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 2017 meeting.

BOARD OF REGENTS and its
INVESTMENT COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION
Paul Laxalt Education Center, S-144
College of Southern Nevada
3200 E. Cheyenne Avenue, North Las Vegas
Thursday, March 2, 2017

Members Present:	Dr. Jason Geddes, Chair *(via telephone)* Mr. Cedric Crear, Vice Chair Mrs. Carol Del Carlo Mr. Trevor Hayes Mrs. Cathy McAdoo Mr. John T. Moran
Others Present:	Mr. Nicholas Vaskov, Vice Chancellor, Legal Affairs Mr. Jamie Hullman, Senior Director, Finance Dr. Robert B. Gagosian, President, DRI Dr. Karin Hilgersom, President, TMCC Dr. Len Jessup, President, UNLV Mr. Chet Burton, President, WNC

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

Vice Chair Cedric Crear called the meeting to order at 3:54 p.m. with all members present.

1. Information Only-Public Comment – Representatives of the Sierra Club, including Ms. Jane Feldman, spoke in support of NSHE divesting from fossil fuels.

2. Approved-Consent Items – The Committee recommended approval of the following consent items:

   (2a.) Approved-Minutes – The Committee recommended approval of the minutes from the December 1, 2016, meeting *(Ref. INV-2a on file in the Board office).*

   (2b.) Approved-*Handbook* Revision, Endowment Distribution Policy – The Committee recommended approval of an update to Board policy *(Title 4, Chapter 10, Section 5, Subsection 3)* to reflect Board of Regents' action at the December 1-2, 2016, meeting to reduce the endowment distribution rate from 4.75 percent to 4.5 percent *(Ref. INV-2b on file in the Board office).*

2. Approved-Consent Items – *(continued)*

Regent Hayes moved approval of the consent items. Regent Geddes seconded. Motion carried.

3. No Action Taken-Pooled Endowment and Operating Funds; Operating Reserve Fund - Staff from Cambridge Associates and System Administration presented a report on asset allocation and investment returns for the pooled Operating and Endowment Funds for the quarter ended December 31, 2016. NSHE staff also provided an update on the status of the Operating Pool Reserve.

Ms. Wendy Walker, Cambridge Associates, referred the Committee to page 2 of the Cambridge discussion materials: "NSHE Endowment Investment Returns Summary" - the returns for the quarter ended on December 31, 2016. This was the last period before the portfolio is re-positioned under the new discretionary mandates under Cambridge Associates and Russell Investments. For the quarter ended on December 31, 2016, the Endowment Fund returned 0.1 percent. It is about half a percent behind the policy benchmarks. That brings the fiscal year first half results to 4.3 percent which is roughly even with the benchmarks. Likewise on a full calendar year 2016 basis, the portfolio returned 7.2 percent which is 20 basis points behind the policy index. Over the longer term the portfolio has generated excess returns over the benchmark, 4.8 percent over the trailing ten years, which is 30 basis points ahead of the benchmark, and since inception 9.8 percent annualized which is slightly ahead of the benchmark. As an update for early 2017, the preliminary January returns for the Endowment were positive 1.3 percent which is in line with the benchmark. The estimate for the February returns, on a very preliminary basis and without all the data from the managers being in yet, is about 1.8 percent. This estimate is generated based on index proxies. Using the same index proxies, the returns are estimated at 7.4 percent for the first eight months of the fiscal year to date.

Ms. Walker referred the Committee to page 3 of the Cambridge discussion materials: the "NSHE Operating Fund Investment Returns Summary" - the returns for the period ended December 31, 2016. For the Operating Fund, it was a negative 1/10 of 1 percent for that period. It has a lower return relative to the Endowment because in the fourth quarter it is fixed income focused. Fixed income struggled in the fourth quarter and was 60 basis points below the policy index. 2016 results were at 4.3 percent which was roughly in line with the benchmark. Similarly, the trailing ten-year results are a positive 3.5 percent which is also roughly in line with the benchmark. Over the long term, the Operating Pool has returned 4.8 percent which is 50 basis points ahead of the benchmark. As an update for early 2017, the estimate is the portfolio returned 1.2 percent for the month of January and 1.1 percent for the month of February. For the first eight months of the fiscal year, the Operating Pool has returned about 4.3 percent.

3. No Action Taken-Pooled Endowment and Operating Funds; Operating Reserve Fund – *(continued)*

Ms. Walker referred the Committee to page 6 of the discussion materials: "Operating Fund Positioning; Recommend No Action." Cambridge Associates typically sets forth estimates and proposed rebalancing for the Operating Pool now that the Endowment is managed under the new discretionary contracts. Cambridge is comfortable with the current Operating Fund positioning and recommended the System take no action with respect to the Operating Fund.

Mr. Jamie Hullman, Senior Director, Finance, stated the value of the Operating Pool Reserve account, as of the end of business day on Wednesday, March 1, 2017, was $43.8 million which is an increase of $23.23 million compared to the Reserve value reported in December 2016. During that time, income distribution has totaled approximately $3.4 million to the institutions.

Vice Chair Crear said since there were no recommendations from Cambridge for the Operating Fund positioning, no action would be taken for the agenda item.

4. Information Only-Pooled Endowment Fund Outsourced Chief Investment Officer Transition - System staff provided an update on the status of the Outsourced Chief Investment Officer (OCIO) transition of the Endowment Fund. Mr. Mathew Beardsley from Russell Investments and Ms. Wendy Walker from Cambridge Associates provided an update on the deployment of System endowment assets and progress toward implementation of their respective endowment investment strategies.

Mr. Hullman provided an overview of the activities leading up to the transition from an advisory consultant investment model to a discretionary investment model (OCIO) for the System Endowment Fund. This transition changes the relationship between the Committee and the consultant by giving the investment consultants discretion to implement investment decisions for the Endowment Pool without first consulting the Board or the Investment Committee. The decisions must fall within the NSHE Endowment Pool investment policy guidelines. Under the advisory relationship, the consultants made recommendations which the Investment Committee could approve and the System staff would then implement. Moving from an advisory model to a discretionary model relieves the Investment Committee of the duty to manage the day-to-day functions of the Endowment Pool, and allows the Committee to focus more on the long term direction of the Pool. This process began approximately two years ago when the Vice Chancellor for Finance, Vic Redding, presented an agenda item outlining a discretionary OCIO model for consideration by the Committee. The Committee directed System staff to move forward with the implementation of the OCIO model and shortly thereafter Mr. Russell Campbell, Your Second Opinion, LLC, was hired as a consultant to assist System staff with developing a request for proposal and to select the OCIO. He will continue to assist with monitoring the OCIO

4. <u>Information Only-Pooled Endowment Fund Outsourced Chief Investment Officer Transition</u> – *(continued)*

performance going forward.

With the help of Mr. Campbell and Business Center North (BCN), the request for proposal was issued and 16 investment firms responded with proposals. An RFP (Request for Proposal) committee was created to review proposals and select an OCIO. The composition of the Committee consisted of Mr. Hullman, Mr. Redding, Mr. Campbell and representatives from UNR and UNLV leadership. The review committee determined that Cambridge Associates and Russell Investments best fit the needs of the System. The Pool was allocated to each OCIO equally. Cambridge and Russell have different approaches to discretionary services and by allocating the Endowment Investment Pool to two OCIOs, the System expects to minimize the financial risks. Additionally, NSHE will retain the expertise of both firms with regard to providing guidance to the Committee about decisions they will make as they move forward. At the same time, the Endowment Pool policies and procedures were updated to reflect the responsibilities of the OCIOs, the System staff and the Board of Regents. The updates, approved by the Investment Committee at the December 2016 meeting, were the result of a collaborative effort between the OCIOs and System staff.

From the initial steps of conveying this idea and information to the Investment Committee through the RFP process, the selection of the OCIOs and finally the transition of assets to the OCIO custody accounts, this project has been carefully planned and implemented. System staff have begun the process of moving Endowment assets to the custody accounts for the OCIOs to manage. Negotiations took place with Cambridge to begin selling the assets held under the advisory relationship at the end of December 2016. The Finance Department has asked Mr. Matt Beardsley, Russell Investments, and Ms. Walker to provide an update on the transition of those assets.

Mr. Beardsley presented his report on the asset transition for the NSHE Endowment Pool which included working toward the final allocation and target, along with portfolio simulations regarding 10-year and 20-year capital markets as of December 2016.

Vice Chair Crear asked for more details regarding the private real estate investment portion of the asset transition. Mr. Beardsley answered that Russell Investments uses a comingled vehicle where a series of third party subadvisors will buy commercial realty on behalf of NSHE. That portfolio is very diversified as it holds commercial buildings, industrial, residential, entertainment properties and so forth.

In response to Vice Chair Crear, Mr. Beardsley clarified that it will be private investors who will be investing in the real estate.

4. Information Only-Pooled Endowment Fund Outsourced Chief Investment Officer Transition – *(continued)*

Mr. Beardsley said he will bring information on the portfolio of the investors to the June Committee meeting.

Mr. Hullman added when contracts were negotiated with both Russell and Cambridge, the OCIOs were to provide the details of new transactions that will commit NSHE to long-term investments, as stated in the Endowment policy. If either of the OCIOs plans to commit NSHE to a long term investment, NSHE will have one week to review the potential investment. If NSHE does not respond within one week, Cambridge and Russell can move forward with the investment. Mr. Hullman assured the Committee that all of the long-term investments will be reviewed at the System level.

Vice Chair Crear stated it would be interesting for the Committee to see more information on some of the long-term investments. Mr. Beardsley said they will bring the information to the next Committee meeting.

Mr. Beardsley continued his report by discussing the portfolio simulations over the next 10- to 20-year capital markets as of December 2016 with regard to the NSHE Endowment Pool.

Vice Chair Crear referred to page 3 of the reference material (Ref. INV-4) and requested an explanation of the growth from January 5, 2017, with the $48.37 million balance, to February 8, 2017, with the $75.57 million balance. Mr. Hullman answered in December 2016, Cambridge Associates began the process of liquidating the investments that were held in the advisory relationship. Some of those investments could not be divested from immediately due to restrictions. As Cambridge was able to divest from the old investments, the custody accounts were funded for both Cambridge and Russell. The reason the portfolio is growing is because the redemption of the funds is taking place.

Vice Chair Crear asked at what point will the redeemed investments from the advisory relationship completely transition to the OCIO custody accounts. Mr. Beardsley said with the final anticipated cash flow in April/May 2017, there is expected to be about $100 million. Cambridge will have a similar amount and the Legacy component will remain in transition for a number of years.

Ms. Walker presented the Cambridge Associates' report which included the blended total Endowment policy adopted in December 2016, the Endowment asset allocation and the Endowment portfolio liquidity summary, noting all are well within the policy guidelines. The portfolio transition is proceeding according to plan. Lastly, the diversifiers implementation and the private investments implementation are also on track.

4. <u>Information Only-Pooled Endowment Fund Outsourced Chief Investment Officer Transition</u> – *(continued)*

Vice Chair Crear asked if there is a way to have the reports from the two managing partners submitted as a side-by-side summary going forward. Mr. Hullman answered the System has negotiated with Cambridge Associates to provide a summary for both pools to be shown together. In the future, Cambridge will pool the information together.

5. <u>Approved-DRI Foundation Management Fee</u> – The Committee recommended approval of the DRI and the DRI Foundation's institutional request for an annual fee of 1 percent of the institution's portion of the NSHE endowment pool, calculated and distributed in the same manner as the dividend to be transmitted to that institution in consideration of additional Foundation management, stewardship and development activities. The DRI Foundation requested the 1 percent administrative fee be assessed effective July 1, 2017 *(Ref. INV-5 on file in the Board office).*

Dr. Robert Gagosian, President, DRI, stated private funds are essential in leveraging ideas and creativity in a research institution and DRI has very limited private funds. DRI would like to have the funds to bring in postdoctoral fellows, fund junior staff and their research and so forth. The DRI faculty raises funds to pay their own salaries; they do not receive 9-month salaries, and 75 percent of DRI's grants and contracts come from the federal government. One of DRI's four strategic directions includes a significant increase in philanthropic gifts which calls for the need for a development office for the DRI Foundation. Currently, one junior staff member spends a majority of their time working on the DRI Nevada Medal event. Given the issue of strategic directions, President Gagosian laid out a five-year goal of raising about $5 million per year, which would account for 10 percent of DRI's budget, from private gifts. Consequently, the development office will need to be built as soon as possible. President Gagosian sensed the Regents also believe that private money is important to DRI since it is a bonus component for his successor who will begin on July 1, 2017. President Gagosian requested 1 percent of the management fee to create the development office that will be comprised of three to four staff members. The DRI Foundation will fund the development office project with $100,000 and DRI will match that amount. That would give DRI roughly $475,000 for this project.

Vice Chair Crear asked if it would be an annual 1 percent and if any other of the NSHE institutions have done this. President Gagosian answered the 1 percent would be annual. Mr. Hullman confirmed that other institutions are receiving the management fee and they have the option to increase the fees to 1.5 percent. Each of the institutions allocates the funds between spending and management fee inconsistently; some institutions allocate .25 percent to management fee and others allocate the full 1.5 percent to management fee.

5. Approved-DRI Foundation Management Fee – *(continued)*

Regent McAdoo moved approval for implementation of a 1 percent management fee for DRI endowment accounts held in the System Endowment Pool to offset the cost of additional Foundation management, stewardship and development activities, to be effective July 1, 2017. Regent Del Carlo seconded. Motion carried.

In response to inquiries from Regent Moran, President Gagosian said the 1 percent equates roughly to $265,000 to hire a Chief Development Officer. If the Committee did not approve this request, it would slow down the entire process of building a significant development office which has been an ongoing project for eight years. With how the DRI formula works, the institution lost $300,000 in the biennium. If that had gone up, some of those funds could have been used for the development office project. DRI is down about $600,000 per year going into the next biennium. There is $600,000 in research money for the cloud seeding, but those funds are not available for the office. DRI simply does not have the resources for the development office and if they had to find the funding elsewhere, it would most likely be withdrawn from research and postdoctoral support since the project is a high priority for the Foundation.

Regent Moran asked why DRI does not request the full 1.5 percent. President Gagosian answered it is best they work slowly when taking money away. If they are successful, DRI will come back and ask for the remaining .05 percent.

Regent Moran complimented President Gagosian for his invaluable work and contributions to DRI.

6. Information Only-New Business – At the June Committee meeting, Chair Geddes will lead a discussion regarding divestment from coal and tar sands.

7. Information Only-Public Comment – None.

The meeting adjourned at 4:40 p.m.

Prepared by: Winter M.N. Lipson
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Submitted for approval by: Dean J. Gould
Chief of Staff and Special Counsel to the Board of Regents