

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

Videoconference/Teleconference
Thursday, March 25, 2021

Members Present:

Regents' Committee

Dr. Patrick R. Carter, Chair
Dr. Jason Geddes, Vice Chair
Mr. Joseph C. Arrascada
Ms. Laura E. Perkins
Dr. Lois Tarkanian

Other Regents Present:

Mrs. Carol Del Carlo, Board Vice Chair
Mr. Patrick J. Boylan
Mr. Donald Sylvantee McMichael Sr.

Members Present:

Advisory Members

Mr. Russell Campbell, Your Second Opinion, LLC.
Mr. Randy Garcia, UNLV Foundation
Mr. Dean Byrne, UNR Foundation

Others Present:

Mr. Andrew Clinger, Chief Financial Officer
Ms. Keri D. Nikolajewski, Interim Chief of Staff to the Board
Mr. Joe Reynolds, Chief General Counsel
Mr. Rhett Vertrees, Assistant Chief Financial Officer
Dr. Karin M. Hilgersom, President, TMCC
Mr. Brian Sandoval, President, UNR
Dr. Vincent R. Solis, President, WNC

Faculty senate chairs in attendance were: Dr. Maria Schellhase, CSN; Mr. Glenn Heath, System Administration; and Dr. Vicki Rosser, UNLV. NSHE Classified Council Chair Jim Boyer and NSC Student Body President Suman Randhawa were in attendance.

Chair Patrick R. Carter called the meeting to order at 1:00 p.m. with all Regents' Committee members present.

1. Information Only-Public Comment – Special Assistant and Coordinator Winter Lipson read into the record public comment submitted by Taylor Valentine who acknowledged the Committee's past discussions on divestment from fossil fuels and encouraged the discussion/action to continue.

2. Approved-Minutes – The Committee recommended approval of the minutes from the December 1, 2020, meeting (*Ref. INV-2 on file in the Board Office*).

Vice Chair Geddes moved approval of the minutes from the December 1, 2020, meeting. Regent Perkins seconded. Motion carried.

3. Information Only-Investment Committee Orientation and Duties – Chief Financial Officer Andrew Clinger provided the Committee with relevant background material and an overview of the duties of the Nevada System of Higher Education in relation to governance and oversight of its investment activities (*Ref. INV-3 on file in the Board Office*).

The presentation included: Investment Committee Orientation: mission statement, Committee membership, Committee charter and the NSHE Finance and Administration Charter; NSHE Operating Fund; OCIO Operating Fund Report for September 29, 2020; Endowment Book and Market Values Report as of November 30, 2020; Endowment Comparative Report as of June 30, 2020; OCIO Endowment Report for September 29, 2020; Investment Committee meeting agendas and minutes from the previous two meetings; and articles on recent issues (Outsourcing OCI services, ESG, Socially Responsible Investing, etc.).

At the request of Chair Carter, Mr. Clinger provided an overview of the Endowment and Operating Pools.

4. 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 February 28, 2021 (*Ref. INV-4 on file in the Board Office*).

Chair Carter asked for more information regarding the custom benchmark. Mr. Beardsley answered that the custom benchmark is related to the passive exposures in the portfolio. The footnotes in the report contain a series of percentage weights and actual, and very well-known public market benchmarks. The multi-asset core products are 75 percent equities and Russell Investments is utilizing the 75 percent to the MSCI ACWI Index, 5 percent to commodities and 5 percent to real estate. It is a benchmark that keeps within the designed investment strategy. There is a secondary benchmark that NSHE uses that is on a bit of a higher level.

In response to questions from Mr. Russell Campbell, Your Second Opinion, LLC., Mr. Beardsley said Russell Investments does not normally monitor the capitalization exposure in the portfolio. Small capitalization profiles typically are a fallout of the stocks that investors are finding attractive at any one time. Historically, active management has been focused on mid and small cap stocks, not on large cap stocks. Regarding flexibility within the multi-asset core fund, the benchmark is 75 percent Global Equities. Of that, the Russell Investments team has 10 percent latitude to either be as much as 85 percent equities or 65 percent.

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

In the grand portfolio scheme, it is not a tremendous amount given that the allocation in place for the multi-asset core fund is around 65-75 percent. Five percent swings in equity could potentially be done.

5. Information Only-Endowment Pool Performance – Cambridge Associates – Staff from Cambridge Associates presented a report on asset allocation and investment returns for the Pooled Endowment Fund as of February 28, 2021 (*Ref. INV-5 on file in the Board Office*).

Ms. Wendy Walker, Cambridge Associates, provided an overview of the NSHE and Cambridge Associates' partnership over the years.

Mr. Ijeh Ogbechie, Cambridge Associates provided a summary of the Endowment Pool Performance results as of February 28, 2021.

Ms. Walker provided information on the racial equity investment portion of the portfolio.

Mr. Campbell introduced himself to the new Committee members. He requested more information about the performance over the last three and a half years for the Cambridge Associates managed assets net of fees. Ms. Walker said the Cambridge Associates managed assets and private investment program are being built from scratch. All the private investments Cambridge Associates recommended to the System prior to the OCIO date are separated out in the Legacy Assets composite. This is part of Cambridge Associates' longer term on what has been worked out with the System; however, it is not counted as part of the OCIO mandate. The private assets allocations are being grown toward the policy target. In the early years of the Private Investments program, it's more common than not that allocation might be a slight drag on overall results because the managers tend to hold investments in early days at their cost and there are also management fees, so there is a phenomenon known as the J Curve where performance is weaker than expected early on. The portfolio has passed that point and the private investments allocation is now mature enough to be delivering solid results to the bottom line.

Based on the information provided by Ms. Walker, Mr. Campbell stated that returns will improve as the Private Equity portfolio matures and risk will decrease because there are more private equities in the portfolio. Since those are priced less frequently, the risk will look lower as well. Ms. Walker confirmed.

Chair Carter expressed concern to this particular fund and said it looks like there is \$127 million worth of assets managed currently. The recommendation of investing \$50 million of the System's money in that fund seems like a lot at this

5. Information Only-Endowment Pool Performance – Cambridge Associates –
(continued)

time. Ms. Walker said in any active strategy, there would be a reluctance to comprise 50 percent of assets under management. Given the index replication and the fact that all investors in and out of this fund will pay their own trading fees, not much of a risk is seen as what may be in an active strategy. Cambridge Associates always attempts to be mindful of when other investors might want to exit a fund and perhaps put the investment at risk. For this, which is simply tracking a mainstream index, Cambridge Associates does not view it as a concern.

Vice Chair Geddes thought the fee of 17.5 is very reasonable to show where the priorities are, where investments are and what is being invested. He expressed his support of Cambridge Associates' recommendation.

Mr. Campbell said he liked the investment made last year in support of diverse communities within the state of Nevada. He believed that it is consistent with the NSHE mission and suggested adding that to the Investment Policy in the future.

6. 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 February 28, 2021. The Committee recommended approval of the following: move \$25 million into the Vanguard Short-Term Inflation-Protected Securities Index; \$25 million trim from Vanguard Inflation Protected Securities; \$10 million trim from Vanguard Institutional Index; \$10 million trim from Vanguard Developed Markets Index; \$10 million addition to Vanguard Short-Term Inflation Protected Securities; and \$10 million addition to PIMCO Total Return. (Ref. INV-6 on file in the Board Office).

Vice Chair Geddes asked Mr. Andrew Clinger, Chief Financial Officer, if the NSHE Finance Department was in support of Cambridge Associates' recommendations, as he could not tell from the reference material provided. Mr. Clinger confirmed they are in support of the recommendations.

Vice Chair Geddes moved approval of the following recommendations: move \$25 million into the Vanguard Short-Term Inflation-Protected Securities Index; \$25 million trim from Vanguard Inflation Protected Securities; \$10 million trim from Vanguard Institutional Index; \$10 million trim from Vanguard Developed Markets Index; \$10 million addition to Vanguard Short-Term Inflation Protected Securities; and \$10 million addition to PIMCO Total Return. Regent Perkins seconded. Motion carried.

7. Information Only-Management of Investment Portfolios – The Committee discussed the current management of the NSHE investment portfolio as well as other potential management options. Representatives from the UNLV Foundation and UNR Foundation provided an overview of processes for managing the foundations’ portfolios (*Refs. INV-7a and INV-7b on file in the Board Office*).

Mr. Clinger provided a few remarks about the upcoming presentations and said they are hoping to gather some feedback from the Committee on the current investing structure.

Mr. Randy Garcia, UNLV Foundation; and Mr. Dean Byrne, UNR Foundation, provided an overview of the processes for managing the foundations’ portfolios for their respective institutions.

Chair Carter thanked the university foundation representatives for the helpful information.

Vice Chair Geddes thanked the representatives from the university foundations and said they bring great expertise to the foundations and the System.

8. Information Only-New Business – Regent Perkins requested to bring back a revision to the Endowment Fund Statement of Objectives and Policies to codify manager diversity as a priority in the NSHE’s discretionary investment policy statement.

Regent Arrascada requested a discussion or information on how often NSHE withdraws profits or equities from Cambridge Associates or Russell Investments during significant economic downturns.

9. Information Only-Public Comment – None.

The meeting adjourned at 2:42 p.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 July 23, 2021, meeting.