

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 2016 meeting.

**BOARD OF REGENTS and its  
INVESTMENT COMMITTEE  
NEVADA SYSTEM OF HIGHER EDUCATION**  
Joe Crowley Student Union, Milt Glick Ballroom A  
University of Nevada, Reno  
87 West Stadium Way, Reno  
Thursday, September 8, 2016

Members Present: Mr. Kevin C. Melcher, Chair  
Mr. Robert Davidson, Vice Chair  
Dr. Jason Geddes  
Mr. Trevor Hayes

Members Absent: Mr. Cedric Crear

Other Regents Present: Mr. Michael B. Wixom

Others Present: Mr. Vic Redding, Vice Chancellor, Finance  
Mr. Dean J. Gould, Chief of Staff & Special Counsel to the Board of Regents  
Mr. Jamie Hullman, Senior Director, Finance  
Mr. Nicholas Vaskov, System Counsel & Director of Real Estate Planning  
Mr. Chester Burton, President, WNC  
Dr. Robert B. Gagosian, President, DRI  
Dr. Karin Hilgersom, President, TMCC  
Dr. Marc Johnson, President, UNR

The faculty senate chair in attendance was Mr. Eric March, System Administration. Student body presidents in attendance were Mr. David Turner II, TMCC; Mr. Brandon Boone, ASUN, UNR; and Mr. David Clark, GSA, UNR.

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

Chair Kevin C. Melcher called the meeting to order at 3:51 p.m. with all members present except Regent Crear.

1. Information Only-Public Comment – David von Seggern, on behalf of the Sierra Club, spoke in support of divesting in fossil fuels. He shared three reasons for this: 1) The use of fossil fuels is a primary cause of current global warming; 2) There is a dire need for an open and honest examination of the fossil fuels issue in the media and other forums. The global community must be educated with facts regarding this issue; 3) It would be economically logical as the transition to clean energy has been underway for some time. Mr. von Seggern and his

1. Information Only-Public Comment – (continued)

constituents are hopeful that NSHE will develop a policy which will effectively divest the system from fossil-fuel financial instruments.

2. Approved-Minutes – The Committee recommended approval of the June 9, 2016, meeting minutes (Ref. INV-2 on file in the Board office).

Regent Geddes moved approval of the minutes from the June 9, 2016, meeting. Vice Chair Davidson seconded. Motion carried. Regent Crear was absent.

3. Approved-Pooled Endowment and Operating Funds; Operating Pool Reserve – Staff from Cambridge Associates and System Administration presented a report on asset allocation and investment returns for the pooled Endowment and pooled Operating Funds for the quarter ended June 30, 2016. NSHE staff also provided an update on the status of the Operating Pool Reserve. The Committee recommended approval of the rebalancing and distribution of the Endowment and Operating Funds as recommended by Cambridge Associates and System Administration staff. The Committee also recommended the submission of redemption notices as necessary for transition to the Outsourced Chief Investment Officer (OCIO) providers, with cash proceeds to be redeployed by the new OCIO providers pursuant to the Endowment investment policy guidelines.

Ms. Wendy Walker, Cambridge Associates, directed the Committee to page 2 of the materials (on file in the Board office) – the Endowment Investment Returns Summary. In the second quarter the endowment fund returned 2 percent, exceeding the policy index return of 1.7 percent. Ms. Walker said they estimated that the endowment has returned an additional 4 percent for the third quarter. In the second quarter, the strongest performer was Public Real Assets, for the second straight quarter, which returned 15 percent. There were very strong returns from RS Global Natural Resources and Harvest MLPs. It looked as though the evaluation still suggests more upside in Real Asset space going forward. Ms. Walker indicated the outperformance of the policy benchmark was driven largely by the marketable alternatives and emerging markets composites. For the trailing one year period, the endowment is returned at 2.9 percent which is still underperforming the policy index. On a trailing five year basis, the endowment is underperforming the long-term policy index. Over the long term, the endowment has returned 9.9 percent annualized which equates to 7.2 percent in real terms, excluding inflation that is well above the spending objective for the endowment.

Ms. Walker directed the Committee to page 3 - Operating Fund Investment Returns Summary. The operating fund in the second quarter posted a return of 1 percent which is slightly ahead of the policy index by 10 basis points. The estimated operating fund was about 2 percent for the third quarter. Opportunistic

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

Assets provided the highest return for the quarter on both an absolute and relative basis. Since this asset class posted a 4.5 percent return, it beat the benchmark's returns by 3.5 percent. Ms. Walker added that over the trailing one and three year period, the opportunistic assets class had been the largest detractor before bouncing back this year; it has rebounded 15 percent for the calendar year-to-date. Cambridge Associates commended the Committee's discipline in maintaining a long-term investment perspective and willingness to tilt the portfolio toward more attractive valuations which are now paying off.

Ms. Walker referred to the action items summarized on page 7 and proposed recommendations regarding trims from the following equity areas: \$2 million from Vanguard Institutional Index; \$750,000 each from the two Global ex U.S. Equity managers; and \$500,000 from each of the two public Real Assets managers. This will lock in some of the year-to-date returns from RS Global Natural Resources (up 47%) and Harvest MLPs (up 20%). Being that the proceeds in the aggregate are \$4.5 million, Cambridge Associates also recommended rebalancing the portfolio by adding \$1 million to Wells Capital Montgomery Fixed Income; adding \$1.3 million to Cash, and applying the remaining Cash from the equity trims to the \$2.2 million quarterly distribution to the campuses.

Vice Chair Davidson moved approval of the \$2.2 million quarterly distribution from the portfolio to the campuses for the quarter ending September 30, 2016, funded from Cash; and rebalancing the portfolio toward policy targets as follows: allocate \$2 million from Vanguard Institutional Index, allocate \$0.75 million from Manning and Napier, allocate \$0.75 million from MFS International, allocate \$0.5 million from RS Global Natural Resources, allocate \$0.5 million from Harvest MLP, add \$1 million to Wells Capital Montgomery Fixed Income, and add \$1.3 million to Cash. Regent Geddes seconded. Motion carried. Regent Crear was absent.

In light of the upcoming Outsourced Chief Investment Officer(s) (OCIO) discussion later in the meeting, Ms. Walker took the opportunity to preview one more action item with regard to the endowment fund. Although it may require waiting until after the decision on the OCIO model, she shared Cambridge Associates' recommendation for the NSHE to place advance redemption notices with certain managers that require notices prior to the effective date of the OCIO

3. Approved-Pooled Endowment and Operating Funds: Operating Pool Reserve –  
(continued)

contracts.

Mr. Vic Redding, Vice Chancellor, Finance, requested that the Committee consider approving liquidation of funds necessary for the implementation of the OCIO, pending the Committee's approval of the OCIO transition plan later in this agenda.

Vice Chair Davidson moved approval of the System submitting redemption notices as necessary for transition to the OCIO providers, with cash proceeds to be redeployed by the new OCIO providers pursuant to the Endowment investment policy guidelines. Regent Geddes seconded. Motion carried. Regent Crear was absent.

Ms. Walker directed the Committee to page 8 of the materials – Operating Fund Rebalancing Recommendations. The short-term bonds and cash allocation is currently outside of the policy range of 25 to 40 percent. Although there are some natural cash flow movements throughout the quarterly cycle, Cambridge Associates recommended the following in order to bring the allocation back in compliance with the policy range: Add \$30 million to Cash by sourcing \$15 million from WellsCap Short Duration, \$5 million from PIMCO Total Return and \$10 million from Vanguard Institutional Index. In regard to rebalancing incrementally toward the TIPS policy target, it was also recommended to trim \$5 million from PIMCO All Asset All Authority Fund, which is the opportunistic manager that is up 15 percent year-to-date. This will lock in some of those gains and assist with rebalancing back toward TIPS.

Vice Chair Davidson moved approval of adding \$5 million to Vanguard Inflation-Protected Securities, sourced from PIMCO All Asset All Authority Fund; and adding \$30 million to Cash to bring the allocation above the policy threshold of 25 percent, sourced from: \$10 million from US Equities (Vanguard Institutional Index); \$15 million from Wells Cap Short Duration; and \$5 million from PIMCO Total Return. Regent Geddes seconded. Motion carried. Regent Crear was absent.

3. Approved-Pooled Endowment and Operating Funds: Operating Pool Reserve – (continued)

Mr. Jamie Hullman, Senior Director, Finance, provided an update on the Operating Pool. The balance of the Operating Pool Reserve account was \$33.3 million as of the end of business day on September 7, 2016. This is \$8.8 million greater than what was reported at the June meeting. In that time, \$3.3 million has been distributed in regular monthly income, along with a one-time distribution of \$5.25 million based on direction from the most recent special meeting of the Board.

4. Approved-Outsourced Chief Investment Officer Selection – Vice Chancellor for Finance Vic Redding provided an update regarding the selection of the Outsourced Chief Investment Officer(s) (OCIO) for management of the System's Endowment Fund, and status of the contract negotiations. The Committee recommended approval of Vice Chancellor Redding's recommendations related to:

- Temporary extension of the current advisory contract with Cambridge Associates for 90 days, through December 31, 2016, to facilitate a transition to OCIO (*Ref. INV-4 on file in the Board office*).
- Structure, terms and conditions for the contracts for OCIO services from both Cambridge Associates and Russell Investments.

Vice Chancellor Redding also provided an update regarding the Operating Pool structure. The Committee recommended approval for the Vice Chancellor for Finance to continue contract negotiations with both bidders for OCIO services and authorizing the Chancellor, after consultation with the Committee Chair and review by the Vice Chancellor for Legal Affairs, to enter into one or more agreements for OCIO services for all, or a portion, of the Endowment Funds.

Vice Chancellor Redding presented a PowerPoint on the OCIO which addressed three items: 1) Questions raised at the June Committee meeting; 2) An update on the process and an outline for the next steps, along with a recommendation for the next action step; 3) A discussion about the Investment Committee post-OCIO.

Regent Wixom shared his support for the proposal. However, he observed two critical issues related to policy oversight. The first was not only is policy oversight needed, but there also must be a frequent review of the portfolio and policies by the Board to fulfill fiduciary obligation. The second issue was there will be audits in connection to bond financing and other financial transactions significant for the System, and auditors will want to confirm there will be frequent oversight. It was suggested in the August workshop that this could be reviewed on an annual or bi-annual basis. Regent Wixom did not think annual reviews would be sufficient and semi-annual reviews would be borderline. While he

4. Approved-Outsourced Chief Investment Officer Selection – *(continued)*

understood the objective of the Committee is to streamline and simplify the process, he believes that at least a semi-annual review of dashboard figures to keep the Committee updated would be appropriate; however, his preference is for quarterly reviews over semi-annual.

Chair Melcher concurred with Regent Wixom. He suggested perhaps adding this to the December agenda as it will assist with planning on how to move forward with the Investment Committee.

Vice Chair Davidson suggested quarterly meetings and perhaps the staff should meet even more frequently.

Chair Melcher agreed with Vice Chair Davidson and added the Committee chair may need to call special meetings.

Regent Wixom cautioned the Committee that, in connection with fiduciary and due diligence obligation, special meetings will not suffice. For example, a third-party will want to know there are regularly scheduled meetings.

Vice Chancellor Redding continued the presentation by noting at the June meeting there was a discussion regarding splitting the Endowment between two OCIO providers. Mr. Hullman explained the differences in OCIO providers to the Committee.

Vice Chancellor Redding referenced a discussion at the June Investment Committee meeting with regard to the two OCIOs and how to compare them in real time. As the presentation was put together, it made the role of custodian that much more necessary because that individual will compare and ensure equity.

Chair Melcher inquired about the strategies the firms use to manage fees.

Mr. Matt Beardsley, Russell Investments, said there is little difference between Russell Investments and Cambridge Associates. The pricing of the individual funds that Russell offers already takes fees into account; the fee already reflects that scaled benefit. One difference is there will be a portion where Russell will act as an agent for the NSHE. Similar to Cambridge, Russell will bring its buying power to the NSHE to the extent allowed by the manager.

Ms. Walker added that Cambridge Associates is hiring managers on the NSHE's behalf; many managers treat Cambridge and their clients as a group when coming up with fee schedules. This is an ongoing discussion between Cambridge and the managers. Year-to-date, Cambridge has negotiated 50 fee concessions and improvements in terms and access in 2016 – these include fee discounts and reductions, and aggregation of clients' assets for different break points.

4. Approved-Outsourced Chief Investment Officer Selection – *(continued)*

Ms. Walker noted these fee breaks and dollar savings go directly to the NSHE and Cambridge's OCIO fees stay stable under any circumstance.

Chair Melcher clarified that both consulting firms utilize the power and size of their organizations, although it is accomplished differently, and the NSHE benefits from the size of the companies. Mr. Beardsley and Ms. Walker concurred.

Vice Chancellor Redding assured the Committee that they will work with the consultants in getting the equitable return net of fees.

Vice Chair Davidson asked if it makes sense to withhold from the OCIO umbrella a portion of the funds and, in turn, it could be put in an index fund. Over a long period of time, a 1 percent difference in fees can add up to a lot of money and the NSHE is potentially going to purchase the stocks.

Vice Chancellor Redding noted the Committee has discussed over the years the appropriateness of an index fund. At this point in the OCIO process, it is not recommended; however, it will continue to be discussed. This possibility is not permanently excluded; it has more place in the Operating Fund rather than the Endowment Fund.

Chair Melcher wanted to know if the NSHE is keeping the Legacy Asset Pool as is by not putting it under outside management. Vice Chancellor Redding confirmed this and explained there are certain assets that do not make sense, in regard to good business practices, to liquidate now. Transferring over to the OCIO model will be a lengthy process. The best recommendation is to hold onto the assets in the Legacy Pool and eventually things will smooth out as those funds distribute funds.

Chair Melcher inquired whether both firms are negotiating the most favored nations clause in their contracts. Ms. Walker and Mr. Beardsley confirmed this. Ms. Walker stated all clients of a certain size, such as the NSHE, pay a flat 30-basis point fee. Mr. Beardsley added that the NSHE will be treated at the best rate Russell offers.

Chair Melcher recommended the Investment Committee maintain its quarterly meeting schedule until this process is settled. Once that takes place, a determination can be made as to how the Committee should move forward from that point.

Regent Wixom agreed with Chair Melcher.

Vice Chancellor Redding said they will likely recommend, now that there are two

4. Approved-Outsourced Chief Investment Officer Selection – (continued)

providers, that the investment policy statement be closely examined and followed up with a fundamental review.

Chair Melcher believed the savings and cost to the department will be an improvement, along with returns net of fees.

Vice Chancellor Redding noted that moving from an advisory model to a discretionary model is a lengthy process. He made a two part recommendation: 1) Extend the current Cambridge Associates advisory contract for up to 90 days; 2) Direct the Vice Chancellor for Finance to continue negotiations with both firms for OCIO services, and authorize the Chancellor to enter into the agreements for OCIO services for the Endowment Fund.

Vice Chair Davidson moved approval of the temporary extension of the current advisory contract with Cambridge Associates for up to 90 days, through December 31, 2016, to facilitate a transition to OCIO; and approval for the Vice Chancellor for Finance to continue contract negotiations with both bidders for OCIO services and authorizing the Chancellor, after consultation with the Committee Chair and review by the Vice Chancellor for Legal Affairs, to enter into one or more agreements for OCIO services, for all, or a portion, of the Endowment funds. Regent Geddes seconded. Motion carried. Regent Crear was absent.

Vice Chancellor Redding thanked Mr. Russell Campbell, Your Second Opinion, LLC, for his help in assisting with the transition to the OCIO model.

5. Information Only-New Business – None.

6. Information Only-Public Comment – None.

The meeting adjourned at 4:48 p.m.

Prepared by: Winter M.N. Lipson  
Special Assistant and Coordinator to the Board of Regents

Submitted for approval by: Dean J. Gould  
Chief of Staff and Special Counsel to the Board of Regents