

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 2016 meeting.

**BOARD OF REGENTS* and its
INVESTMENT COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION**
Rogers Student Center, Innovation Commons
Nevada State College
1021 East Paradise Hills Drive, Henderson
Friday, March 4, 2016

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

Other Regents Present: Mr. Michael Wixom

Others Present: Mr. Daniel J. Klaich, Chancellor
 Mr. Vic Redding, Vice Chancellor for Finance
 Mr. Nicholas Vaskov, System Counsel and Director of
 Real Estate Planning
 Mr. Jamie Hullman, Director of Finance, NSHE
 Dr. Mark A. Curtis, President, GBC
 Mr. Bart J. Patterson, President, NSC
 Ms. Wendy Walker, Cambridge Associates

No faculty senate chairs or student body presidents were 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 8:00 a.m. with all members present.

1. Information Only-Public Comment – None.
2. Approved- Minutes – The Committee recommended approval of the minutes from the October 23, 2015, and the December 3, 2015, meetings (*Refs. INV-2a and INV-2b*).

Regent Davidson moved approval of the minutes from the October 23, 2015, and the December 3, 2015, meetings. Regent Crear seconded. Motion carried.

3. Information Only-Outsourced Chief Investment Officer – Request for Proposals (Agenda Item #4) – Vice Chancellor for Finance, Vic Redding, presented an update on the solicitation of an Outsourced Chief Investment Officer (OCIO) to manage the System’s Operating and/or Endowment Funds.

Vice Chancellor Redding reported the RFP for the OCIO has been released and at the closing date had 16 respondents. He is now in the process of establishing an Evaluation Committee to conduct the first screening to be completed by March 2016, with interviews to be conducted in late April or early May. Vice Chancellor Redding stated development is on track to bring a finalist(s) to the Committee in June for selection.

Vice Chair Davidson asked to have an outline of the scope of services. Vice Chancellor Redding explained the System is looking for an OCIO(s) to manage the discretionary items in the Endowment Pool and the Operating Pool. The final details of the contract will be subject to the direction from the Committee but, based on prior discussions, the final model will be something to the effect that the Committee will maintain the strategic asset allocation and the spending policy, but then delegate to the manager selections like hiring, firing and reporting. The details have to be worked out to the satisfaction of the Committee.

Chair Melcher announced the Great Basin College Endowment moved into the NSHE Endowment Pool. He felt it would be interesting to watch and see if it is a viable option for other institutions or endowments. Mr. Chet O. Burton, President, WNC, said the WNC Foundation was supplied information by Vice Chancellor Redding and may also move into the NSHE Endowment Pool. Chair Melcher said it is a service the System can provide if it is a better way for an institution to save. He asked that an update be placed on the June agenda.

4. Approved-Pooled Endowment and Operating Funds; Operating Pool Reserve (Agenda Item #3) – The Committee recommended approval for:

1. Rebalancing and distribution:

- Endowment Fund:
 - i) A \$2.2 million quarterly distribution from the portfolio to campuses for the quarter ending March 31, 2016;
 - ii) \$0.8 million addition to add to the Endowment cash balance; and
 - iii) Cash for the above sourced from a \$3.0 million withdrawal from PIMCO Total Return.
- Operating Fund:
 - i) Adding \$5.0 million to Vanguard Inflation-Protected Securities (TIPS), sourced from Short-Term Bonds & Cash.

Ms. Wendy Walker, Cambridge Associates, started the review with the fourth quarter review on page 2 of the discussion materials (*on file in the Board office*). She said the quarter was a welcome reversal of some of the pain the pools experience

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

in the third quarter. The Endowment was up 2.3 percent, which slightly lagged the policy benchmark by 10 basis points. The strongest returns came from U.S. Equities and Global ex-U.S. Equities International Developed Equities which bounced back from the third quarter – those two asset classes were up 7.4 and 3.9 percent, respectively.

Ms. Walker said for the calendar year the Endowment returned negative 3.1 percent, which underperformed the policy index for the year due primarily to difficulties in real assets mainly from challenges in the commodities and natural resources space, and this has dragged on relative performance over longer time periods. Since inception the Endowment has returned 9.9 percent annualized, which is now trailing the Long-Term Policy Index by 30 basis points.

Ms. Walker stated the Operating Fund on page 3 showed the summary of returns for the fourth quarter up 1.8 percent, lagging slightly by 40 basis points and again, over the trailing year performance had been challenged. She continued on a trailing five year basis the Operating Fund has returned 4.1 percent annualized, which is trailing the Long-Term Policy Index by approximately 10 basis points and similarly since inception the Operating Fund has returned 4.8 percent, which also trails the Long-Term Policy Index by approximately 10 basis points.

Ms. Walker said there are a number of recommendations, mainly with rebalancing, as indicated on page 7. She noted Cambridge had presented estimated performance for the month of January 2016, which turned out to be a very difficult month in the market – it has since rebounded, so on a calendar year-to-date basis it is estimated the Endowment is down 1.3 percent.

Ms. Walker pointed out the rebalancing recommendation serves primarily to fund the \$2.2 million distribution to campuses for the upcoming quarter. The recommendation is for a \$3.0 million trim from PIMCO Total Return because fixed income has held up relatively better than other asset classes over the recent market volatility, so this is a good opportunity to lock in some of the relative outperformance and the other \$0.8 would go towards the current cash balance which is available to fund capital calls from private investment funds.

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

Regent Davidson moved approval for:

1. Rebalancing and distribution:

- Endowment Fund:
 - i. A \$2.2 million quarterly distribution from the portfolio to campuses for the quarter ending March 31, 2016;
 - ii. \$0.8 million addition to add to the Endowment cash balance; and
 - iii. Cash for the above sourced from a \$3.0 million withdrawal from PIMCO Total Return.

Regent Geddes seconded. Motion passed.

Ms. Walker referred to page 8 for the rebalancing recommendation of the Operating Fund. She said Cambridge is now recommending to moderate a tactical positioning put in place in early 2013, which was to add incrementally back to TIPS. January 2016 finished roughly at a 7.6 percent allocation as a percentage of the total Operating Fund versus a 12.0 percent policy target – which is still well within the range, but TIPS has been underweight for the past two years based on Cambridge's view that TIPS was overvalued. She added many of the valuation plays tend to take a good amount of time to materialize, but Cambridge is pleased to see over time it has worked out in favor of the Operating Fund. The TIPS composite lost 6.1 percent since the tactical underweight was incepted and cumulative versus the total Operating Fund rose 2.7 percent, so that difference between the negative 6.1 percent and the positive 2.7 percent represents preservation of the Operating Fund that would have otherwise been invested in TIPS by staying with the policy target. Cambridge feels that, while TIPS is overvalued, it is less overvalued and now have positive real yields so it is a more favorable time to moderate the underweight position. The recommendation is to add \$5.0 million back to TIPS sourced from current cash, bringing it incrementally back towards the 12.0 policy target and, if things continue to move as they have been, Cambridge would expect to continue to leg back into this position and go toward the more neutral waiting at policy over the coming quarters.

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

Regent Geddes moved approval for

1. Rebalancing and distribution:

- Operating Fund:
 - i. Adding \$5.0 million to Vanguard Inflation-Protected Securities (TIPS), Sourced from Short-Term Bonds & Cash.

Regent Crear seconded.

Vice Chair Davidson understood TIPS is an investment in and of themselves, which was formed primarily to prevent harm in an inflationary environment. He asked if Ms. Walker felt an inflationary environment was on the horizon. Ms. Walker thought the signals were very mixed. She felt over the past year inflation at the highest level has not been very robust because of energy costs plummeting around the world. Ms. Walker said, when thinking about a perpetual pool like those held by the System, these are very long-term strategic policy targets and so there is not much thought for positioning the portfolio for expectations of what might happen over the nearer term, but rather a very long-term strategic policy. She continued that having the 12.0 percent strategic target makes sense in the context of a long-term institution. As previously mentioned, Ms. Walker reiterated that ending in January the strategic target has been underweight at approximately 7.5 percent. Vice Chair Davidson agreed about not investing short-term with these types of funds, but rebalancing is done for a reason. He did not see much reason to move towards TIPS other than to achieve a historic number, but he is not opposed if that is what the Committee wishes to do. Ms. Walker said Cambridge's view is that the direction of interest rates and inflation is very unpredictable and there are allocations towards inflation-sensitive assets, not so much to protect about the inflation that is predicted, it is more that these allocations are in place to protect the portfolio in the event of unexpected inflation. She added there are signs of wage inflation starting to creep up and, outside of the headline numbers, there are areas where no conclusion of what to expect has been drawn. She explained that rather than positioning the portfolio for one particular set of circumstances, which cannot be accurately predicted, Cambridge typically recommends small allocations to these areas that provide a bit of insurance should the unexpected happen and right now TIPS is not viewed as having a very large opportunity cost relative to say, for example, nominal treasuries – it is a very fixed income oriented pool and the shift is very modest.

Motion carried.

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

Mr. Jamie Hullman, Director of Finance, reported the estimated value of the Operating Pool Reserve, as of the close of business on March 3, 2016, was \$6.4 million – a decrease from the December 2016 meeting which was \$21.1 million. He stated during that time campus distributions totaled approximately \$3.5 million. Mr. Hullman said there has been significant volatility in the Reserve Account. He regularly reports the Reserve valuation to the Committee Chair and Vice Chair and it has dipped into negative territory on occasion and then back out. He said right now the Reserve Account is at \$6.4 million but, because of volatility in the markets, it may not stay at that level for very long. Chair Melcher said Mr. Hullman, Vice Chancellor Redding and Cambridge are spending a lot of time monitoring this.

5. New Business – None.

6. Information Only-Public Comment – Mr. Ron Zurek, Vice President, Administration and Finance, UNR, thought the comment about inflation may be very market specific but in northern Nevada inflationary pressures have been expected for some time. He specifically cited costs for new buildings and renovations where estimates, based on actual bids from the general and sub-contractors, are up to 15 to 20 percent higher than the predesign work usually seen. The cost estimates for a building planned to open in 2017 has been moved to 2018 because the actual cost estimates were so high. Regent Geddes asked about the comparison of prices before the crash. He knew the prices were high in 2007 and 2008 in relative dollars. Mr. Zurek said the primary increases seen in the projects today are labor related and before the crash it was a combination of labor and commodities. Commodities continue to be weak and available. Vice Chair Davidson reported there is a shortage of trades in northern Nevada. Chair Melcher felt this trend should be brought to the attention of the Business, Finance and Facilities Committee Chair.

The meeting adjourned at 8:25 a.m.

Prepared by: Nancy Stone
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Submitted for approval by: Dean J. Gould
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