

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

Videoconference/Teleconference
Tuesday, December 1, 2020

- Members Present: Mr. Rick Trachok, Chair
 Dr. Patrick R. Carter, Vice Chair
 Dr. Jason Geddes
 Mr. Trevor Hayes
 Ms. Laura E. Perkins
- Other Regents Present Mrs. Carol Del Carlo, Board Vice Chair
 Ms. Amy J. Carvalho
 Ms. Lisa C. Levine
 Mr. Donald Sylvantee McMichael Sr.
 Mr. John T. Moran
- Advisory Member: Mr. Russell Campbell, Your Second Opinion, LLC.
- Others Present: Mr. Andrew Clinger, Chief Financial Officer
 Ms. Keri D. Nikolajewski, Deputy Chief of Staff to the Board
 Mr. Joseph Reynolds, Chief General Counsel
 Mr. Rhett Vertrees, Assistant Chief Financial Officer

Faculty senate chairs in attendance were: Dr. Maria Schellhase, CSN; Ms. YeVonne Allen, TMCC; Dr. Vicki Rosser, UNLV; and Dr. Amy Pason, UNR. The student body president in attendance was Ms. Alyssa Fromelius, TMCC.

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

1. Information Only-Public Comment – Special Assistant and Coordinator Winter Lipson entered into the record public comment submitted by the following individuals regarding divestment of fossil fuels and investment in green energy: Samir Gulati, Elizabeth Stevenson, Molly Willoughby, Anna Zoeters, David Cutie, Elizabeth Guillen, Kian Zoeters, Michael W. Collins, Rachel Perez Soto, Taylor Valentine and Helena Middleton.

Regent Perkins entered the meeting.

2. Approved-Minutes – The Committee recommended approval of the minutes from the September 29, 2020, meeting (*Ref. INV-2 on file in the Board Office*).

Regent Geddes moved approval of the minutes from the September 29, 2020, meeting. Regent Perkins seconded. Motion carried.

3. Information Only-Chair’s Report – Chair Rick Trachok thanked Chief Financial Officer Andrew Clinger and his staff for their support to the Committee. Chair Trachok also thanked Russell Campbell for his expertise and guidance to the Committee.
4. Information Only-Endowment Pool Performance Comparison – NSHE/UNLV/UNR – Chief Financial Officer Andrew Clinger presented the comparison report of the endowment pool performance from the Nevada System of Higher Education, University of Nevada, Las Vegas and University of Nevada, Reno as of June 30, 2020 (*Ref. INV-4 on file in the Board Office*).

Mr. Clinger reported on the Endowment Comparative Data for Period Ending June 30, 2020, which included: asset allocation – actual allocations as of June 30, 2020; five years of historical returns; average annual compound rate of return; annualized standard deviation (volatility) of quarterly returns; sharpe ratio; spending/management fee rates – FYE June 30, 2020; effective annual payout calculation – FYE June 30, 2020; and net inflow/(outflow) calculation – FYE June 30, 2020.

Mr. Russell Campbell, Your Second Opinion, LLC., commented the NSHE has historically outperformed during good periods of time relative to the university foundations; however, when returns are lower or negative, the university foundations tend to do better. The implication is that there is somewhat higher risk in the NSHE portfolio which, since it is a long-term portfolio, suggests that the returns will also be higher. Mr. Campbell added that broadly all three funds could be performing better and all three have underperformed since the last fiscal year. The OCIOs that work for NSHE could assist with increasing the returns further and he believed that the OCIOs would support having more private equity investments in the NSHE fund and the university foundation funds, as well.

Ms. Wendy Walker, Cambridge Associates, agreed with Mr. Campbell’s observations and added that when risk is observed, Cambridge Associates considers two dimensions: 1) short-term draw down risk; and 2) the risk of not keeping pace with the pool’s payout on a real basis net of inflation which is a more likely risk that most long-term institutions face in the current environment, particularly given valuations and that is extremely acute in the fixed income space. In the most recent fiscal year, the two foundations have nearly doubled the fixed income exposure which leads to less volatile performance, but with where bond yields are currently, Cambridge Associates does not believe it is going to

4. Information Only-Endowment Pool Performance Comparison – NSHE/UNLV/UNR – (continued)

drive the type of support that the payout from the pool requires.

In response to Chair Trachok, Ms. Walker addressed the NSHE and university foundations' underperformance in comparison to larger foundations and noted most very large foundations have significantly higher allocation to private investments. Ms. Walker added that in line with public comment regarding renewable energy investment, Cambridge Associates believes the opportunity set is very robust and attractive on a purely return basis because they agree that this is the direction that the energy systems are going, and it also provides positive alignment with the NSHE System and institutions' goals.

Mr. Matt Beardsley, Russell Investments, concurred with Ms. Walker's comments and added the risk profile of the portfolio that Russell Investments built for the NSHE is keeping with the necessary long-term objective and the NSHE's spending policy.

Mr. Rickey McCurry, Vice President of Philanthropy and Alumni Engagement, UNLV, agreed with the comments made about private equity and from a university perspective across the country, universities that are a similar size to UNLV, private equity is not normally considered, but with the current times, that space is being examined a lot more closely.

Mr. Mark Denzler, Trustee Emeritus, UNR Foundation, said the UNR Foundation is pleased overall with its returns and added they have been very actively moving into private equity. There are cautions about private equity which include liquidity issues, administrative burdens on the back office and private equity generally is not paying the returns needed if it is not successful in the first two quartiles. UNR has been making efforts to examine and invest in green energy and balancing the current portfolio, but also trying to pivot toward the future.

Regent Geddes commented that if the NSHE wants to work on contributing to Nevada's economy, investments in renewable energy and energy storage are what is important to Nevada long-term, as well as the NSHE. He recognized there is a loss coming from divestment from fossil fuels; however, he encouraged that the NSHE and its institutions continue to pivot their portfolios toward green energy investment.

Vice Chair Carter asked for more information in regard to the 1.5 percent management fees. Ms. Walker answered the management fee is what each campus is allowed to take from its distribution and there is a management fee within the payout to the institutions. Mr. Denzler added that at UNR the 1.5 percent represents the administrative cost to help contribute to the operation of the Foundation.

4. Information Only-Endowment Pool Performance Comparison – NSHE/UNLV/UNR – (continued)

Mr. Clinger confirmed that the 1.5 percent is within the target spending rate that goes to the institutions, it is not funds that are retained at the NSHE level. Mr. McCurry agreed with previous comments and said that the 1.5 percent relates to how each institution chooses to fund the operations of its foundation.

In response to a question from Chair Trachok, Mr. Denzler answered that UNR utilizes an outside financial advisor; however, it is not an outsourced OCIO model and all the investment decisions are made by UNR's investment committee comprised of members with current and relevant investment experience. The outside financial advisor provides guidance and assists the committee with executing its investment strategies/goals. Mr. McCurry said UNLV operates in the same way as UNR in this respect, but with a different outside financial advisor.

5. Approved-Handbook Revision, Statement of Investment Objectives and Policies for the Operating Funds – The Committee recommended approval of proposed changes to the Operating Pool Reserve Distribution Policy (*Title 4, Chapter 10, Section 6 (F)*) as follows: If the reserve balance in the operating pool is negative on the last day of the month, the NSHE Banking and Investment Office will not make a distribution for that month. If the reserve balance in the operating pool falls below 3 percent of the total operating pool on the last day of the month for three consecutive months, the NSHE Banking and Investment Office will withhold distributions until the reserve balance returns to a 3 percent balance. If the reserve balance in the operating pool is greater than 8 percent of the total operating pool on the last day of the month for three consecutive months, the NSHE Banking and Investment Office will distribute the amount of the reserve balance above 8 percent after making the monthly distribution.

Mr. Clinger provided an overview of the policy revision.

Regent Geddes asked if the rolling averages are evaluated monthly, or quarterly. Mr. Clinger confirmed that the averages are evaluated at the end of every month. For a distribution to be made above 8 percent, it has to end above 8 percent for three consecutive months. For distributions to be suspended, it has to be below 3 percent for three consecutive months.

Mr. Vic Redding, Vice President for Administration and Finance, UNR; Mr. Jim New, Vice President of Finance and Administrative Services, TMCC; and Ms. Jean Vock, Senior Vice President and Chief Financial Officer, UNLV, expressed their support for the proposed policy revision.

Regent Geddes moved approval of the proposed *Handbook* revision. Regent Hayes seconded.

5. Approved-Handbook Revision, Statement of Investment Objectives and Policies for the Operating Funds – (continued)

Vice Chair Carter asked if the proposed revision would end the practice of doing special distributions. Mr. Clinger confirmed.

Mr. Campbell asked the Regents to consider maintaining a baseline of value for the Operating Pool and if the funds ever drop below the baseline, the automatic distributions should not be made until the funds meet the baseline again.

Ms. Vock said the baseline idea is a valid recommendation and a separate discussion should take place regarding it. She recommended that the Committee move forward with approving the policy revision, but to bring Mr. Campbell's recommendation to a future meeting for discussion to see if another level of baseline should be instituted. Mr. Redding added that this is the time to do a liquidity analysis and see what the actual short-term, medium-term and long-term cashflow needs are. Mr. New agreed with the previous comments made by his colleagues and believes the policy revision is a strong starting point for this.

Mr. Clinger commented that the Operating Pool Reserve is not the principle, it only represents the realized and unrealized gains, so at no time would principle be distributed.

Motion carried.

6. Approved-Handbook Revision, Statement of Investment Objectives and Policies for the Endowment Fund – The Committee recommended approval of the proposed changes to Board policy (*Title 4, Chapter 10, Section 5(1)(c)*) which designate the chairs from each university foundation investment committee, or their designee, to serve as ex-officio nonvoting members of the Investment Committee (*Ref. INV-6 on file in the Board Office*).

Chair Trachok and Mr. Clinger provided an overview of the policy revision.

Mr. Denzler and Mr. McCurry expressed their support of the *Handbook* revision.

Vice Chair Carter moved approval of the proposed *Handbook* revision. Regent Geddes seconded.

Regent Hayes offered a friendly amendment to provide that a designee of the chairs of each of the university's foundation investment committees may serve as ex-officio nonvoting members of the Investment Committee.

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

Vice Chair Carter and Regent Geddes accepted the friendly amendment.

Motion carried.

7. Information Only-New Business – None.

8. Information Only-Public Comment – Ms. Lipson entered into the record public comment submitted by Elena De La Paz regarding divestment from fossil fuels.

The meeting adjourned at 11:12 a.m.

Prepared by: Winter M.N. Lipson
Special Assistant and Coordinator to the Board of Regents

Submitted for approval by: Keri D. Nikolajewski
Interim Chief of Staff to the Board of Regents

Approved by the Board of Regents at its June 10-11, 2021, meeting.