end should steepen and back up as the Federal Reserve pares back the stimulus.

Referring to page 26 of the report, Vice Chair Wixom noted the All Asset All Authority Fund underperformed. Mr. Kezelman indicated since the System joined the fund at the end of 2013, the portfolio is up 1.3 percent. The report shows what the fund has done since its inception in 2003. During a period when markets are choppy and equities sell off, the fund will serve as a diversifier between fixed income and equity risk in the portfolio.

4. <u>Approved-Asset Allocation Report on Investment Returns and Manager Recommendations (Agenda Item #3)</u> – The Committee made the following recommendation:
Approval for rebalancing and distribution:
- Endowment Fund –
  - i.) A $2.2 million distribution from the portfolio for the distribution to campuses for the quarter ending March 31, 2014;
  - ii.) A $1.0 million increase to RS Global Natural Resources;
  - iii.) Funding for the above sourced as follows:
    1. $2.5 million partial redemption from Vanguard Mid-Cap Index;
    2. $0.7 million from the cash balance.

The Committee recommended approval of a $5 million commitment to Blackstone Strategic Partners VI.

Mr. Breiner said page 2 of the report *(on file in the Board office)* showed the Endowment Pool performance was strong as a result of the markets. In the fourth quarter the Endowment was up 4.3 percent, which left the full year at 13.5 percent, driven by developed market equities and U.S. Equities. Detractors were fixed income and emerging markets. There was underperformance in the real assets area. The Endowment was in line with like-size endowments last year and slightly ahead on a three- and five-year basis.

Mr. Breiner turned to the Operating Pool on page 3, which again showed a strong year; up 3.3 percent in the fourth quarter, and up 9.6 percent for the full year, which matched or beat the policy benchmark across all time periods. The dramatic underweight to Treasury Inflation-Protected Securities *(TIPS)* was helpful.

Mr. Breiner said the Endowment rebalancing recommendations were on page 7. He suggested taking a portion from U.S. Equities profits and re-investing $1 million into real assets RS Natural Resources, and taking $2.2 million to fund the quarterly spending to the campuses. Funds will be sourced from the Vanguard Mid-Cap Index for $2.5 million and $0.7 million from the Cash balance.

Regent Knecht wondered how strongly Mr. Breiner supported the 5 percent $2.2 million distribution to the campuses. Vice Chancellor Redding said the $2.2 million represents the cash needed for the distribution under the current policy, which is a net 5 percent for UNR, UNLV, TMCC and WNC. Regent Knecht was curious if Mr. Breiner agreed with the 5 percent distribution. Mr. Breiner said his recommendation was to implement the policy as it currently stands. Regent Stephens asked if Cambridge would recommend the 5 percent distribution in absence of the policy. Mr. Breiner said it is a perfectly appropriate, recommendable and supportable recommendation.

4. Approved-Asset Allocation Report on Investment Returns and Manager Recommendations (Agenda Item #3) – *(continued)*

Regent Melcher moved approval for rebalancing and distribution of the Endowment Fund as follows:

i. A $2.2 million distribution from the portfolio for the distribution to campuses for the quarter ending March 31, 2014.

ii. A $1.0 million increase to RS Global Natural Resources;

iii. Funding for the above sourced as follows:
   1. $2.5 million partial redemption from Vanguard Mid-Cap Index;
   2. $0.7 million from the cash balance.

Regent Knecht seconded. Motion carried.

Ms. Wendy Walker, Cambridge Associates, stated there is a recommendation to make a $5 million commitment from the Endowment Fund into Blackstone Strategic Partners VI. As of December 31, 2013, the Endowment has approximately 6.7 percent of its assets invested in private equity and venture capital, which is beneath the current policy target of 10 percent. The goal is to grow the allocation to private equity and venture capital. She directed the Committee to page 12 for a full overview of the recommendation; page 13 for an explanation of secondary funds; page 19 for the J Curve chart; and page 18 showing the drivers of the secondary deal flow.

Regent Stephens asked if Cambridge felt strongly about the Blackstone choice. Ms. Walker said Cambridge constantly watches for high conviction ideas and felt Blackstone was worth introducing to the System. Vice Chair Wixom noted funds only open periodically and Blackstone is open now.

Regent Knecht was curious if there was a fund-of-funds that gives a real slice of the private equity market. Ms. Walker was not aware of any and added fund-of-funds are an asset class where the fees are high enough to not want to earn merely the average return. Manager selection is key with most private investments and earning only the average return would be disappointing.

Regent Knecht moved approval of a $5 million commitment to Blackstone Strategic Partners VI. Regent Stephens seconded. Motion carried.

5. Information Only-Distribution from Endowment Fund – The Committee discussed keeping the distribution rate at 5 percent or lowering it to 4.5 percent. A motion was recommended to lower the rate to 4.5 percent, but the motion failed. The Committee decided to review the distribution rate at the December 2014, meeting *(Ref. IF-5 on file in the Board office)*.

Vice Chancellor Redding explained prior to this fiscal year, FY14, the Committee had an approved spending rate of 4.5 percent plus a 1.5 percent management fee, for a net spend rate of 6 percent, in place for institutions with management agreements: UNR, UNLV, TMCC and WNC. He noted CSN has a management fee agreement though funds have not been drawn under that agreement. In December 2012, the Committee voted to lower the spending rate to no more than 5 percent for institutions that had a management fee agreement effective this fiscal year. The four institutions were to report to the Vice Chancellor of Finance and Administration, the distribution of the 5 percent between management fees and spending, knowing the management fee could not be higher than 1.5 percent. The Committee also put in place an annual review process of the spending rate. Changes made today would be effective next fiscal year, FY15, beginning July 1, 2014. Vice Chancellor Redding said tab 4 in the Cambridge report provides comparative information of peer institutions' spending policies.

Mr. John Carothers, Vice President for Development of Alumni Relations, UNR, and Executive Director of the UNR Foundation, stated 5 percent is not 5 percent of the market value of the fund on a specific date, but rather a 20 quarter moving average, which is taking the average value of the fund over the last 20 quarters, or the last five years, and applying the 5 percent to that. Cambridge's report noted returns over the last five years at 12.6 percent, but the campuses have been spending the 20 quarter moving average, which in a rising market, will be below 5 percent. Dr. Marc Johnson, President, UNR, stated to lower the spend rate would cost UNR approximately $500,000 a year. He would like to keep the spend rate as it is.

Regent Crear did not understand what would be accomplished by lowering the spend rate. Vice Chair Wixom explained if the spend rate is too high the money is spent too fast and if the market turns it is a problem. If the spend rate is too low it is difficult for the institutions because contributors who gave money to the endowment want to see something done to help the campus. Vice Chair Wixom said it becomes something of a judgment call. Regent Crear felt the Committee could immediately react if the market starts to turn.

Regent Melcher believed there was no compelling evidence the market is going down. He would not like to raise or lower the spend rate but prefers to look at it again in December 2014. He is concerned the institutions have plans to use the funds at the 5 percent rate.

Ms. Paula Lee Hobson, TMCC Executive Director for Institutional Advancement and the TMCC Foundation, supported the continuation of the 5 percent distribution. She stated TMCC is in the middle of a very successful five year $25 million major gifts campaign.

5. Information Only-Distribution from Endowment Fund – *(continued)*

The 1.5 percent management fee is funding the effort. Ms. Hobson is pleased to say TMCC is at 90 percent of their goal. The ability to use the management fee has made the difference.

Regent Stephens did not feel she had enough information about the market to make a decision. She felt holding it at 5 percent seems reasonable until December 2014. She would like to be more confident in her ability to understand what the predictions are for the market going forward.

Regent Knecht said the argument to keep the rate at 5 percent has been going on for a while. He is not looking for a market downturn, but it looks like a continuation of what has been happening for the past five years, which is the reason to advocate for a spend rate of 4.5 percent or lower. The institutions all have good reasons not to lower the rate which is they want and need the money, but the argument will be the same in December. The long-term view point is 4.5 percent would be more consistent with what the System has been experiencing over the last five years.

Chancellor Klaich thought it called into question the fundamental concept of what the argument is. The Board is composed of lay members who are not trying to predict the market. The recommendation from Cambridge to continue the spending rate is reasonable. The bulk of peers have maintained a spending rate at the 5 percent level. If the Committee feels it is represented well by investment counsel, Cambridge, then there is a fundamental, sound basis for taking action. The Committee is not being asked to form an independent opinion as an investment professional.

Regent Knecht said the biggest bulk of peer spending is at 5 percent and the second bulk is at 4.5 percent. The question is what is the prudent thing to do in view of all the circumstances?

Vice Chair Wixom is concerned about the long-term health of the Endowment and the spend rate. The Committee went through an exercise to calibrate the investment policies to be consistent with the 5 percent spent rate – it is not operational spending, it is the 1 percent to 1.5 percent being used to generate funds. He thought encouraging contributions enhances the health of the respective endowments. His inclination is to keep the spend rate as it is, but would like to take the spend rate down in FY15 to either 4.75 percent or 4.50 percent.

Regent Leavitt moved approval to lower the spend rate to 4.5 percent. Regent Knecht seconded. Upon a roll call vote, motion failed. Regents Melcher, Wixom and Crear voted no; Regents Knecht, Leavitt and Stephens voted yes.

6. Information Only-Operating Reserve Update – Mr. Jamie Hullman, NSHE Fiscal Officer, reported as of the morning of March 6, 2014, the value of the Operating Pool Reserve was positive $58.9 million, which was up due to a strong performance from the pool's equity investments approximately $549,000 from the balance reported the week of March 3, 2014. With the approval of the $20 million earmarked for iNtegrate funding from the Operating Pool Reserve balance, the current Reserve balance is $38.9 million.

7. Approved- Lease with Prometric – TMCC – The Committee recommended approval for TMCC to lease space to Prometric at the Meadowood North Building, as well as commission payments related to these transactions *(Ref. IF-7 on file in the Board office).*

Vice Chancellor Redding noted the request for approval not only involves the lease, but also commission payments. The facility is unique in that it is almost exclusively commercial space and is treated differently with property management. The current lease is somewhat dated and, while it is technically correct and has been reviewed by campus counsel and System counsel, a standard lease and set of operating principles for this facility will be brought to the Committee at a future meeting.

Regent Leavitt moved approval for TMCC to lease space to Prometric at the Meadowood North Building, as well as commission payments related to these transactions. Regent Knecht seconded. Motion carried.

8. Approved-Purchase Agreement for Building Located at 1325 East Flamingo Road - UNLV – The Committee recommended approval for UNLV to purchase the building at 1325 East Flamingo Road based on the terms and conditions outlined in the Letter of Intent *(LOI)*, and authorization to the Chancellor to finalize, approve and execute the Purchase and Sale Agreement to the extent it is consistent with the LOI, and final approval to any due diligence, including but not limited to the appraisal, physical inspection of the Property, Phase I ESA; and approval for the Chancellor to be granted authority to execute any ancillary documents, including but not limited to, all required agreements, conveyances, easements and rights-of-way deemed necessary and appropriate to implement the purchase of the property *(Ref. IF-8 on file in the Board office)*.

Mr. Gerry Bomotti, Senior Vice President of Business and Finance, UNLV, requested approval to purchase the property on the east side of Maryland Parkway, fronting on Flamingo Road, consisting of 4.2 acres; 66,000 square feet. He reported the property was going through bankruptcy. There is a 99 Cent Store currently leasing one-third of the space on the property, with a lease option in one year and two or three more options after that going out to 16 years. The revenue would yield enough money to operate the entire facility. Partial purchase payment of $2.9 million is from the sale of the property at Rainbow Gardens. The remaining $1.1 million will come from the General Improvement Fund Fee.

8. Approved-Purchase Agreement for Building Located at 1325 East Flamingo Road - UNLV – *(continued)*

Regent Leavitt moved approval for UNLV to purchase the building at 1325 East Flamingo Road based on the terms and conditions outlined in the Letter of Intent *(LOI)* and authorization to the Chancellor to finalize, approve and execute the Purchase and Sale Agreement to the extent it is consistent with the LOI, and final approval to any due diligence, including but not limited to the appraisal, physical inspection of the Property, Phase I ESA; and approval for the Chancellor to be granted authority to execute any ancillary documents, including but not limited to, all required agreements, conveyances, easements and rights-of-way deemed necessary and appropriate to implement the purchase of the property. Regent Crear seconded.

Regent Stephens asked about the liability and security for the 99 Cent Store. Mr. Bomotti said work has to be done with the tenants, especially with safety and security. An investment for security will have to be made. The current lease states the owner of the 99 Cent Store has to carry its own insurance.

Ms. Elda Sidhu, General Counsel, UNLV, said certificates will be obtained for any outstanding liability claims, security deposits, reimbursements, and the like. Every effort is made to shift the burden to the tenant to obtain the proper insurance. Ultimately, as with other tenants at other properties, UNLV is self-insured and has tort cap protections in terms of liability.

Vice Chair Wixom requested Mr. Bomotti check into an encroachment issue regarding the property.

Motion carried.

9. Approved-Space Utilization Study – The Committee recommended acceptance of the Space Inventory Report and the Space Utilization Report *(Ref. IF-9 on file in the Board office).*

Vice Chancellor Redding explained the Space Utilization Study contains two reports provided to the Board on a biennial basis. The Space Inventory Report is a statistical summary of all the space owned and leased by NSHE institutions. The Space Utilization Report provides a snapshot of the classrooms and promotes primarily the classrooms, class and faculty labs, and their respective utilization.

9. Approved-Space Utilization Study – *(continued)*

Regent Knecht said there has been talk about moving into new delivery methods, new ways of operating, and so forth. He asked if anything has been done regarding space needs assessments to reflect those currently being undertaken with forecasted changes in operating.

Vice Chancellor Redding thought the metrics are most interesting in their relativity rather than their absolute number because they offer a way to track changes and look at institution by institution on a quantifiable basis. The surplus and deficit are based on industry standards that evolve over time. As the System evolves over time, it will show the numbers changing both up and down as delivery methods and other types of teaching methodologies change. Regent Knecht said at one level that amounts to the specific question of has there been an express effect that changes have not yet occurred. Vice Chancellor Redding agreed there have been no changes to date.

President Johnson said as UNR projects growth and enrollment, quite a few studies are looking at the utilization of space, space that is there, and possible space shortages in the future. President Sheehan agreed an analysis has to be done to accomplish major changes.

Regent Knecht asked if UNR expects, on a per student basis, the pluses will outweigh the minuses, minuses outweigh the pluses, or not sure. President Johnson is still planning for additional buildings in the Art, Engineering, Science and like areas, because the greatest shortage will be in office and laboratory space. It is difficult to transform some spaces into others. The student population can be increased from 19,000 to 22,000 with no additional space, but teaching will have to be conducted from 8:00 a.m. to 10:00 p.m., Monday through Friday.

Regent Stephens thought once a space was designed to fit a purpose it is difficult to use it for anything else. President Johnson said it is possible to take dry lab space and install wet lab facilities, fume hoods, and so forth. Other labs would be difficult to convert to a different science.

Regent Melcher moved approval for the acceptance of the Space Inventory Report and the Space Utilization Report. Regent Crear seconded.

Dr. Stephen G. Wells, President, DRI, said as more pressure is applied to conduct economic development initiatives and commercial aspects as demonstrated by President Johnson, the lab space becomes critical. It serves best to understand there will be a growth factor if marching with the state to make a difference in economic development. In order to make big jumps and great strides more space is necessary.

Motion carried.

10. <u>New Business</u> – None.

11. <u>Information Only-Public Comment</u> – None.

The meeting adjourned at 5:19 p.m.

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