BOARD OF REGENTS and its
INVESTMENT COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION
Videoconference/Teleconference
Tuesday, September 29, 2020

Members Present:	Mr. Rick Trachok, Chair Dr. Jason Geddes Mr. Trevor Hayes Ms. Laura E. Perkins
Member Absent:	Dr. Patrick R. Carter, Vice Chair
Other Regents Present:	Mrs. Carol Del Carlo, Board Vice Chair Ms. Amy J. Carvalho Ms. Lisa C. Levine Mr. Donald Sylvantee McMichael Sr.
Advisory Member Present:	Mr. Russell Campbell, Your Second Opinion, LLC.
Others Present:	Mr. Andrew Clinger, Chief Financial Officer Mr. Zelalem Bogale, Deputy General Counsel Mr. Rhett Vertrees, Assistant Chief Financial Officer Dr. Marc A. Johnson, President, UNR Dr. Vincent R. Solis, President, WNC Mr. Jim New, Vice President, Finance & Administrative Services, TMCC

Faculty senate chairs in attendance were: Dr. Maria Schellhase, CSN; Mr. Theo Meek, System Administration; Dr. Vicki Rosser, UNLV; and Dr. Amy Pason, UNR. Ms. Julia Bledsoe, TMCC, NSHE Classified Council Executive Board President, was also in attendance.

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 – Special Assistant and Coordinator Winter Lipson entered into the record public comment submitted by Taylor Valentine, senior student at UNR, about divestment of fossil fuels.

   Chair Trachok pulled Agenda Item 10 – Operating Fund Distribution Rate.

2. Approved-Minutes – The Committee recommended approval of the minutes from the September 27, 2019, meeting *(Ref. INV-2 on file in the Board Office).*

Regent Geddes moved approval of the minutes from the September 27, 2019, meeting. Regent Perkins seconded.

Mr. Russell Campbell, Your Second Opinion, LLC., commented on two matters that arise from the minutes for Russell Investments to address in Agenda Item 3: 1) Discuss an appropriate time to reassess the benchmark results; and 2) Provide information on the risk management tools that were used for the Endowment Fund.

Motion carried. Vice Chair Carter was absent.

3. Information Only-Endowment Pool Performance – Russell Investments – Mr. Matt Beardsley from Russell Investments presented a report on asset allocation and investment returns for the Pooled Endowment Fund as of July 31, 2020. Mr. Beardsley also provided information on the performance over the last 12 months; how the performance compares to the benchmark; and what plans will Russell Investments take to reach the benchmark *(Refs. INV-3a and INV-3b on file in the Board Office).*

Chair Trachok asked Mr. Beardsley to highlight what the underperformance is and how much is being paid for Russell Investments' services. Mr. Beardsley answered with respect to the total underperformance for the year on a trailing 12-month basis through August 2020, the portfolio has delivered 3.3 percent absolute versus a benchmark of 8.4 percent which equates to about a 5 percent under performance. Russell Investments considers this on the low end of the practical range on potential outcomes. Based on the calendar year of 2019, the System has paid $943,000 in fees.

Mr. Andrew Clinger, Chief Financial Officer, asked when a turnaround is expected with regard to the underperformance over the last four years.. Mr. Beardsley believed that the portfolio was strategically built in a way that was going to fulfill the objectives of the pool. Most of the underperformance is due to the multi-asset core portfolio and there were shortfalls with the hedge funds, as well. Mr. Beardsley said that it will be problematic if there is not a meaningful recovery within the next 12 months; however, the expectation is that a recovery will start to be seen in the late part of 2020 and beginning of 2021.

In response to questions from Chair Trachok, Mr. Clinger said as of December 2019, the relative performance of the NSHE Endowment Pool compared to the foundations was very close and he will work on getting that specific data to the Committee. Mr. Clinger added it would make sense to see performance data through the end of the 2020 calendar year before considering changing OCIO's and that discussion should take place at the first quarterly meeting of 2021.

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

Mr. Campbell asked has Russell Investments ever underperformed on benchmarks by this much before. Mr. Beardsley answered no and said this underperformance is not unique; however, this does reflect a short period of negative results and the hope is that the recovery will happen in a relatively rapid fashion. Mr. Campbell asked for more information on new strategies that Russell Investments will use to improve the underperformance. Mr. Beardsley said Russell Investments believes it is making fundamentally based decisions and has a strong belief that the market is heavily focused on stocks that are extremely high-priced. The portfolio has very good earnings for the value being paid for those stocks and in this economic climate, the current positioning for the portfolio is correct.

Mr. Campbell noted that the managers Russell Investments have been selecting have been doing well and that seems at odds with how most firms manage portfolios. Typically, all managers hired should be great in every category; however, based on market conditions some managers do better than others and usually a rebalancing will happen to the managers that are not performing well. In the last quarter, Russell Investments has been adding to the managers who have been doing well and contrary to what Mr. Beardsley said about the current portfolio positions, it looks like Russell Investments has been going along with the momentum and reinvesting in the managers that have been doing well. Mr. Beardsley responded that they added to the managers at the end of March because markets sold off so severely in late March. Russell Investments overweighted equities and high-yield debt and applied capital to those managers that did the worst, but those were rewarded in the second quarter. Mr. Campbell said if the NSHE is not doing well, chances are other clients of Russell Investments are not doing well and asked if there was any loss of business at this time. Mr. Beardsley said there has not been and clients have remained confident with Russell Investments, although discussions regarding underperformance have been had with similar clientele to the NSHE.

Regent Perkins asked what would trigger a change in Russell Investments' investment style. Mr. Beardsley answered that it comes down to if Russell Investments were to see a change in fiscal and monetary stimulus. Currently, there has been a phase where that type of support was needed by the System and that has been beneficial as it has helped with getting through a tough period in the economy. The expectation is that the stimulus will continue and as it does, it allows some of the more cyclical segments of the marketplace – industrials, materials, manufacturing, healthcare to get back on its feet. Those are the areas that Russell Investments has the overweights in and believe that as the economy reopens, those will be the segments that are currently underpriced but will eventually outperform. If there is a resurgence in COVID-19 where the economy once again closed, that would be something that would cause Russell Investments to revisit whether or not to be as aggressive in the risk position as they have been in the past and would be quicker to change course with strategy.

4. Information Only-Endowment Pool Performance – Cambridge Associates – Ms. Wendy Walker from Cambridge Associates presented a report on asset allocation and investment returns for the Pooled Endowment Fund as of July 31, 2020. Ms. Walker also provided information on the performance over the last 12 months; how the performance compares to the benchmark; and what plans will Cambridge Associates take to reach the benchmark *(Refs. INV-4a and INV-4b on file in the Board Office).*

Mr. Clinger provided information on the total Endowment breakdown between Cambridge Associates and Russell Investments regarding performance on the annualized amount since March 2017 and the fiscal year to date through June 2020. Mr. Clinger referenced information provided to him by the UNR Foundation and stated that fiscal year to date ended June 30, 2020, UNR Foundation's return was .18 percent which would compare to the overall loss of 3 percent and compare to Cambridge Associates' 0.1 percent gain and Russell Investments' 4 percent loss. Chair Trachok asked what the total dollar amount is that is managed by the System and the total dollars that are managed by the foundations. Mr. Clinger said he will get that information to the Committee.

Mr. Campbell commented that both OCIO's were to communicate with their managers on what actions have been done with respect to climate change. Of the $24 million that went to private investments, how much of that was invested in energy. Ms. Walker said the private investments were made up of largely sustainable natural resources. Mr. Campbell noted that due to the direction the Committee is headed in, Cambridge Associates should be advised not to fund any more traditional energy investments. Ms. Walker clarified there have been no oil and gas commitments since 2016.

Mr. Campbell asked with regard to the long-term risks/return expectations, when is the 1.2 percent outperformance per year in the policy benchmark anticipated to happen. He thought that alpha target seemed too aggressive. Ms. Walker said one of the primary drivers of that outperformance target is Cambridge Associates' allocation to private investments and the alpha target is a weighted average of the track record of alpha. Typically, the private investment programs add 300-500 basis points over multiple time periods over its public market cost of capital. Currently, Cambridge Associates has been self-benchmarking the private investment portfolios which have delivered strong returns and Cambridge Associates still feels confident in the alpha target. Mr. Campbell pointed out that the alpha target has not been met in the last four years. Ms. Walker said over the very long-term, the private investments program delivered an 11.6 percent return and if the cash flows were invested in public market, it would have been a less than five percent return. Ms. Walker added that the alpha target was presented to the Committee when Cambridge Associates first proposed to work with the System under the OCIO model and she will remove it from future discussion materials.

5. Approved-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 July 31, 2020. The Committee recommended approval for a new manager for racial equity investing and also recommended Cambridge Associates to invest $25 million from the Intermediate-Term Pool of the Operating Fund to RBC Access Capital Community Investment *(Ref. INV-5 on file in the Board Office).*

Ms. Walker provided a report on asset allocation and investment returns for the Pooled Operating Fund as of July 31, 2020. She had no recommendations to the Committee for rebalancing; however, a recommendation will be made related to the racial equity section of the report.

Mr. Clinger added that based on the action the Board took at the August 21, 2020, special meeting, $73 million was moved from the long-term pool into the intermediate bond and that is part of the reason why there is no rebalancing recommendation.

Mr. Ijeh Ogbechie, Cambridge Associates, provided an overview of the new manager recommendation for racial equity investing and noted there is a higher fee with this manager; however, Cambridge Associates believes that the System will be compensated with the higher expected returns.

Mr. Campbell commented that the money is being managed for a purpose and reminded the Committee that the NSHE has supported many diversity and inclusion initiatives with a particular emphasis on education. He believed the racial equity line is a good idea because it is much stronger than diversity or inclusion; however, he encouraged the Committee and full Board to consider directly funding racial equity initiatives as that would be consistent with the NSHE mission. Mr. Campbell commented on the 12-year track record presented and said he thought it would be helpful to see the data before 2008. Mr. Ogbechie said Cambridge Associates will get that information to the Committee. Ms. Walker added that the particular track record was presented to capture the full market cycle which included The Great Recession.

Regent Hayes moved approval of a new manager for racial equity investing and for Cambridge Associates to invest $25 million from the Intermediate-Term Pool of the Operating Fund to RBC Access Capital Community Investment. Regent Perkins seconded. Motion carried. Vice Chair Carter was absent.

6. Approved-*Handbook* Revision, Statement of Investment Objectives and Policies for the Endowment Fund – The Committee recommended approval of revisions to the Statement of Investment Objectives and Policies for the Endowment Fund *(Title 4, Chapter 10, Section 5) (Ref. INV-6 on file in the Board Office).*

6. Approved-*Handbook* Revision, Statement of Investment Objectives and Policies for the Endowment Fund – *(continued)*

Mr. Clinger provided a brief overview of the policy revision.

Regent Geddes moved approval of the proposed *Handbook* revision. Regent Hayes seconded. Motion carried. Vice Chair Carter was absent.

7. Approved-Endowment Distribution Rate and Policy – The Committee discussed current NSHE distributions from the Endowment Fund and the current rate which is set at a net 4.5 percent spending/management fee in relation to current investment allocation, projected returns and Board Policy *(Title 4, Chapter 10, Section 5)*. The Committee also reviewed past performance of the NSHE Endowment Fund and the university foundation endowment funds and recommended approval of maintaining the current distribution rate.

Mr. Clinger provided information on the distribution rate and recommended maintaining the current rate.

Chair Trachok clarified that the distribution rate only applies to the Endowment Fund managed by the System and not by the foundations. Mr. Clinger agreed. Chair Trachok asked what the distribution rates are for the UNLV and UNR Foundations. Mr. Clinger did not have that particular information available; however, to address a previous question from the Chair he said the NSHE Endowment relative to the UNR Foundation is $232 million and the UNLV Foundation is $251 million. He added the net return from the UNR Foundation was 1.18 percent and for the UNLV Foundation for the period ending June 30, 2020, was 4.36 percent. Chair Trachok requested that representatives from both university foundations present further information at the next Investment Committee meeting.

Ms. Walker said from last year, the UNLV Foundation has a target payout rate of 3.5 percent and a 1.35 percent management fee. For the UNR Foundation from last year, the payout rate was 4.5 percent with a 0.6 percent management fee.

Chair Trachok asked that the distributions from the university foundations be highlighted in the presentation at the December Investment Committee meeting.

Ms. Walker provided an overview of spending rates including: peer comparisons; Cambridge Associates recently conducted a mini survey on how institutions are dealing with the uncertainties in fiscal 2021; and balancing current and future spending rates – a historical perspective.

Regent Geddes moved approval of maintaining the current distribution rate. Regent Perkins seconded.

7. Approved-Endowment Distribution Rate and Policy – *(continued)*

Mr. Campbell said the Committee should continue to monitor the distribution rate and review it again at the next meeting. The current number is easy to increase, but hard to reduce. Most of the distribution goes toward funding scholarships and to cut the rate would mean less money for scholarships.

Regent Hayes said he will support the motion, although he is typically always in favor of slightly lowering the rate to distribute more money and have more money saved.

Regent Geddes said at the December Investment Committee meeting, there should be a discussion regarding the spending rate of the Operating Fund. Chair Trachok asked Mr. Clinger to have some data and recommendations from the Chancellor's Office available at the December meeting.

Motion carried. Vice Chair Carter was absent.

8. Information Only-Banking/Financial Services Contracts – Assistant Chief Financial Officer Rhett Vertrees provided an update on the status of current banking services contracts which include: cash management (Bank of America); merchant services (Wells Fargo); purchase cards (JP Morgan); and payment gateway services (Touchnet) *(Ref. INV-8 on file in the Board Office).*

Regent Geddes asked if the services contracts apply to every NSHE institution and if the System overall uses all of the same services. Mr. Vertrees confirmed. Regent Geddes followed up by asking if there are any exceptions for different departments, foundations and so forth. Mr. Vertrees answered yes there are some other departments that utilize these services directly with the vendors; however, the exceptions are very minimal.

Regent Carvalho asked how long the terms of the contracts are for. Mr. Vertrees said Board policy states that the banking and services contracts are five years with a maximum of two 1-year extensions.

9. Information Only-Charge of the Investment Committee – A review was conducted of the Committee's charge as set forth in the Bylaws of the Board of Regents *(Title 1, Article VI, Section 3) (Ref. INV-9 on file in the Board Office).*

Mr. Clinger provided an overview of the current charge of the Investment Committee. The Committee did not recommend any changes to the charge.

10. Withdrawn-Operating Fund Distribution Rate – Chair Trachok asked for this item to be brought to the next Investment Committee meeting and for NSHE Staff to provide a series of options and recommendations.

11. Information Only-New Business – None.

12. Information Only-Public Comment – None.

The meeting adjourned at 11:31 a.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.