BOARD OF REGENTS and its
INVESTMENT COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION

System Administration, Reno
2601 Enterprise Road, Conference Room
Friday, September 27, 2019

Video Conference Connection from the Meeting Site to:
System Administration, Las Vegas
4300 South Maryland Parkway, Board Room
and
Great Basin College, Elko
1500 College Parkway, Berg Hall Conference Room

Members Present:	Mr. Rick Trachok, Chair Mrs. Carol Del Carlo Mr. Trevor Hayes Ms. Laura E. Perkins
Members Absent:	Dr. Patrick R. Carter, Vice Chair
Other Regents Present:	Mrs. Cathy McAdoo Mr. Donald Sylvantee McMichael Sr.
Advisory Member Present:	Mr. Russell Campbell, Your Second Opinion, LLC
Others Present:	Mr. Andrew Clinger, Chief Financial Officer Mr. Joseph Reynolds, Chief General Counsel Mr. Rhett Vertrees, Assistant Chief Financial Officer Dr. Kumud Acharya, President, DRI Dr. Marc A. Johnson, President, UNR

Faculty Senate Chair Dr. Brian Frost, UNR, was in attendance.

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

Chair Rick Trachok called the meeting to order at 10:00 a.m. with all members present except for Vice Chair Carter.

1. Information Only-Public Comment – UNR's Dr. John Sagebiel and Ms. Sierra Jickling shared concerns regarding climate change and their support for NSHE to divest from fossil fuels. Additionally, Ms. Jickling thanked the Committee for listening to students who have spoken to the Committee at prior meetings regarding fossil fuel divestment.

2. Approved-Minutes – The Committee recommended approval of the minutes from the March 29, 2019, meeting *(Ref. INV-2 on file in the Board office).*

Regent Del Carlo moved approval of the minutes from the March 29, 2019, meeting. Regent Hayes seconded. Motion carried. Vice Chair Carter was absent.

3. Information Only-Endowment Pool Performance, Russell Investments – Mr. Matt Beardsley, Russell Investments, presented a report on asset allocation and investment returns for the Pooled Endowment Fund *(Refs. INV-3a and INV-3b on file in the Board office)*.

Mr. Beardsley's report focused on the NSHE's Endowment Pool performance as of August 31, 2019, and feedback on the benchmarks, as Chair Trachok requested.

Chair Trachok asked if the benchmark is set at the appropriate level. Mr. Beardsley answered that he believes it is the correct benchmark and although there are different pieces underlying the custom benchmark, it is all aligned with the NSHE's long-term goal. The benchmark is properly constructed for the objective and is overall producing the desired results.

Regarding the benchmark, Regent Hayes asked if there is a point in time to reassess and when that would be. Mr. Beardsley answered that the same question is being asked internally and the NSHE's portfolio is not singular in its performance as of the end of August 2019. The NSHE's portfolio is currently on the right track to prepare for the impending economic turmoil. Mr. Beardsley said he will update the Committee in the spring regarding this particular matter.

Regent Hayes asked in comparison to Russell Investments' peers across the country, have others made similar decisions as Russell Investments has done with the NSHE portfolio. Mr. Beardsley said he does not think Russell Investments is unique in its view and choice to be more conservative with the NSHE's portfolio. Ms. Wendy Walker, Cambridge Associates, added that Cambridge Associates has similar viewpoints and strategies as Russell Investments in that they are tilted away from the US modestly based on Cambridge Associates' view of valuation risks in the United States and growth stocks.

Chair Trachok asked if Mr. Beardsley personally agrees with their managers' recent recommendations. Mr. Beardsley said he is in agreement with the recommendations from his investment staff and believes the right choices are being made.

In response to an inquiry from Chair Trachok, Mr. Beardsley said Russell Investments believes hedge funds remain a valuable part of the NSHE's aggregate

3. Information Only-Endowment Pool Performance, Russell Investments – *(continued)*

portfolio. The hedge funds still have a long-term place in the portfolio as a diversifier and as a source of return. Also, the hedge funds compliment the NSHE's equity portfolio.

Mr. Russell Campbell, Your Second Opinion, LLC, asked if Russell Investments sets internal guidelines for risk management. Mr. Beardsley answered yes, there are internal risk guidelines that are monitored daily. Mr. Campbell followed up by asking if the Committee can be shown what risk management tools are used by Russell Investments. Mr. Beardsley said he will send that information to the Committee.

Mr. Campbell asked if there are private equity investments. Mr. Beardsley said not yet and the reason for that is because the legacy portfolio is still in liquidation. Russell Investments recently launched a comingled private markets vehicle that will be used for the NSHE.

Chair Trachok said for the 2018 fees, it appears that the NSHE paid a little less than 1 percent. Mr. Beardsley confirmed and added that it is "all-in" which includes the fee for Russell Investments, the sub-advisory fee and if there are any performance or incentive fees generated by the hedge fund managers, their payment is included in the 1 percent, as well.

4. Information Only-Endowment Pool Performance, Cambridge Associates – Ms. Wendy Walker and Mr. Ijeh Ogbechie, Cambridge Associates, presented a report on asset allocation and investment returns for the Pooled Endowment Fund as of June 30, 2019 *(Ref. INV-4 on file in the Board office)*.

Mr. Campbell asked Ms. Walker to separate out the performance contribution of oil and gas for the legacy assets. Ms. Walker answered that over the trailing one-year period as of March 31, 2019, the legacy private equity was up 3.5 percent. Oil and gas underperformed at 8.4 percent, along with private equity at 3.5 percent. In response to an inquiry Mr. Campbell had regarding private equity, Ms. Walker said that Cambridge Associates has been observing the same market dynamics and they are very wary and precise about its manager selection. Cambridge Associates' manager research team is backing away from oil and gas because currently the return prospects do not look good.

Regent Del Carlo asked for some historical information on the current direction given by the NSHE regarding the legacy assets. Ms. Walker answered that in the past, Cambridge Associates worked with the NSHE to split out the legacy assets at no additional OCIO fee to the NSHE. Cambridge Associates continues to make commitments to the same types of assets; however, the only reason it is split out in the NSHE portfolio has to do with the date the OCIO mandate began. The assets are split out the way they are for reporting purposes only. Ms. Walker

4. Information Only-Endowment Pool Performance, Cambridge Associates – *(continued)*

added that currently it is only $10 million in un-funded commitments for the legacy assets and the most recent commitment made was in 2015. The vast majority of the dollars should return between 8-9 years.

Chair Trachok asked what all-in fees did the NSHE pay in calendar year 2018. Ms. Walker answered under $1.5 million for managed assets and $500,000 in fees for the legacy assets.

Mr. Beardsley mentioned that Cambridge Associates has a bigger fee than Russell Investments because Russell Investments does not have a full commitment to private equity at this time.

5. Approved-Environmental, Social and Governance Investing, Cambridge Associates – Staff from Cambridge Associates presented several potential pilot projects for Environmental, Social and Governance (ESG) investing. The Committee recommended approval of the following: 1) NSHE staff to work with Cambridge Associates and Russell Investments on a letter of instruction for the investment managers to take into consideration climate-related risks and opportunities when investing NSHE assets and that the OCIO's provide an annual report to the Committee on information received from the managers regarding ESG investing; and 2) NSHE, Cambridge Associates and Russell Investments to conduct a survey of all the NSHE institutions through campus officers on climate-related policies and priorities on each campus *(Ref. INV-4 on file in the Board office)*.

Ms. Walker highlighted potential pilot projects for ESG investing and provided an overview of opportunities in the investment industry with respect to long-term factors regarding fossil fuels and beyond.

Chair Trachok asked under the current item if the Committee could vote to issue a letter to all of the NSHE's investment managers requesting that climate change risks be incorporated into the analysis of their portfolio companies (in the same fashion as Yale University had done) and that the Committee receive annual reports on these efforts. Mr. Joseph Reynolds, Chief General Counsel, answered yes.

Chair Trachok asked how Yale University's letter has affected its investment processes. Ms. Walker said Yale University's letter had helped to promote the dialogue; however, more and more managers are incorporating ESG analysis into their processes as it is a part of the ongoing trend. It is difficult to say whether any manager changed their approach just because of Yale University's letter.

Chair Trachok asked Ms. Walker if she recommends that the Committee and full Board implement ESG investing to which she replied yes. Cambridge Associates has experience with creating portfolios for other clients on a variety of topics that

5. Approved-Environmental, Social and Governance Investing, Cambridge Associates – *(continued)*

are important to the institution.

Regent Del Carlo moved approval of directing NSHE staff to work with Cambridge Associates and Russell Investments on a letter of instruction for the investment managers to take into consideration environmental factors according to ESG policy when investing NSHE assets. Regent Perkins seconded.

Regent Del Carlo commented that this is the right thing to do and this is what is being asked of the Board by the students.

Regent Hayes was concerned that if the content of the letter was too broad, he was unsure of how that would accomplish anything, and he also expressed concern regarding the many factors that may be overlooked regarding social and political implications by simply adding an ESG statement to the NSHE's investment policies.

Chair Trahok asked Ms. Walker what her recommendations would be regarding the NSHE's investments to be carbon neutral at the least and what should the NSHE letter to the investment managers include. Ms. Walker addressed Regent Hayes' concern regarding the ESG policy and stated managers' approaches to ESG is part of Cambridge Associates' assessment of any manager. If a manager has an ESG policy, part of Cambridge Associates' assessment of that manager is to determine if the ESG policy is sensible in light of their strategy. Cambridge Associates does not make a determination and nor do its clients about whether a manager's ESG policy reflects any individual investors particular values, but rather that they are using ESG factors as financial indicators as long-term financial returns. Yale University's letter in particular asked its managers to consider climate-related risks. Ms. Walker said more managers should be establishing ESG policies which will force them to articulate what that policy is. The System has delegated manager selection to Cambridge Associates and Cambridge Associates delegates the definition of its clients' strategies to the managers. Cambridge Associates then determines whether the strategy is sensible. ESG policies may look different for different managers and strategies.

Mr. Campbell suggested that perhaps the NSHE should send Cambridge Associates a letter about an ESG policy and Cambridge Associates can direct managers from there.

Regent Hayes liked Mr. Campbell's suggestion regarding having specific

5. Approved-Environmental, Social and Governance Investing, Cambridge Associates – *(continued)*

environmental concerns listed in the ESG policy letter. He commented that mining is a big industry in Nevada and some individuals may view that as an environmental harm. Regent Hayes was not comfortable with the idea of possibly using public money to divest from one of Nevada's major industries. Mr. Beardsley added that he believes Cambridge Associates and Russell Investments can accommodate what the NSHE is trying to accomplish with the ESG policy.

Mr. Campbell suggested that the investment firms gather the data from the managers and provide an annual report to the Committee. Ms. Walker agreed and added that Cambridge Associates could draft the letter that would be presented to the full Board for approval and then take care of distributing it to the managers.

Regent Del Carlo offered a friendly amendment to include a focus on climate-related risks and opportunities in the letter and that the OCIO's provide an annual report to the Committee on information received from the managers regarding ESG investing as specified in the letter. Regent Perkins accepted the friendly amendment.

Regent Hayes asked when the letter will come forward to the full Board for approval. Chair Trachok answered that the letter will be presented to the Board at its October 18, 2019, special meeting.

Motion carried with the friendly amendment. Vice Chair Carter was absent.

Chair Trachok asked if the Board were to make a determination to divest from fossil fuels, what would the impact be on the NSHE's current investments, the institutions and the students. Ms. Walker said the impact is unknowable at this time as it is impossible to predict what returns will be on these assets in the future. Considering the unknowability of the impact on NSHE if it were to divest from fossil fuels, Chair Trachok asked if divesting from fossil fuels is a responsible decision for the Board of Regents to make. Ms. Walker answered yes and there are institutions already doing this; however, those institutions are in the minority. She believed it is a reasonable position to take and it will require some groundwork with all stakeholders.

Mr. Beardsley added having a carbon neutral portfolio is a reasonable long-term stance; however, it does require the System to ignore what happens in the energy markets which have recently been fluctuating drastically. For example, if oil is over performing one year and the NSHE's portfolio has chosen to divest from

5. Approved-Environmental, Social and Governance Investing, Cambridge Associates – *(continued)*

fossil fuels, the NSHE would not be participating in it. The NSHE would have to be okay with that because the long-term goal is to divest from fossil fuels.

Ms. Walker said that it is very important that the Committee take a hard stance as far as divesting from fossil fuels and it must be done in a way that is durable. If strategies are repeatedly changed in reaction to recent underperformance, losses will be locked in and the portfolio will do poorly.

Chair Trachok suggested starting the survey of all eight NSHE institutions on climate-related policies and priorities now and that way the data will be available at the next Investment Committee meeting.

Regent Del Carlo moved approval of directing the NSHE, Cambridge Associates and Russell Investments to conduct a survey of all the NSHE institutions through campus officers on climate-related policies and priorities on each campus. Regent Perkins seconded. Motion carried. Vice Chair Carter was absent.

6. No Action Taken-Operating Pool Performance Discussion and Recommendations – Staff from Cambridge Associates and System Administration presented a report on asset allocation and investment returns for the Pooled Operating Fund as of June 30, 2019 *(Ref. INV-6 on file in the Board office)*.

Mr. Andrew Clinger, Chief Financial Officer, said according to Cambridge Associates' report, there is a recommendation to move funds from the short-term pool to the long-term pool.

Chair Trachok asked if action is necessary for the recommendation. Chief Financial Officer Clinger said action is not required.

7. No Action Taken-*Handbook* Revision, Statement of Investment Objectives and Policies for the Endowment Fund – Chief Financial Officer Clinger and Ms. Walker provided an overview of the proposed revisions to the Statement of Investment Objectives and Policies for the Endowment Fund *(Title 4, Chapter 10, Section 5) (Ref. INV-7 on file in the Board office)*.

Chair Trachok clarified that one of the purposes of the proposed revisions is that if there is a temporary deviation from the asset allocation policy, it shall not constitute a breach of the Policy Ranges/Investment guidelines provided that the exposure deviations are rectified within one business day. Ms. Walker agreed.

7. No Action Taken-*Handbook* Revision, Statement of Investment Objectives and Policies for the Endowment Fund –

Chair Trachok said as there is further information to be gathered on the proposed policy revisions, it should be presented to the full Board at the December 2019 meeting.

Mr. Campbell asked for more information regarding the Policy and Simple Benchmarks in the proposed revisions. Ms. Walker said the benchmarks have different time horizons. The Policy Benchmark is based on market indices and the Simple Benchmark is intended to determine if the policy is correct, and added it is part of the current policy.

8. Approved-Bylaw Revision, Standing Committees and Their Duties, Investment Committee – The Committee recommended approval of revisions to the Investment Committee charge *(Title 1, Article VI, Section 3e)* stemming from the November 28, 2018, Investment Committee meeting *(Ref. INV-8 on file in the Board office)*.

Chief Financial Officer Clinger provided an overview of the proposed revisions.

Regent Hayes moved approval of the Bylaw revisions to the Investment Committee charge. Regent Del Carlo seconded. Motion carried. Vice Chair Carter was absent.

9. Approved-Annual Review of Investment Pools – Mr. Rhett Vertrees, Assistant Chief Financial Officer, provided an update on the status of the investment pools. The Committee recommended approval of reallocating up to $75 million from the short-term and intermediate-term pools into the long-term pool *(Ref. INV-9 on file in the Board office)*.

Chair Trachok asked if there should be more of a focus on the intermediate-term account. Assistant Chief Financial Officer Vertrees answered yes and the current opportunity is to move the funds from the intermediate-term or short-tern pool, not necessarily just from the short-term pool.

Chief Financial Officer Clinger added that the important takeaway is the short-term cash pool has never dropped below $100 million which is why the recommendation is to move the $75 million out of the short-term pool and into the long-term pool to maximize the returns and distributions to the institutions.

Mr. Campbell asked if there is any reason to believe that future cash draws may be larger than $80 million. Chief Financial Officer Clinger said most likely not.

9. Approved-Annual Review of Investment Pools – *(continued)*

Regent Del Carlo moved approval of reallocating up to $75 million from the short-term and intermediate-term investment pools into the long-term investment pool. Regent Perkins seconded.

Regent Hayes asked if the timing and the amount of the $75 million reallocation are appropriate. Regarding the timing of the reallocation, Mr. Campbell said the money will be reallocated to the long-term pool with the idea to take risks and the opportunity set is to earn a higher return.

Chief Financial Officer Clinger added that more work needs to be done on finding out what the maximum draw will be in the future. There is comfort in the fact that the intermediate pool is still there and that pool is liquid with easy accessibility. More information will be known about the amount of funds to be drawn in the future when the long-term analysis of the 3 to 5-year capital needs of the institutions is conducted. The institutions have been working on plans based on the policy the Board adopted in 2017 regarding spending down capital funds. The anticipation is that eventually more funds will be drawn down in the future.

Motion carried. Vice Chair Carter was absent.

10. Approved-Extension of Banking Services Contracts – Chief Financial Officer Andrew Clinger and NSHE staff provided an update on the status of current banking services contracts:

- Bank of America (Cash Management)
- Wells Fargo (Merchant Services)
- JP Morgan Chase (Purchase Cards)
- TouchNet (Payment Gateway Services)

The Committee recommended approval of authorizing the Chancellor, in consultation with the NSHE Chief General Counsel, to extend the term of each banking services contract for one year beyond the current expiration dates, waive Board policy regarding banking service contract term limits as this extension will result in some of these contracts extending beyond the seven-year period specified in the policy, and execute any amendments to the banking services contracts necessary to implement the extension *(Ref. INV-10 on file in the Board office)*.

Assistant Chief Financial Officer Vertrees provided a timeline for the RFPs.

10. Approved-Extension of Banking Services Contracts – *(continued)*

Regent Hayes moved approval of authorizing the Chancellor, in consultation with the NSHE Chief General Counsel, to extend the term of each banking services contract for one year beyond the current expiration dates, waive Board policy regarding banking service contract term limits and execute any amendments to the banking services contracts necessary to implement the extension. Regent Perkins seconded. Motion carried. Vice Chair Carter was absent.

11. Information Only-New Business – None.

12. Information Only-Public Comment – None.

The meeting adjourned at 12:35 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

Approved by the Board of Regents at its December 3-4, 2020, meeting.