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 2016 meeting.

BOARD OF REGENTS* and its
INVESTMENT AND FACILITIES COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION
Student Union, Ballroom A
University of Nevada, Las Vegas
4505 S. Maryland Parkway, Las Vegas
Thursday, December 3, 2015

Members Present:	Mr. Kevin C. Melcher, Chair Mr. Robert M. Davidson, Vice Chair Dr. Jason Geddes Mr. Trevor Hayes
Members Absent:	Mr. Cedric Crear
Other Regents Present:	Mr. Michael B. Wixom
Others Present:	Mr. Daniel J. Klaich, Chancellor Mr. Vic Redding, Vice Chancellor, Finance and Administration Mr. Nicholas Vaskov, System Counsel and Director of Real Estate Planning Mr. Scott Young, Acting Chief of Staff to the Board of Regents Mr. Jamie Hullman, Director of Finance, NSHE Ms. Lee Quick, NSHE Dr. Stephen G. Wells, President, DRI Mr. Bart J. Patterson, President, NSC Dr. Maria C. Sheehan, President, TMCC Dr. Marc A. Johnson, President, UNR Ms. Wendy Walker, Cambridge Associates

There were no faculty senate chairs in attendance. Student body presidents in attendance were Mr. Caden Fabbi, ASUN, 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 4:24 p.m. with all members present.

1. Information Only-Public Comment – Ms. Martha Garcia reinforced the remarks of Dr. John C. Sagebiel *(on file in the Board office)* given in support of sustainability. She also requested consideration be given to the option of divestment of NSHE funds from fossil fuel companies.

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 10, 2015, meeting *(Ref. IF-2a on file in the Board office)*.

   2b. Approved-University Park Apartments Project Lease Agreement – UNLV – The Committee recommended approval of the Assignment, Assumption and Modification of lease agreement of the Phase One Lease for the University Park Apartments project located at 4259 S. Maryland Parkway, Las Vegas and approval to authorize the Chancellor or his designee, after consultation with the Vice Chancellor for Legal Affairs, to review and approve Tenant's proposed financing for the project *(Ref. IF-2b on file in the Board office).*

   2c. Approved-Amendment to Lease Agreement with Verizon Wireless Located at 904 North Virginia Street, Reno – UNR – The Committee recommended approval of the First Amendment to the Building and Rooftop Lease Agreement and the Memorandum of First Amendment to Building and Rooftop Lease Agreement with Verizon Wireless located at 904 North Virginia Street, Reno, NV. *(Ref. IF-2c on file in the Board office)*.

   2d. Approved-University of Nevada School of Medicine Lease Located at 745 West Moana Lane, Reno, NV – UNR – The Committee recommended approval to lease approximately 17,390 square feet within 745 West Moana Lane, Reno, NV 89509 for the University of Nevada School of Medicine for a term of thirty six (36) months, with an option to renew the lease for an additional thirty six (36) months *(Ref. IF-2d on file in the Board office).*

   2e. Approved-Resolution, Authorization to Sell Properties Located in the Stead Area, City of Reno, NV – UNR – The Committee recommended approval for the pre-approval to sell ten properties in the Stead area of Reno, Nevada. The Committee recommended approval authorizing the Chancellor or his designee to approve and execute, after consultation with the Investment and Facilities Committee Chair and review by the Vice Chancellor for Legal Affairs, contracts and related documents to sell the properties for an amount no lower than the appraised values, and to sign corresponding escrow and title documents associated with the sale(s) at close of escrow. Status reports will be provided approximately every six months *(Ref. IF-2e on file in the Board office).*

   2f. Approved-Resolution, Purchase of Real Property at 830 North Center Street, Reno, NV – UNR – The Committee recommended approval of a resolution to purchase real property at 830 North Center Street, Reno, NV in the amount of $1,600,000 *(Ref. IF-2f on file in the Board office).*

2. Approved- Consent Items – Consent items were considered together and acted on in one motion *(continued)*.

   2g. Approved-Purchase of Real Property at 1055 Evans Avenue, Reno, NV, – UNR – The Committee recommended approval of a resolution to purchase real property at 1055 Evans Avenue Reno, NV, in the amount of $561,000 *(Ref. IF-2g on file in the Board office)*.

Regent Geddes moved approval of the Consent Agenda. Vice Chair Davidson seconded. Motion carried. Regent Crear was absent.

3. Approved-North Parking Lot Construction Approval and Expenditure of $2.4 Million Capital Improvement Fees – TMCC – The Committee recommended approval to proceed with the development of the approximately 380 parking stalls located on the northeastern side of the Dandini campus, at a cost of up to $2.4 million, funded from existing capital improvement fee balances *(Ref. IF-3 on file in the Board office)*.

   Ms. Rachael Solemass, Vice President for Finance and Administration Services, TMCC, explained that the request is part of the TMCC Master Plan approved by the Board in June 2014, followed by a complete report at the June 2015 meeting.

Vice Chair Davidson moved approval to proceed with the development of the approximately 380 parking stalls located on the northeastern side of the Dandini campus, at a cost of up to $2.4 million, funded from existing capital improvement fee balances. Regent Geddes seconded. Motion carried. Regent Crear was absent.

4. Approved-New School of the Arts Building – UNR – The Committee recommended approval to proceed with the proposed project to develop a new fine arts building with a fundraising goal of $20 million and a loan to bridge pledges *(Ref. IF-4 on file in the Board office).*

   Dr. Marc A. Johnson, President, UNR, expressed excitement by the proposed addition of a new fine arts building in terms of quality and quantity of space for the program, which will allow for better practice rooms for the orchestra, band, opera, choral and the growing number of music majors. He noted the new space will contain a 300 seat recital hall which will alleviate the pressure of the completely booked 600 seat Nightingale Hall, and more than double the space in the Sheppard Gallery.

4. Approved-New School of the Arts Building – UNR *(continued)*

President Johnson stated the building cost is approximately $20 million and right now there is $19.3 million in cash and partial pledges. He will bring a financing plan to the Committee in March 2016.

Regent Hayes moved approval to proceed with the proposed project to develop a new fine arts building with a fundraising goal of $20 million and a loan to bridge pledges. Regent Geddes seconded. Motion carried. Regent Crear was absent.

5. Information Only-Development of Nevada State College Campus Reserve Lands – NSC – Nevada State College President Bart J. Patterson updated the Committee on the progress of the Request for Information for the development of Nevada State College's Reserve Lands, including the selection of a proposed lead developer. President Patterson also discussed the next steps leading to a non-binding Memorandum of Understanding (MOU) regarding the College Campus Reserve Lands that will be brought to the Committee at a later date *(Ref. IF-5 on file in the Board office)*.

President Patterson said NSC has 509 acres of ground with 340 acres already in an approved Master Plan, so there is approximately 169 acres available for public-private partnerships. The process has been going on for a year, and NSC has purposely taken its time because of the opening of the new buildings. He said NSC is looking for a lead developer and is at the point of building up the campus lands to help erect the infrastructure for additional revenue and programs for the college – allowing students better opportunities for employment and training for the workforce.

Chair Melcher asked if a non-binding MOU would be brought to the Committee at the March 2016 meeting. President Patterson agreed the MOU would be presented in March.

Mr. Kevin Butler, Vice President for Finance and Business Operations, NSC, said in September 2014, a Request for Information to process the 169 acres was distributed to approximately 120 different firms, resulting in only 11 proposal responses. A committee, along with participation from the City of Henderson and college employees, was created. The proposals were shaved from 11 to four and those four were invited to make a presentation to the committee. The firms were then questioned at length, and after the committee deliberated, it made a recommendation to President Patterson. Mr. Butler said the UNLV Purchasing Department handled the NSC procurement and monitored the process then released an award letter to Ledcor PGL and Traub Associates to be the NSC developing partners. He pointed out the door is still open to invite other developers to participate in the build-out of the land.

5. Information Only-Development of Nevada State College Campus Reserve Lands – NSC - *(continued)*

Mr. Butler said NSC, NSHE legal and the private partners will be busy assembling the framework of an MOU of how the partnership will be operated. The MOU will hopefully push the risks, costs, and burdens of discovery – including any issues related to financing and land patents over to the private partner. He felt the MOU would be brought to the Committee at the March 2016 meeting. He continued, once the MOU is in place, other individual projects or clusters of projects will be brought to the Committee for approval.

Regent Wixom did not understand how a land patent issue could be turned over to the developer. Mr. Butler explained this will be a matter to work out in the terms of the MOU. The college does not have the resources to explore the discovery but, whatever is done, the Bureau of Land Management (BLM) has to be comfortable with it. Regent Wixom stated the BLM does not get comfortable with anything. The underlying issue has to do with the educational purpose limitation on the land patent with the BLM. The problem, in terms of development, is when a financing agency sees the land patent as part of the deal package, and because it is something new, the agency will not finance. Regent Wixom said the only solution is the developer and/or the institution has to sit with the title company until the company is comfortable enough with the process to insure over it in terms of title insurance. Regent Wixom felt assured if this process is not followed there will be a problem. He does not think it is a matter of turning the patents over to the developer because the developer will turn the patents right back. He believed NSC has to be proactive in the way the solution is developed and get with the title company now, meet with them now, and brief them now about the issues in order to do the underwriting that needs to be done because it will take time. President Patterson felt there is quite a bit of ground work to be done and agreed issues will have to be worked out.

Regent Geddes asked if the private partners had experience with BLM patents and projects and, if so, he would like to have the information. Mr. Butler will check to see if that information is available.

Regent Geddes asked if each individual agreement has a clause explaining integration with the campus. An example would be why retail would tie into the campus versus something else. Mr. Butler said that language was specifically taken out of the campus Master Plan. He reiterated NSC would bring specific projects or clusters of projects back to the Committee prior to the design construction. Regent Geddes would like to have an explanation how it relates to and meets the patent. Chair Melcher suggested Mr. Butler continue to meet with Mr. Vaskov and perhaps have Regent Wixom review the information before March in order to iron out any concerns.

6. <u>Approved-Pooled Endowment and Operating Funds; Operating Pool Reserve</u> – The Committee recommended approval for:
1. A $4.0 million investment in the Harvest MLP Income Fund.
2. Rebalancing and distribution:
   - Endowment Fund:
     i) $2.3 million quarterly spending/management fee distribution from the portfolio to campuses for the quarter ending December 31, 2015;
     ii) $4.0 million new investment in the Harvest MLP Income Fund *(see 1. above)*;
     iii) $0.3 million addition to cash.
     iv) Cash for the above sourced as follows:
        1. $1.0 million partial redemption from Vanguard Institutional Index to bring the U.S. Equity allocation slightly more underweight, based on valuation concerns.
        2. $0.6 million partial redemption from MFS International to bring Global ex U.S. Equity closer to the policy target.
        3. $2.0 million partial redemption from RS Global Natural Resources to bring the Real Assets allocation roughly to target after funding Harvest.
        4. $3.0 million partial redemption from PIMCO Total Return to bring Total Bonds & Cash slightly below target.
   - Operating Fund (no recommendations).

Ms. Wendy Walker, Cambridge Associates, gave a market overview and outlook evaluations beginning on page 12 of the report *(on file in the Board office)* where the markets were down. She said markets bounced back strongly in October. The Endowment returned 4.6 percent and the Operating Pool rebounded 2.9 percent. She added the fourth quarter is showing relatively strong with 4.0 percent and 2.5 percent returns thus far. Mr. Walker stated, overall, the year has been choppy and overall results across Global Equities have been challenging and somewhat disappointing for institutions that are looking to support a long-term payout.

Ms. Walker noted Cambridge has a recommendation to diversify the Real Assets allocation to take advantage of some of the pull-back to get into an area viewed as very attractive from a valuations perspective and fundamentals perspective in diversifying that allocation.

Ms. Walker said there will be some unevenness and volatility going forward, which will be a reversion to what is a more natural market environment. She stated real return expectations is listed on page 15. Page 18 shows two global indices; one is developed markets only, and the other is an all country world index that includes emerging markets, illustrating relative performance over rolling three-year and rolling five-year periods. The trailing three-year the global index, including emerging markets, has significantly underperformed – yet, historically, over most three-year periods, it has outperformed to have emerging markets in the mix. The pattern is even strong over the rolling five-year period. Ms. Walker explained this information is offered as context for these performance patterns

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

that tend to be cyclical, but it is important to maintain these allocations to these strategic areas.

Regent Hayes left the meeting.

Ms. Walker said one final point on emerging markets is on page 20 where the price to earnings ratio of valuation metrics has reached the seventh percentile of historical observation, and 93.0 percent of environments emerging markets equities have been valued more highly. She noted examples of subsequent returns from extremely low valuations are on page 22.

Ms. Walker stated the overview for the Master Limited Partnerships (MLPs) is on page 25. Master Limited Partnerships, a sub-set of natural resource equities, are more a structure of a company rather than a type of company, but the vast majorities are mid-stream pipeline companies – pipelines through which oil, gas, natural gas and liquefied natural gas flow. The revenues of these companies are based on the volume of commodities passed through the pipelines as opposed to having actual commodity price sensitivity themselves.

Ms. Walker continued the MLPs index has fallen 33.0 percent year to date – very much in sympathy with oil. Master Limited Partnerships is an asset class with over 50.0 percent retail individual investors; many looking for high yields, high dividends. She said it has been an environment where some of the more speculative companies offering the highest dividends have started to cut them back and there has been a lot investor outflow from this area. Ms. Walker noted Cambridge does not think the recent pullback represents the fundamentals of these types of companies given there is no commodity price sensitivity. She indicated there is an argument to be made that with lower prices there will be offsetting supply and demand forces so that lower oil and gas prices should not directly impact the revenues of these companies. The index is now yielding over 8.0 percent, which is an attractive level relative to any other yield producing asset class. Ms. Walker said Cambridge has been interested in this asset class for a number of years but found it too expensive as an entry point for a while, but the recent pullback presented a good opportunity as outlined on pages 29 and 30.

Ms. Walker explained to compare and contrast the two proposed managers for this recommendation, Harvest and Tortoise, was outlined on pages 33 through 39. Cambridge feels Harvest is more compelling as a recommendation. Harvest is 100 percent employee owned and has smaller firm assets under management which allows them to be more nimble and responsive to the market environment. Harvest also has better liquidity terms and a lower cap on total annual expenses.

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

Ms. Walker recapped the recommendation is to invest $4.0 million from the Endowment in Harvest MLP, which equates to approximately 2.0 percent of the Endowment and equates to approximately 25.0 percent of the Real Asset allocation.

Chair Melcher stated redemption of $4.6 million was needed. Ms. Walker agreed and said the breakdown of the $4.6 million was on page 5 of the report.

Regent Geddes moved approval of:
1. A $4.0 million investment in the Harvest MLP Income Fund.
2. Rebalancing and distribution:
- Endowment Fund:

i) $2.3 million quarterly spending/management fee distribution from the portfolio to campuses for the quarter ending December 31, 2015;
ii) $4.0 million new investment in the Harvest MLP Income Fund *(see 1. above)*;
iii) $0.3 million addition to cash.
iv) Cash for the above sourced as follows:
1. $1.0 million partial redemption from Vanguard Institutional Index to bring the U.S. Equity allocation slightly more underweight, based on valuation concerns.
2. $0.6 million partial redemption from MFS International to bring Global ex U.S. Equity closer to the policy target.
3. $2.0 million partial redemption from RS Global Natural Resources to bring the Real Assets allocation roughly to target after funding Harvest.
4. $3.0 million partial redemption from PIMCO Total Return to bring Total Bonds & Cash slightly below target.
- Operating Fund (no recommendations)

Vice Chair Davidson seconded. Motion carried. Regents Crear and Hayes were absent.

Mr. Jamie Hullman, Director of Finance, reported the value of the Operating Pool Reserve as of the end of business on Wednesday, December 2, 2015, was $21.1 million, which was an increase of approximately $11.8 million since September 2015. He stated, during that time income totaling approximately $3.5 million was distributed to the institutions.

7. <u>Information Only-Fossil Fuel Investments/Socially Responsible Investing</u> – Ms. Wendy Walker presented information regarding the impact of fossil fuel divestment from institutional investment portfolios. The Committee discussed this and other policy initiatives as they relate to socially responsible investing *(Ref. IF-7 on file in the Board office)*.

Chair Melcher explained he requested this presentation in order to be pro-active with trends happening industry-wide.

Ms. Walker said page 42 showed a divestment movement across campuses nationwide with many clients responding to campaigns like the fossil fuel. The largest group is affiliated with the 350.org movement which has a fossil free campaign. The way 350.org defines the request is divesting from the 200 publicly traded target companies holding the vast majority of the world's listed oil, coal and gas reserves – the producers of these reserves are currently underground. Ms. Walker said the goal of the movement is to prevent the reserves from being extracted. Page 43 shows that many institutions are grappling with this topic, not only thinking of what the sources of energy are, but also what the uses of energy are. She stated when thinking about the end-use sectors using energy, some 40.0 percent of energy in the U.S. is used in the construction industry. She thought one challenge many institutions are facing is where the line is drawn when thinking about expressing views about the use of fossil fuels.

Ms. Walker explained the challenge highlighted on page 44 is to estimate what the impact of fossil fuel divestment will be on a portfolio. The information provided looks back at global energy stocks that have been additive to the global index and even though there is some significant underperformance over the trailing three years, longer periods have outperformed over the long-term. She noted with higher volatility it is highly cyclical as recent years have shown, but the risk-adjusted returns as measured by the sharp ratio still end up higher. Ms. Walker reiterated this is only looking backwards – it is almost impossible to make a statement with conviction about what the relationship will look like going forward. Ms. Walker emphasized any forward projections will depend on the demand for fossil fuels, the economic viability of alternatives, and views on regulatory risks facing fossil fuel companies among other inputs.

Ms. Walker stated institutions are asking themselves if they are better equipped to make these forward looking predictions rather than their investment managers from the perspective of energy stocks continuing to be additive to a global index.

Ms. Walker said she is a team member of Cambridge's mission-related investment group. The group is very committed to helping institutions that have a mission to express through their investment portfolios, however, a very small percentage of managers are available as indicated on page 45.

7. Information Only-Fossil Fuel Investments/Socially Responsible Investing – *(continued)*

Ms. Walker stated the final point about the manager universe is that the System has relationships with some managers with very, very strong historical track records about performance that would be hard to replace. For example, Adage, a fund that has been closed for years, is a co-mingled fund and since inception has delivered 300 basis points of outperformance over its index fund which does not offer a strategy that is fossil fuel free.

Vice Chair Davidson said he has looked at this over many years and often there are unintended consequences. One of the many examples is in Germany where the cutting of fossil fuels has thrown over one million people into poverty because of higher utility rates. He thought it was the Committee's job to handle the money in the most responsible way to get the best return for students to get educated. Chair Melcher felt the Committee's job is not to be political.

Regent Geddes asked about data on the System's investments in coal and tar sand, and what effects it would have on the NSHE portfolio if investments were taken from those areas and re-invested in emerging markets or other areas. Chair Melcher requested Ms. Walker to bring any appropriate reports along the lines of Regent Geddes' request to the next meeting.

8. Information Only-Distribution from the Endowment Fund – Vice Chancellor for Finance and Administration, Vic Redding, discussed current NSHE distributions from the Endowment Fund, including the net 4.75 percent spending rate/management fee in relation to current investment allocation, projected returns, and Board policy *(Handbook, Title 4, Chapter 10, Section 5)* *(Ref. IF-8 on file in the Board office)*.

Vice Chancellor Redding explained the Committee put into place a policy to annually review the NSHE Endowment spending rate, as well as comparative performance and spending with the two university foundations. The spending policy review takes place in December with an effective date of July 1 to give the institutions adequate time to prepare budgets based on the distribution rate. Per Board policy, the approved spending rate is applied against the average market value of the previous 20 quarters, which acts as a smoothing mechanism to gain some predictability and eliminate some peaks and valleys.

Vice Chancellor Redding said currently, NSHE institutions with a management agreement in place have an approved distribution of 4.75 percent, of which no more than 1.5 percent can be allocated to management fees. Institutions without management agreements receive a distribution totaling 4.5 percent.

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

Chair Melcher thought a motion was not necessary if the rates were to remain the same. Vice Chancellor Redding mentioned, for the record, no recommendations were received from the institutions to adjust the rates, and confirmed if no Committee action was taken the rates will remain the same.

9. Approved-Outsourced Chief Investment Officer (OCIO) – Request for Proposal – The Committee recommended approval of the draft scope of work and direction to staff to move forward with the Request for Proposal (RFP) process with an anticipated selection date of the June 2016 Committee meeting. Staff will provide a progress report at the March 2016 meeting *(Ref. IF-9 on file in the Board office)*.

Vice Chancellor Redding reported Mr. Russell Campbell from Your Second Opinion, LLC, and System staff moved to the second phase of the OCIO process, namely the preparation of a scope of work for a RFP to solicit services for NSHE. The RFP is structured so an OCIO would take on the management functions while the policy decisions like asset allocation, spending rates, and liquidity management would remain a duty of the Committee, with the OCIO serving in an advisory role. He reminded the Committee the current contract with Cambridge for advisory services expires on September 30, 2016. He stated the RFP is ready to be issued and Mr. Campbell will evaluate the responses and ultimately recommend a finalist(s) for consideration of the Committee. A progress report will be supplied at the March 2016 meeting.

Regent Geddes noticed the RFP indicated the date of issuance was December 2016, which is obviously an error and should be December 2015.

Regent Geddes moved approval of the draft scope of work and direction to staff to move forward with the Request for Proposal (RFP) process with an anticipated selection date of the June 2016 Committee meeting. Staff will provide a progress report at the March 2016 meeting. Vice Chair Davidson seconded. Motion carried. Regents Crear and Hayes were absent.

10. New Business – None

12. Information Only-Public Comment – None

The meeting adjourned at 5:23 p.m.

Prepared by:	Nancy Stone Special Assistant & Coordinator to the Board of Regents
Submitted for approval by:	Dean J. Gould Chief of Staff and Special Counsel to the Board of Regents