

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 2015 meeting.

**BOARD OF REGENTS* and its
INVESTMENT AND FACILITIES COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION**
Frank H. Rogers Science & Technology Building
Auditorium
Desert Research Institute
755 East Flamingo Road, Las Vegas
March 5, 2015

Members Present: Mr. Kevin C. Melcher, Chair
 Mr. Michael B. Wixom, Vice Chair
 Dr. Mark W. Doubrava
 Dr. Jason D. Geddes
 Mr. James Dean Leavitt

Other Regents Present: Mr. Kevin J. Page
 Mr. Rick Trachok

Others Present: Mr. Daniel J. Klaich, Chancellor
 Ms. Catherine Cortez Masto, Executive Vice Chancellor
 Mr. Vic Redding, Vice Chancellor, Finance and Administration
 Mr. Nicholas Vaskov, System Counsel and Director of
 Real Estate Planning
 Mr. Scott G. Wasserman, Special Advisor
 Mr. Jamie Hullman, Director of Finance
 Dr. Mark A. Curtis, President, GBC
 Mr. Bart J. Patterson, President, NSC
 Dr. Maria C. Sheehan, President, TMCC
 Dr. Leonard M. Jessup, President, UNLV
 Mr. Chet O. Burton, President, WNC
 Dr. Thomas L. Schwenk, UNSOM-UNR
 Ms. Wendy Walker, Cambridge Associates

Faculty senate chairs in attendance were Ms. Jodie Mandel, CSN; Mr. Ron Marston, TMCC; Mr. Chuck Price, UNR; and Ms. Susan Priest, WNC. There were no student body presidents in attendance.

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

Chair Kevin C. Melcher called the meeting to order at 3:40 p.m. with all members present.

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 December 4, 2014, meeting (*Ref. IF-2a on file in the Board office*).
 - 2b. Approved-Handbook Revision Endowment Distribution Policy – The Committee recommended approval of a *Handbook* revision to the Board’s policy on Endowment Distributions to reflect changing the maximum endowment spend rate from the current rate of 5.0 percent to 4.75 percent effective July 1, 2015, but only for institutions with a management fee agreement (*Title 4, Chapter 10, Section 5*) (*Ref. IF-2b on file in the Board office*).
 - 2c. Approved-Easements at the University of Nevada, Reno 4-H Camp for Kingsbury General Improvement District, Douglas County; Resolution Authorizing Execution of Related Documents - UNR – The Committee recommended approval for 1) the permanent and temporary easements at the University of Nevada, Reno 4-H Camp, Lake Tahoe property for Kingsbury General Improvement District, 2) the related Purchase and Sale Agreement with Kingsbury General Improvement District for said easements and, 3) authorization for the Chancellor, or his assignee, to execute the easements and all related documents (*Ref. IF-2c on file in the Board office*).
 - 2d. Approved-Transfer of Property at 820 N. Center Street to UNR – The Committee recommended approval for the deed transfer of 820 N. Center Street from the University of Nevada, Reno Foundation, to the Nevada System of Higher Education on behalf of the University of Nevada, Reno (*Ref. IF-2d on file in the Board office*).
 - 2e. Approved-Amendment to Lease for 1703/1707 W. Charleston Bld., Las Vegas, for ADA Ramp Construction - UNR – The Committee recommended approval to amend the existing 1703/1707 W. Charleston Blvd., Las Vegas, lease to allow NSHE to install an ADA compliant ramp (*Ref. IF-2e on file in the Board office*).
 - 2f. Approved-University of Nevada School of Medicine Lease of 5190 Neil Rd., Reno – UNR – The Committee recommended approval of the Lease Agreement of approximately 7,740 square feet within 5190 Neil Rd., Reno, for a term of 88 months (*Ref. IF-2f on file in the Board office*).

Vice Chair Wixom moved approval of the Consent Agenda. Regent Doubrava seconded. Motion carried.

3. Approved-Pooled Endowment and Operating Funds; Operating Pool Reserves –
The Committee recommended approval for:

1. Rebalancing and distribution:

- Endowment Fund:
 - i) A \$1.5 million partial redemption from Vanguard Institutional;
 - ii) A \$2.0 million partial redemption from PIMCO Total;
 - iii) A \$2.0 million addition to RS Global Natural Resources;
 - iv) Distribute \$2.2 million from the portfolio for the distribution to campuses for the quarter ending March 31, 2015, sourced \$1.5 million from the net transactions above and \$0.7 million from the cash balance.

Ms. Wendy Walker, Cambridge Associates, went to page 2 of the report (*on file in the Board office*) Endowment Investment Returns Summary and said in the fourth quarter 2014, the Endowment return was negative 0.6 percent, trailing the policy index return of 0.1 percent. The asset class performance diverged widely. U.S. Equities delivered positive 4.5 percent, while the public Real Assets composite returned negative 13.7 percent within the Endowment. The Real Assets composite is up on a year-to-date basis, and the overall Endowment is up approximately 1.5 percent through the end of February 2015. Over the trailing three years the Endowment has returned 10.0 percent, which is 10 basis points behind the policy index of 10.1 percent. Over five years the Endowment has returned 8.3 percent, which lags the long-term policy index of 9.2 percent.

Ms. Walker turned to the Operating Fund returns on page 3 that showed the fourth quarter Operating Fund return of 0.4 percent, which trailed the policy index return of 0.8 percent. U.S. Equities delivered 4.9 percent within the operating pool, but on the other end of the spectrum the opportunistic asset class returned negative 4.5 percent. Over the trailing three years the Operating Fund has returned 7.0 percent which is 20 basis points over the policy index, and the long-term since inception delivered a 5.2 percent return, which is even with the benchmark.

Ms. Walker said the table for the Endowment rebalancing recommendations on page 7 shows \$2.2 million for the quarterly distribution to the campuses to be funded \$1.5 million from the Vanguard Institutional Index, U.S. Equities to lock in some recent out-performance and harvest the gains, and \$700,000 from current Cash.

Ms. Walker said other recommendations are for a \$2.0 million trim from PIMCO Total Return to harvest the gain of recent outperformance, and to add \$2.0 million to RS Global Natural Resources, the manager having exposure to oil prices which declined significantly in the fourth quarter 2014 and represents the most compelling valuation in the current environment.

3. Approved-Pooled Endowment and Operating Funds; Operating Pool Reserves –
(continued)

Vice Chair Wixom asked if the net returns in the Endowment outlined on page 2 were net of management fees. Ms. Walker stated all returns were net of management fees. The Cambridge fees would not be reflected but she is willing to work with staff to show the fees. Vice Chair Wixom would appreciate seeing the Cambridge fees reflected in the report.

Vice Chair Wixom wondered how much money has recently left PIMCO. Ms. Walker estimated it was \$10's of billions but will get an exact number. Vice Chair Wixom felt an exact number in dollars and a percentage of the total assets would be helpful.

Vice Chair Wixom asked about trends changing in the first quarter 2015, relating to volatility and underperformance. Ms. Walker said January seemed to be a continuation of the environment of the fourth quarter 2014, but February marked a very significant turn-around in oil and equity prices.

Vice Chair Wixom stated changes were made to the investment policy and questioned if recent volatility might be due to those changes. Ms. Walker does not believe the policy changes materially changed the risk profile of the portfolio, but will be happy to put together pro forma analyses. Vice Chair Wixom hoped the changes in the policy are consistent with what is needed in terms of distributions.

Regent Wixom moved approval for:

1. Rebalancing and distribution:
 - Endowment Fund:
 - i) A \$1.5 million partial redemption from Vanguard Institutional;
 - ii) A \$2.0 million partial redemption from PIMCO Total;
 - iii) A \$2.0 million addition to RS Global Natural Resources;
 - iv) Distribute \$2.2 million from the portfolio for the distribution to campuses for the quarter ending March 31, 2015, sourced \$1.5 million from the net transactions above and \$0.7 million from the cash balance.

Regent Geddes seconded. Motion carried.

3. Approved-Pooled Endowment and Operating Funds; Operating Pool Reserves –
(continued)

Mr. Jamie Hullman, Director of Finance, reported the December 3, 2014, Operating Reserve value was \$42.7 million and since then income of \$3.48 million has been distributed to the institutions. The current Reserve value as of March 4, 2015, was \$41.9 million. A small decrease in Reserve value was due to relatively small investment gains and distributions to the institutions. During that time period the Reserve account fluctuated by approximately \$10.0 million.

4. Information Only-Alternate Endowment Management Models – Mr. Vic Redding, Vice Chancellor, Finance and Administration, presented a PowerPoint of alternate Endowment management models for discussion. The Committee agreed staff will research possible alternatives for implementation of an outsourced model and provide recommendations in consultation with the UNLV and UNR Foundations, to present at the next Investment and Facilities Committee meeting in June 2015 *(Ref. IF-4 on file in the Board office)*.

Vice Chancellor Redding pointed out the Investment and Facilities Regents' standing committee is structured similarly to other standing committees, but the duties and responsibilities are unique within NSHE. The last re-structure of this Committee took place in the 1980's when the scope was crafted. The value of the Endowment at that time was only \$22.0 million, held in simple investments. The Endowment has grown over 11 times to today's level with 30 plus managers and funds entailing investment strategies never envisioned 30 years ago.

Vice Chancellor Redding explained by a consulting services arrangement, Cambridge Associates has done NSHE's front line work in the investment world since 1985 for both the Operating Pool and the Endowment. The industry calls this a non-discretionary model. He noted Cambridge proposes recommendations and options to consider, but does not make decisions or exercise any discretion on the System's behalf.

Vice Chancellor Redding stated he does not want to give the impression the model is broken or not functional and, in fact, the System does well when compared to both the policy index and peers. A good example of working successfully is NSHE was one of the very few endowments nationwide that maintained spending for all but a few accounts underwater during the downturn. The same held true in the Operating Pool.

Vice Chancellor Redding believed the Committee's charge, in real terms, translates into a fairly lengthy task list as outlined in the first two slides of the presentation. Some tasks are clearly policy related and naturally appropriate for the Committee's time; other tasks are ministerial, but most fall somewhere in between. All of the tasks have changed in scope, timeliness and complexity since

4. Information Only-Alternate Endowment Management Models – (continued)

the mid-80's, which is the main reason Chair Melcher and Vice Chair Wixom directed staff to research if another model should be evaluated.

Vice Chancellor Redding said an alternative becoming very popular is outsourcing – a model contracted out to a consultant, allowing the discretion to act. He listed the activities the Committee may want to consider as candidates for outsourcing: 1) capital calls; 2) accounting / legal / operations; 3) rebalancing; 4) reporting and communications; 5) manager selection and termination; 6) asset allocation; 7) policy implementation; and 8) policy development / recommendations. He said the functions were established by breaking down everything performed from the more routine to the more policy oriented. Vice Chancellor Redding noted the outsourced model comes with a fee structure ranging from 30 to 100 basis points, however, there are fees currently paid in the fund-of-fund structure that could be saved.

Chair Melcher stated TMCC and GBC have shown interest in investing in the Endowment. The discussion is important going forward in order to capitalize on markets up, down, and issues arising quickly.

Vice Chair Wixom said it is not a-typical for an investment committee to spend one or two full days a quarter going through investment policies with an Endowment and Operating Fund close to \$1.0 billion. The financial markets have become so complex, having the ability and speed to react as a Committee concerns him.

Vice Chair Wixom was not comfortable with outsourcing reporting and communications. He felt part of the Committee's fiduciary responsibility is getting information and understanding what is happening. He would like to understand manager selection and termination in the outsourced model. Vice Chancellor Redding explained the contractor could have the authority to hire and fire managers. He suggested policy parameters and reporting requirements could be established. Vice Chair Wixom felt, under the present model, the Committee needs to spend more time with manager evaluation.

Vice Chair Wixom was confused about the difference between asset allocation and policy development. Vice Chancellor Redding said asset allocation is part of policy development. The policy development and recommendations would be a function the Committee would want to maintain and have a strong voice in. The Board could, for instance, determine not to exceed a certain percent in hedge funds or international equities. In the case of rebalancing, Vice Chancellor Redding felt a simple example would be the Committee would approve a policy range for the portfolio and give the consultant discretionary authority to match the managers within the policy range to rebalance as market conditions change.

4. Information Only-Alternate Endowment Management Models – *(continued)*

Vice Chancellor Redding felt the policy should be established by the Committee with these types of safety valves.

Chair Melcher reminded the Committee the purpose of this discussion is to provide direction to staff so they can return with suggestions, scenarios, or options for more consideration at a future meeting. He has questions about investment being a stand-alone committee; if it should be business and investment; or if investment should meet off-cycle. Chair Melcher felt there was a lot to discuss and consider before changes are made.

Regent Leavitt stated the Committee does not hire managers, negotiate fees, or meet managers in person. He thought looking at the significant portfolios is time-intensive. He agreed with establishing parameters.

Vice Chair Wixom asked for the perspective of Mr. Michael Yackira, Chairman of the UNLV Foundation. Mr. Yackira said the Foundation has a Finance and Investment Committee that has delegated rights from the Foundation Board of Trustees, to act on behalf of the Foundation, with respect to investments. The Committee is made up of seven people who meet quarterly. The Foundation has had a consultant for approximately three years who acts similarly to Cambridge, providing insight into portfolio managers. Mr. Yackira said a meeting could be called quickly with the three day waiting period for agendas, but there has never been a time when action had to be taken quickly on a manager where a quorum was not available. The Foundation does not need a full board to act. Mr. Yackira said outsourcing an investment decision has never been considered. The plan right now is to have periodic meetings with the investment managers to develop a comfort level. Mr. Yackira suggested the Committee may want to consider having investment as a stand-alone committee.

Chair Melcher wondered if there might be value with insourcing. Chancellor Klaich was not sure about insourcing and expressed concern if it meant developing very expensive expertise within System staff. He sees great value with the outsourcing model. He thought if the policy is set and the investment policy statement is clear the outsourced model makes sense. Chancellor Klaich believed with the Committee's span of control and professional background the investment decisions being made are challenging but he would like to see the outsourced model pursued. Chair Melcher wondered if the investment portion should be stand-alone. Chancellor Klaich expressed concern if it produced more meetings but if it is outsourced, hypothetically, there is the ability to have a more focused meeting. He thought with the current staff and campus expertise, with respect to real estate, facilities and management, the Committee is in a much better position to make those decisions than the investment decisions. Time may be freed up for greater focus.

4. Information Only-Alternate Endowment Management Models – (continued)

Chair Melcher requested staff to work on a proposal agreement. Vice Chancellor Redding will work with Mr. Hullman and will reach out to the Foundations for assistance. Vice Chair Wixom agreed with reaching out to the Foundations as prime stakeholders.

5. Approved-Real Property Negotiations, UNLV (Agenda Item #7) – The Committee recommended approval to commence negotiation of a Purchase and Sale Agreement between Wells Fargo and the UNLV Foundation, as agent for UNLV, subject to Board of Regents' final approval of the Purchase and Sale Agreement for the 42 acres of real property approximately .6 miles west of the UNLV main campus, on the northeast corner of Tropicana Avenue and Koval Lane; and approval for the proposed process and schedule defined by UNLV for the due diligence review of the property (Ref. IF-7 on file in the Board office).

Vice Chair Wixom disclosed because his firm, Smith, Larson & Wixom, represented, and continues to represent Wells Fargo Bank, he will abstain from this vote.

Dr. Len Jessup, President, UNLV, said UNLV aims to grow but is land-locked. He emphasized this is a key, strategic piece of property for the university and would appreciate permission to negotiate for the purchase of the property and proceed with the necessary due diligence. President Jessup noted the use for the property will be fleshed out as the process begins. The timeline for the closing is not anticipated soon.

Mr. Gerry Bomotti, Senior Vice President, Business and Finance, UNLV, explained between the 42 acres and the UNLV campus there is approximately 38 acres of Clark County land and an additional 20 acres in the runway protection zone, close to the airport runway, which cannot be developed. He said determination for use of the land, agreements with Clark County for connectivity with the campus, how to pay for what is believed a \$50.0 million price for the 42 acres, evaluations, and an updated *Master Plan* will be reported to the Committee at the December 2015 meeting. Mr. Bomotti said the intention is to bring back, on a limited engagement, the same consultant who helped develop the *Master Plan* in 2012.

Chair Melcher asked about the property between Swenson and Paradise belonging to Clark County. Mr. Bomotti affirmed that particular piece of land belonged to Clark County, but did not anticipate connectivity problems to the campus.

Regent Leavitt pointed out there will never be another opportunity like this again because the campus is land-locked. He would like to see the property developed.

5. Approved-Real Property Negotiations, UNLV (Agenda Item #7) – (continued)

Vice Chair Wixom noted, when looking at the flight path planes will sometimes turn left, and wondered how the property would be affected in the long-term. Mr. Bomotti said there are specific FAA forms to be filled out. Vice Chair Wixom felt the answer to how that flight path would affect property use has to be answered – it is the feasibility of property use based on flight paths. Mr. Bomotti understood and felt many factors had to be considered as part of the due diligence process. He added the FAA consultants, the Air Force and the chief pilot for Southwest Airlines looked at the site and felt there were no issues.

Regent Geddes asked about connectivity options to and from the campus. Mr. Bomotti reiterated it is on the list of the due diligence report. Regent Geddes wondered how the owners of the houses on the property would be addressed. Mr. Bomotti was not sure those properties had an impact in a significant way in the east because there would be connectivity to the campus, but it will be checked. Regent Leavitt said to Regent Wixom's point, the noise issues need to be covered. Mr. Bomotti agreed the noise concern is an important issue.

Regent Leavitt moved approval to commence negotiation of a Purchase and Sale Agreement between Wells Fargo and the UNLV Foundation, as agent for UNLV, subject to Board of Regents' final approval of the Purchase and Sale Agreement for the 42 acres of real property approximately .6 miles west of the UNLV main campus, on the northeast corner of Tropicana Avenue and Koval Lane; and approval for the proposed process and schedule defined by UNLV for the due diligence review of the property. Regent Doubrava seconded.

Chair Melcher asked about the schedule. Mr. Bomotti said the schedule will be to ask for approval from the Committee for the *Master Plan* when it is updated. The UNLV procedure is to update the Committee at the September and December 2015 meetings.

Motion carried. Regent Wixom abstained.

6. Information Only-Grid-Based Energy Purchase Reduction (Agenda Item #5) – Vice Chancellor Redding presented an update of progress made toward complying with the directive set forth in *Nevada Revised Statutes 701.215* to reduce grid-based energy purchases for state-owned buildings by 20 percent by 2015 (*Ref. IF-5 on file in the Board office*).

Vice Chancellor Redding explained the statute requires the Director of the Governor's Office of Energy to prepare a state energy reduction plan requiring agencies to reduce grid-based energy purchases by 20 percent between 2005 and 2015. Additionally, the Director is to submit a biennial report to the Legislative Commission describing the progress on energy reduction. The Office of Energy uses data available from NV Energy and other electric service providers for the report. Unfortunately, the report is not as cut and dry as it initially seemed. The building data-bases between NSHE, the Public Works Board and the Energy Office do not tie in, which is an accounting matter staff is working on reconciling. The bigger concern is the struggle of working with the philosophy of the statute requiring a reduction in purchases, not in utilization. The problem is expenditures are largely driven by cost of energy and weather – two uncontrollable factors.

Vice Chancellor Redding stated, for this discussion, there has been an adjustment to the information last provided to the Board in 2013, updating the progress made towards reducing the grid-based energy purchases, and commentary on energy consumption. The updates include information on completed and projected projects. Vice Chancellor Redding and Regent Geddes have been discussing influences that would augment the report and make it more useable with some standardized reporting, reflecting items that are planned but not yet implemented in this area.

Regent Geddes reported part of this was driven by the statute requiring the decrease, but it is an extension of the policy where the System adopted a sustainable building policy several years ago. All of the capital construction and major renovations are now built to Leadership in Energy and Environmental Design (*LEED*) equivalent standards to make sure the buildings are energy efficient. It is now time to go back and look at what is happening and what is being expended. Regent Geddes explained the State Energy Office pulled the campus data from NV Energy, divided it by the square foot and reported it. The NV Energy numbers vary greatly from the numbers received from the campuses. Regent Geddes thought Vice Chancellor Redding should work with the campuses and fine tune the numbers as best as possible. Part of the difficulty with the report and timing is going back to 2005 when natural gas was approximately \$1.50 a therm, and this past year it was approximately \$.42 a therm. He felt the purchasing numbers look very good, but there is not much change with usage. Going forward, and in order to control and hedge costs, the numbers should be looked at very closely to have a sense of what is being done. Regent Geddes suggested taking it beyond what the NRS has, as far as purchase price, and look at actual use per square foot. He thought it was unfair to penalize construction of new buildings because the total will increase.

6. Information Only-Grid-Based Energy Purchase Reduction (Agenda Item #5) – (continued)

Regent Geddes said the state Energy Office came to speak with facility managers about available options. The Energy Office and NV Energy have some free programs for schools and NSHE. He recommended doing assessments and cited the beta test TMCC conducted showing usage. He felt it was an informative tool to expand state-wide to get a good analysis on electricity purchases and natural gas. The next step would be to develop a plan and goal for controlling these things because the costs are volatile. He encouraged Vice Chancellor Redding to work with the campus facilities managers about various options of what can and cannot be done, where help is needed and what can be capitalized upon. Regent Geddes thought the information might be presented at either the September or December 2015 meeting.

Chair Melcher requested Vice Chancellor Redding to follow Regent Geddes' recommendations and consult with him along the way. Chair Melcher noted information was prepared from eight institutions in eight different ways. He would like the information more consistent among the institutions to help them to understand what the Committee is looking for.

Chair Wixom would like this brought back as an action item at some point, especially given the savings factor. He felt it could become a policy initiative to eventually recommend to the Board.

7. Information Only-Handbook Revision, Committee Appointment (Agenda Item #6) – The Committee considered a revision to *Handbook Title 1, Article VI, Section 2* (Appointment) addressing the composition of standing committees. Specifically, the revision would direct the Board Chair to appoint two to four nonvoting ex officio advisory members to the Investment and Facilities Committee. These ex officio members must have expertise in investment or financial services. This item will be discussed at a future meeting (*Ref. IF-6 on file in the Board office*).

Chair Melcher felt this item will depend on if there is an investment outsourcing position as previously discussed in Agenda Item #4. His recommendation is to hold on this item until June, 2015.

8. New Business – None.

9. Information Only-Public Comment – None.

The meeting adjourned at 5:12 p.m.

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