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 November-December 2017 meeting.

BOARD OF REGENTS and its
INVESTMENT COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION
Joe Crowley Student Union, Milt Glick Ballroom A
University of Nevada, Reno
87 West Stadium Way, Reno
Thursday, June 8, 2017

Members Present:	Dr. Jason Geddes, Chair Mr. Cedric Crear, Vice Chair Mrs. Carol Del Carlo Mr. Trevor Hayes Mrs. Cathy McAdoo
Members Absent:	Mr. John T. Moran
Others Present:	Mr. Vic Redding, Vice Chancellor for Finance Mr. Jamie Hullman, Senior Director, Finance Mr. James Martines, System Counsel Dr. Mark A. Curtis, President, GBC Dr. Karin Hilgersom, President, TMCC

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

Chair Jason Geddes called the meeting to order at 3:34 p.m. with all members present except for Regent Moran.

1. Information Only-Public Comment – None.

2. Approved- Minutes – The Committee recommended approval of the minutes from the March 2, 2017, meeting *(Ref. INV-2 on file in the Board office).*

Regent Del Carlo moved approval of the minutes for the March 2, 2017, meeting. Regent McAdoo seconded. Motion carried. Regent Moran was absent.

3. 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 for the quarter ended March 31, 2017. The Committee recommended approval of rebalancing the Pooled Operating Fund to bring asset positions closer to policy targets. NSHE staff also provided an update on the status of the Operating Pool Reserve *(Ref. INV-3 on file in the Board office).*

Ms. Wendy Walker, Cambridge Associates, provided a report on asset allocation and investment returns for the Pooled Operating Fund for the quarter ended March 31, 2017.

Regent Hayes moved approval of the following rebalancing items: (1) $25 million redemption from the Short-Term Pool; and (2) $25 million allocation to the following investment funds from the proceeds of the Short-Term Pool Redemption: (a) $5 million addition to Vanguard Institutional Index, (b) $10 million addition to Manning and Napier, and (c) $10 million addition to MFS International. Regent Del Carlo seconded. Motion carried. Regent Moran was absent.

Chair Geddes asked what the expectations are for the Operating Fund returns over the next five years. Ms. Walker first contextualized the inquiry by going over the long-term expectations for the particular pool. The asset allocation is relatively simple and heavily weighted toward fixed income. Over the very long-term, the expectation is that this asset allocation policy will deliver somewhere around 3.5 percent real which is net of inflation. This means the corpus is preserved and an additional 3.5 percent is earned. As to what has been discussed with the Committee for years, valuations look very high in a number of markets, particularly in fixed income markets, as well as U.S. equities. The portfolio is tilted toward those two asset classes, more so than the Endowment Fund. Within this context, Cambridge Associates cannot forecast the future; however, they can conduct a thought experiment of what the outcome could be if all valuations reverted to their long-term averages. The math on this would suggest quite challenged and/or subpar returns relative to the 3.5 to 3.7 percent long-term returns. It would be less than 1 percent real and that would be if a 10-year time horizon for valuations were to revert. Based on these predictions, the long-term studies show that valuations are the best guide and it will not necessarily happen in one or five years. Over the long-term, valuations are expected to go back toward the historic averages.

Chair Geddes asked if there are any big opportunities or big risks in the Operating Fund portfolio that the Committee should be aware of. Ms. Walker said she would not consider there to be

3. Approved-Operating Pool Performance Discussion and Recommendations – *(continued)*

any big risks and noted the portfolio is straight forward. The portfolio is more United States-centric and focused on fixed income due to the nature of this pool and the different time horizon for the short-term and intermediate-term pools. These are funds that the System needs to have on hand for liquidity purposes and it is well-positioned on that front. Within the long-term pool, in late 2013 an opportunistic allocation was introduced in response to non-robust returns expectations based on high valuations. At the time of inception, it was a 5 percent position and it was to a global tactical asset allocation manager. The thesis was that by taking 5 percent of the equity allocation, which is otherwise dedicated to U.S. equities and Global ex U.S. equities, and giving it to a more nimble and flexible strategy there could be opportunities for greater diversification in face of the valuation challenges. Over the past year, the allocation has delivered very strong returns, around 12.7 percent over the trailing one-year period which means it paid off recently. Within the first couple of years, the more expensive asset classes continued to out-perform the more attractive asset classes. It under-performed in the early years, but now has started to pay off in the way that Cambridge Associates expected when the position was incepted. They have taken some of that position off the table following the very strong out-performance. Now the position is down to 3 percent of the total pool. Ms. Walker did not consider that a large bet, but the fact that it was positioned as an opportunistic investment given valuations is something to be aware of.

Chair Geddes followed up by asking if the current policy is still appropriate, or should policy changes be considered. Ms. Walker answered that it would be worthwhile to look at the policy. The last time that exercise was conducted was in late 2010 and the pool has certainly grown significantly since then, along with the operating situation for each of the campuses. Ms. Walker supported the idea of an in-depth policy review. Given the growth of the pool, the asset allocation policy may be more conservative than what would be appropriate for the institutions, but the work would need to be done to reaffirm the purpose of each pool, receive input from each of the campuses on their liquidity needs and reevaluate the policy with those facts at hand. Chair Geddes suggested that Ms. Walker work on this with Mr. Jamie Hullman, Senior Director of Finance.

Chair Geddes asked if any new investments are currently being considered. Ms. Walker believed it would be a byproduct of the policy review. They can see the long-term prospects of the Endowment as looking much stronger than the long-term sub-pool within the Operating Pool. If consensus was able to be built among the campuses for the timeline of the long-term assets, it could potentially result in optimizing those assets by adding in more asset class diversification to enhance returns, if the assets are truly going to be invested for the long-term. There are opportunities to potentially enhance the risk-return profile.

Mr. Hullman reported on the activities and the current balance of the reserve

3. Approved-Operating Pool Performance Discussion and Recommendations – *(continued)*

account of the System Operating Fund which was a positive $59.8 million as of close of business on Wednesday, June 7, 2017.

4. Information Only-Endowment Pool Performance Discussion – Cambridge Associates – Ms. Walker from Cambridge Associates presented a report on asset allocation and investment returns for the Pooled Endowment Fund as of April 30, 2017.

In response to a comment from Regent Hayes, Mr. Matt Beardsley, Russell Investments, confirmed there was a warm-up period in the month of January and, as Ms. Walker can attest, Russell Investments had multiple cash flows throughout the first four months of the year. At each of those iterations there was a pause before it was invested.

Regent Hayes clarified for the new Committee members that the reason two managing companies were hired was to offer the System more financial stability and to lessen investment risks.

Ms. Walker concluded her report.

5. Information Only-Endowment Pool Performance Discussion – Russel Investments – Mr. Beardsley from Russell Investments presented a report on asset allocation and investment returns for the Pooled Endowment Fund as of April 30, 2017 *(Refs. INV-5a and INV-5b on file in the Board office).*

Mr. Hullman presented information on the 10-year Endowment spending and management fee distribution, and also on the NSHE System Administration Endowment Pool historical spending.

Chair Geddes reaffirmed the endowment spending distribution that Mr. Hullman discussed. It was put in place when less funding was being received by the state, in an effort to help offset the impact on the campuses. As that stabilized, the allocations were lowered to where it currently stands today.

6. Approved-GBC Foundation Endowment Management Fee – The Committee recommended approval of an institutional request from GBC and the GBC Foundation for an annual endowment management fee of 1.5 percent to be effective in the third quarter of 2017, concurrent with the transfer of the GBC Foundation endowment accounts. The management fee will be calculated and distributed in the same manner as the spending distribution and transmitted to that institution in consideration of Foundation management, stewardship and development activities *(Ref. INV-6 on file in the Board office).*

Ms. Sonja Sibert, Vice President for Business Affairs, GBC, said GBC and the

6. Approved-GBC Foundation Endowment Management Fee – *(continued)*

GBC Foundation are requesting approval to continue the management fee at the same rate now that the transfer of assets have moved into the System Endowment Pool. In FY16, management fees received by the Foundation when the endowment assets were with the Foundation were approximately $96,000. They are anticipating the same level for the current fiscal year. The Foundation uses these funds to enhance current donor relationships and also look into prospective new donors. One of the projects that President Curtis is currently working on is fundraising efforts to construct buildings on the BLM land in Pahrump that was transferred to the System. He has been meeting with Institutional Advisory Council members and other community members to accomplish this. This is where a lot of the money to cultivate new donors and relationships in that area can be used as they move forward with the fundraising campaign for the building construction.

Regent McAdoo moved approval of the 1.5 percent management fee to be effective in the third quarter 2017, concurrent with the transfer of the GBC Foundation endowment accounts to the System Endowment Fund. Regent Hayes seconded.

Regent Hayes asked if the 1.5 percent is consistent across the different institutions, or if it is varied. He noted an upcoming and similar request from TMCC at 1.5 percent. Mr. Hullman answered that the institutions have the option of accepting up to a 1.5 percent management fee. The total spending was approved by the Board in December 2016. In FY18, the institutions are approved to spend at a rate of 4.5 percent. Of that amount, 1.5 percent can be attributed to the management fee. Across the System, the institutions do not all accept the full 1.5 percent endowment management fee. For example, DRI’s endowment management fee is 1 percent. In response to Regent Hayes, Mr. Hullman confirmed that each institution has the ability to make a request to the Board of up to 1.5 percent.

Motion carried. Regent Moran was absent.

7. Information Only-TMCC Foundation Endowment Management Fee – A representative from the TMCC Foundation discussed the Foundation’s use of the 1.5 percent endowment management fee distributed to the Foundation from the System Endowment Fund.

Ms. Gretchen Sawyer, Executive Director, TMCC Foundation, provided some background on the TMCC Foundation. It was established in 1982 for the purpose of raising funds in support of the college. Before the Foundation was formed, gifts made in support of TMCC were provided directly to the NSHE.

7. Information Only-TMCC Foundation Endowment Management Fee – *(continued)*

The TMCC Foundation has elected to continue investing all of its endowments with the NSHE System Endowment Fund. The market value of the TMCC Endowment is $10 million and the book value is $4.7 million. The $4.7 million is made up of the contributions that have come into the endowment, and with market returns it was raised to $10 million. In total, there are 126 endowments which include a new endowment approved at the March 2017 meeting for the Frank N. Bender Center for Applied Logistics Management. This was a total gift of $600,000 and the TMCC Foundation invested $300,000 into the endowment in support of scholarships and the operations for the center.

Ms. Sawyer noted the majority of the endowments have been established in support of scholarships and over 90 percent of the 126 endowments are earmarked for scholarships. TMCC students have great financial need and in the 2016-17 school year, the Foundation awarded $636,000 to 464 students. This is a 19 percent increase in the dollar amount being awarded to students over the previous year and it was a record year for the Foundation. Of that scholarship amount, $118,000 was from endowment interest benefitting 137 students. The remaining endowments include 11 earmarked for public support and 17 which are unrestricted. Over the past four years, an average of $412,000 of spending has been generated from TMCC's Endowment. Up until July 1, 2017, the spending rate is 4.75 percent. TMCC currently uses 3.25 percent for spending and the maximum 1.5 percent for the management fee. After July 1, 2017, when the spending rate is lowered to 4.5 percent, the management fee will also be lowered from 1.5 percent to 1.25 percent for the purpose of not diminishing awards to the students. It is estimated that this reduction in the management fee will decline approximately 20 percent of the management fee each year. TMCC administration thought it was vital to keep the 3.25 percent spending rate intact to continue to serve as good stewards of the donor funds and in support of the students.

Ms. Sawyer said in the coming years TMCC will look at options to increase the spending rate from the current 3.25 percent. A $20,000 reduction is a large impact. The operating budget of the Foundation is approximately $150,000. The management fee is the main source of funding with an estimated $100,000 for FY18. This is down from an average of $118,000 which was over the past five years and $121,000 was the total management fee in FY16. Some of the expenses the management fee helps cover is the annual license fee for the donor software database which totals $23,000 each year, the Foundation's annual audit which totals to $9,500 per year, the outside accountant which costs $14,500 annually, small event expenses for direct mail and a portion of the Executive Director's salary which is transferred to the college. Given this year's reduction in the management fee, the TMCC Foundation has cut back on accountant services and reduced the portion of the Executive Director's salary which was transferred to the college by $40,000. Creative measures were taken to cover the reduction and

7. Information Only-TMCC Foundation Endowment Management Fee – *(continued)*

some of the salaries of the six staff members for the TMCC Foundation will be impacted by the reduction.

Over the past five years, the TMCC Foundation has raised an average of $3 million each year in support of capital projects, scholarships and programs all in the support of students. In addition, the two grant positions are vital to the management and acquisition of the $16 million in federal and state grants that are currently under management. Every adjustment the Committee makes to the spending rate has a deep impact on the Foundation and its ability to raise funds. Since 2013, the spending rate has been reduced by 1.5 percent. While it is vital that the corpus is preserved and the Endowment continues to grow, the students need to be supported in the most extensive way possible. The management fee provides unrestricted funding that is used for operating costs which are the hardest dollars to raise. Every decrease in the spending rate equals a reduction in the ability to support TMCC students.

Regent Hayes provided some context to the new Committee members by explaining that the spending rate was adjusted in December 2016. In light of Ms. Sawyer's presentation, Regent Hayes suggested that perhaps the Committee should re-examine the new spending rate and make any necessary adjustments, especially if the campuses are being affected negatively by the new spending rate.

Chair Geddes believed that it would be beneficial for Mr. Hullman to contact each of the campuses to look at the distribution and rates and determine what the needs are. He added perhaps some of this information can be presented to the Committee at the September meeting.

Regent Hayes believed some campuses supported the rate adjustment in December; however, he noted the importance of finding a balance.

Regent Del Carlo asked if each campus could have individual rates. Regent Hayes clarified that there is an overall cap in rate for all the campuses.

Mr. Hullman added that the management fees distributed to the campuses range between .675 percent up to 1.5 percent. No two institutions have the same rate with regard to management fee. The institutions have the authority to spend up to 4.25 percent for endowment distributions for scholarships and related items, and up to 1.5 percent for management fee.

Chair Geddes said the New Business request would be to speak to all of the campuses to find out what their needs are and return with recommendations that could be different for each campus based on what the situation is. Mr. Hullman agreed and clarified that although the institutions can spend up to 4.25 percent and 1.5 percent for management fee, there is a limit and in December the Committee

7. Information Only-TMCC Foundation Endowment Management Fee – *(continued)*

voted to decrease the cap to 4.5 percent for the institutions beginning July 1, 2017. Chair Geddes said this could also be revisited by the Committee in September.

In response to an inquiry from Regent Del Carlo, Mr. Hullman said the way the policy is written the spend rate is up to 4.25 percent and up to 1.5 percent for the management fee, and within those ranges it can vary by institution. Generally, the Committee revisits the item of endowment spending at every December meeting. Chair Geddes added the option to change the policy is out there based on the will of the Committee.

Regent Hayes recalled that the spending rate was more on the high end which is why the Committee looked at lowering the cap to get closer to a more responsible level. Mr. Hullman said at the December meeting, some Committee members were concerned that the rate may have been a little too high, while other members thought the rate was not high.

Regent Hayes asked what the industry's best practices are. Mr. Hullman said based on information presented at the December meeting, the policy was within the normal range. At that point, the maximum spend could be 4.75 percent and it was decreased to 4.5 percent, and also at that time Ms. Walker provided an analysis of how other institutions were spending. Ms. Walker added there is a peer data base of 400 endowments and 5 percent is still the most common spending rate. The average is slightly under 5 percent, in the range of 4.8-4.9 percent. The System's prior spending rate of 4.75 percent all-inclusive was very close to what the most common average is. Viewing the trends, most institutions are revisiting this on a regular basis precisely because of the valuations that both Russell Investments and Cambridge Associates see where the forward looking returns expectations look likely to be weaker than what the long-term return expectations are. Most institutions are reexamining spending as a conservative measure facing what looks likely to be a period of weak returns to try to see if there is a possibility to tighten the belts in advance so the corpus of the endowment does not erode by spending more than what is brought in. While many institutions are having this conversation, not all are decreasing their distributions. Ms. Walker thought it is a prudent discussion to have.

Ms. Sawyer thanked the Committee for the opportunity to speak on behalf of the TMCC Foundation.

8. Information Only-New Business – Chair Geddes directed System Administration staff to speak with the institutions about their future needs related to the endowment management fees and the endowment distribution rate. He requested the information be discussed at the December 2017 meeting.

8. Information Only-New Business – *(continued)*

Chair Geddes also directed System Administration staff to work with Cambridge Associates to study the current investment approach for the Operating Fund and to report any recommended updates to the approach at a future Investment Committee meeting.

9. Information Only-Public Comment – None.

The meeting adjourned at 4:30 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