

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 March 2014, meeting.

**BOARD OF REGENTS* and its
INVESTMENT AND FACILITIES COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION**

Student Union, Ballrooms B&C
University of Nevada, Las Vegas
4505 S. Maryland Parkway, Las Vegas
Thursday, December 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
 Ms. Brooke Nielsen, Vice Chancellor, Legal Affairs
 Mr. Larry Eardley, Vice Chancellor, Budget and Finance
 Mr. Vic Redding, Vice Chancellor, Finance and Administration
 Mr. Nicholas Vaskov, System Counsel and Director
 of Real Estate Planning
 Mr. Bart Patterson, President, NSC
 Dr. Marc Johnson, President, UNR
 Mr. Chester Burton, President, WNC

Faculty senate chair in attendance was Ms. Dani Chandler; System Administration. Student body president in attendance was Mr. Michael Gordon, GPSA-UNLV.

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

Chair Kevin C. Melcher called the meeting to order at 4:05 p.m. with all members present except Regents Crear and Leavitt.

1. Information Only-Public Comment – None.
2. Approved-Consent Items – Consent items were considered together and acted on in one motion.
 - 2a. Approved-Minutes – The Committee recommended approval of the minutes from the September 5, 2013, meeting (*Ref. IF-2(a) on file in the Board office*).
 - 2b. Withdrawn-Lease with Family Yogurt II to Operate Space in the Joe Crowley Student Union – UNR – (*Ref. IF-2(b) on file in the Board office*).

Regent Crear entered the meeting.

2. Approved-Consent Items – (continued)

- 2c. Approved-Lease with SRK Engineering and Related Commission Payments – TMCC – The Committee recommended approval of a lease for SRK Engineering in the Meadowood North Building and approval of the commission payment related to these transactions (*Ref. IF-2(c) on file in the Board office*).

Vice Chancellor of Finance and Administration, Vic Redding, explained the terms of the lease approval will consolidate two other existing leases with SRK Engineering, expanding the total leasehold to approximately 10,419 square feet. The term is for five years and involves a commission payment to the property manager of \$15,392.

Regent Knecht moved approval of the Consent Agenda. Regent Stephens seconded. Motion carried. Regent Leavitt was absent.

3. Information Only-Cambridge Associates' Trustee Conference – Vice Chair Michael Wixom reported on his participation at the Cambridge Associates' Trustee Conference, held on November 5-6, 2013, and discussed reports presented at the Conference (*on file in the Board office*).

Vice Chair Wixom spoke briefly on "Takeaways for Investment Trustees" on pages 14 and 35 of the report, *The U.S. and Global Economy: What Comes Next?* Regent Knecht felt, based on the report, the System should be very conservative in terms of expectations on rates of return for investments.

4. Approved-Asset Allocation Report on Investment Returns – The Committee made the following recommendations:

Approval for rebalancing and distribution:

- Endowment Fund –
 - i.) A \$2.2 million outflow from the portfolio for distribution to campuses for the quarter ending December 31, 2013;
 - ii.) A \$0.7 million addition to RS Global Natural Resources;
 - iii.) Funding for the above sourced \$0.7 million from Cash and \$2.2 million from equities:
 - 1.) \$0.7 million partial redemption from Vanguard Institutional Index;
 - 2.) \$0.8 million total partial redemptions from the two Global ex U.S. Equity managers, Manning & Napier and MFS International (\$0.4 million from each);
 - 3.) \$0.7 million partial redemption from Capital International Emerging Markets.

4. Approved-Asset Allocation Report on Investment Returns – *(continued)*
- Operating Fund –
 - i.) A new \$40 million allocation to the PIMCO All Asset All Authority Fund;
 - ii.) Funding for the above sourced as follows:
 - 1.) \$25 million partial redemption from Vanguard Institutional Index;
 - 2.) \$6 million total partial redemptions from the two Global ex U.S. Equity managers, Manning & Napier and MFS International (\$3 million from each);
 - 3.) \$9 million from Short-Term Bonds and Cash.

Ms. Wendy Walker, Cambridge Associates, referred to the discussion materials (*on file in the Board office*) and gave a report on the asset allocation and investment returns for the pooled Endowment and pooled Operating Funds for the quarter ending September 30, 2013.

Regent Leavitt entered the meeting.

Ms. Walker stated the table on page 9 sets forth the Endowment rebalancing recommendations. She noted the \$2.2 million outflow from the portfolio was for the distribution to campuses for this quarter, and the \$700,000 addition to RS Global Natural Resources was to bring the real assets allocation closer to its 8.0 percent policy target. The sourcing funds for these two transactions are Cash of \$700,000 and \$2.2 million from equities, which would bring the total public and private equity allocation in line with its 58 percent policy target.

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

- i. A \$2.2 million outflow from the portfolio for distribution to campuses for the quarter ending December 31, 2013;
- ii. A \$0.7 million addition to RS Global Natural Resources;
- iii. Funding for the above sourced \$0.7 million from Cash and \$2.2 million from equities:
 - 1.) \$0.7 million partial redemption from Vanguard Institutional Index;
 - 2.) \$0.8 million total partial redemptions from the two Global ex U.S. Equity managers, Manning & Napier and MFS International (\$0.4 million from each);
 - 3.) \$0.7 million partial redemption from Capital International Emerging Markets.

Regent Knecht seconded. Motion carried.

4. Approved-Asset Allocation Report on Investment Returns – (continued)

Ms. Walker stated the Operating Fund rebalancing recommendations contained on page 10 center on incepting a new allocation to a Global Tactical Asset Allocation manager. The reason is there are a number of asset classes viewed as unfavorably valued in the current market environment. The proposal is to create an opportunistic sub-category within the equities bucket in the portfolio. She referred to page 18 for details. Regent Knecht said while he might, at a gut level, agree with Ms. Walker's comments about timing, he is setting timing considerations completely aside. He does not believe he should go with his, nor anyone else's, views on timing.

Regent Knecht moved approval for rebalancing and distribution of the Operating Fund as follows:

- i. A new \$40 million allocation to the PIMCO All Asset All Authority Fund;
- ii. Funding for the above sourced as follows:
 - 1.) \$25 million partial redemption from Vanguard Institutional Index;
 - 2.) \$6 million total partial redemptions from the two Global ex U.S. Equity managers, Manning & Napier and MFS International (\$3 million from each);
 - 3.) \$9 million from Short-Term Bonds and Cash.

Regent Wixom seconded. Motion carried.

5. Information Only-Incorporating Individual Manager Reports and Presentations into the Process for Monitoring and Evaluating Investment Allocation, Performance and Strategy – The Committee provided direction to staff to consult with Cambridge Associates and present a proposal for incorporating individual manager reports and other related presentations into the process for monitoring and evaluating investment allocation, performance and strategy at the March 2014, meeting.

Vice Chair Wixom explained the Committee, in the past, occasionally had investment managers make a presentation, but it had been determined the Committee's time was better spent in other areas. Since then, the Committee has relied exclusively on Cambridge Associates' interactions with investment managers. Vice Chair Wixom suggested staff could incorporate presentations, from current and potential managers, as well as related speakers, into the Investment and Facilities Committee meeting process for monitoring and evaluating investment allocation, performance and strategy. He felt there was a lot to learn from occasionally speaking directly with managers.

Regent Knecht thought more information is better as long as there is no opportunity cost at the time. Some presenters are sharp and persuasive, and it is easy to get caught up in their charisma. However, he learns a lot from listening and, if on a select basis, managers are willing to address the Committee, it would be informative and useful.

5. Information Only-Incorporating Individual Manager Reports and Presentations into the Process for Monitoring and Evaluating Investment Allocation, Performance and Strategy
– (continued)

Chair Melcher asked Vice Chancellor Redding to consult with Cambridge Associates about following-up at the March 2014, meeting. Regent Knecht suggested it not be conducted on a bureaucratic time scale because things change rapidly.

6. Deferred-Distribution from the Endowment Fund – The Committee discussed current NSHE distributions from the Endowment Fund, including the 5.0 percent spending rate-management fee in relation to current allocation, projected return, and Board policy (*Handbook, Title 4, Chapter 10, Section 5*) (Ref. IF-6 on file in the Board office).

Regent Knecht moved approval to lower the distribution rate to 4.5 percent effective the beginning of the fiscal year, July 1st. Regent Leavitt seconded.

Vice Chancellor Redding pointed out the direction of the Committee in December of 2012 was, if there was an approved change of any sort, it would be effective the beginning of the following fiscal year, July 1st, to allow activities supported by the distributions enough time to respond. Prior to the December 2012, action, there was total spending of 6.0 percent: 4.5 percent spending rate and 1.5 percent management fee for institutions that executed a management fee agreement; UNR, UNLV, WNC and TMCC. Vice Chancellor Redding continued, when the Committee changed the distribution rate at the December 2012, meeting, to 5.0 percent July 1, 2013, inclusive of the spending rate and the management fee, it was up to the institution president to make a recommendation how it was split between the two, with not more than 1.5 percent going to the management fee.

Chair Melcher suggested the Committee receive additional information from the institutions regarding distributions. The Committee decided to defer action on this item until the March 2014, meeting.

Regent Knecht withdrew the motion.

Vice Chair Wixom strongly urged representatives from the institutions' foundations to attend the March 2014, meeting.

7. Information Only-Operating Pool Reserve Account – Vice Chancellor Redding provided a report on the activities and most current balance of the Reserve Account in the Operating Pool.

Vice Chancellor Redding reported the balance of the Reserve Account in the Operating Pool as of Friday, November 29, 2013, was positive \$46.34 million, and as of

7. Information Only-Operating Pool Reserve Account – (continued)

Wednesday, December 4, 2013, it was \$40.98 million, down by approximately \$5.36 million. He attributed the decline equally to Domestic International Equity and Bonds.

8. Approved-Lease Amendment for the Whittimore Peterson Institute for Neuro-Immune Disease – UNR – The Committee recommended approval of the Second Amendment to the 2008 Lease Agreement between the Board of Regents of the Nevada System of Higher Education on behalf of the University of Nevada, Reno, and the Whittimore Peterson Institute for Neuro-Immune Disease (Ref. IF-8 on file in the Board office).

Dr. Marc Johnson, President, UNR, explained the Whittimore Peterson Institute is not using as much space as originally planned and would like to relinquish approximately 8,900 square feet, which can be utilized by the Medical School. The Second Amendment is to reassign the call on the old space and release 8,900 square feet from use.

Regent Wixom moved approval of the Second Amendment to the 2008 Lease Agreement between the Board of Regents of the Nevada System of Higher Education on behalf of the University of Nevada, Reno, and the Whittimore Peterson Institute for Neuro-Immune Disease. Regent Leavitt seconded. Motion carried.

9. Approved-Lease/Purchase of 450 Sinclair Street, Reno, Nevada – UNR – The Committee recommended approval for UNR to enter into a Lease-to-Purchase Agreement for the building located at 450 Sinclair Street, Reno, Nevada, from the City of Reno, for a term of 14 years in the amount of \$1,475,000, approximately \$136,612 annually, and designated authority for approval to the Chancellor subject to: 1) recording of a memorandum of lease and purchase option, and 2) obtaining a title policy and title insurance upon closing (Ref. IF-9 on file in the Board office).

President Johnson said the City of Reno contacted UNR concerning the purchase of a vacant building at 450 Sinclair Street. When the purchasing process began, the City discovered it had a complication dividing loans, so the only way for UNR to gain control of the building is a lease/purchase over 14 years with an approximate rate of 3.67 percent.

President Johnson pointed out a change in the annual payments which is \$136,612 per year, rather than \$134,900 per year as originally reported. The revenue will be taken from the UNR property purchase fund used specifically for buying property.

Vice Chair Wixom asked how the lease/purchase will be recorded. Mr. Nick Vaskov, System Counsel and Director of Real Estate Planning, stated the deed will be recorded at the expiration of the lease. Vice Chair Wixom is concerned about a title search, the title policy, title insurance and protections to be sure the City of Reno does not inadvertently

9. Approved-Lease/Purchase of 450 Sinclair Street, Reno, Nevada – UNR – (continued)

list the property as collateral for a bond. He would like the deed recorded and clean at the end of 14 years. Vice Chair Wixom would like to be assured, from a title perspective, there is a memorandum of lease and title insurance. Chancellor Klaich shared the same concerns discussed by Vice Chair Wixom. Chancellor Klaich will accept responsibility of approval as long as the motion indicates at the close of the transaction there will be evidence of UNR's interest of record, typically by a memorandum of lease and purchase option in recordable form, and evidence upon closing of clear title at the time of closing. Vice Chair Wixom included title insurance.

Regent Knecht moved approval for UNR to enter into a Lease-to-Purchase Agreement for the building located at 450 Sinclair Street, Reno, Nevada, from the City of Reno, for a term of 14 years in the amount of \$1,475,000, approximately \$136,612 annually, and designated authority for approval to the Chancellor subject to: 1) recording of a memorandum of lease and purchase option, and 2) obtaining a title policy and title insurance upon closing. Regent Stephens seconded. Motion carried.

10. Approved-New Residence Hall Construction – UNR (Agenda Item #11) – The Committee recommended approval for UNR to construct a new, five-story, 400 bed residence hall on the main campus for a total cost of \$38.8 million (Ref. IF-11 on file in the Board office).

President Johnson said the UNR undergraduate residence halls are at 115 percent capacity. He reported the \$38.8 million financing plan for the construction of a new residence hall was reviewed by the Business and Finance Committee and approved, subject to the approval of the Investment and Facilities Committee authorizing the construction, and subject to full Board approval.

Regent Knecht moved approval for UNR to construct a new, five-story, 400 bed residence hall on the main campus for a total cost of \$38.8 million. Regent Wixom seconded. Motion carried.

11. Information Only-Summary of Capital Projects – UNR (Agenda Item #10) – President Johnson updated the Committee on activities concerning capital projects at UNR (*Ref. IF-10 on file in the Board office*).

President Johnson gave a brief summary on capital project activities involving the William N. Pennington Student Achievement Center, the Graduate and Family Student Housing Project, the new residence hall, and the E.L. Wiegand Fitness Center.

President Johnson reported the pre-development activities on the following projects not yet formally approved, for which university funds for planning and design (through schematic), artist rendering and other collateral material may be expended, as needed, to solicit and promote donor interest: the Indoor Multi-Purpose Field House, a School of the Arts Building No. 2, the University of Nevada School of Medicine Building in Las Vegas, the Mackay Stadium Premium Seating Project, construction of a new Science and Engineering Building and renovation of the existing Scrugham and Palmer Engineering Buildings.

12. New Business – Chair Melcher proposed a comprehensive investment policy review for the Operating Fund in early 2014, similar to the exercise conducted for the Endowment Fund in March 2012. This is viewed as a best practice to periodically examine the current role of each fund within the System’s finances in order to reassess risk and return objectives and asset allocation targets.
13. Information Only-Public Comment – Mr. Samuel Owens voiced his opinion regarding the Accreditation Board of Engineering and Technology (*ABET*) criteria in relation to renovations and equipment purchases and their impacts on a globally competitive curriculum. Mr. Owens was comforted to hear about efforts of LEED (*Leadership in Energy and Environmental Design*) certifications related to future UNR capital projects and renovations.

The meeting adjourned at 5:36 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