

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 June 2018 meeting.

**BOARD OF REGENTS and its
INVESTMENT COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION**
Student Union, Ballroom A
University of Nevada, Las Vegas
4505 S. Maryland Parkway, Las Vegas
Thursday, November 30, 2017

Members Present: Mr. Rick Trachok, Chair
 Mrs. Carol Del Carlo, Vice Chair
 Dr. Andrea Anderson
 Mr. Cedric Crear
 Mr. Trevor Hayes

Other Regents Present: Dr. Jason Geddes, Vice Chairman

Others Present: Dr. Thom Reilly, Chancellor
 Mr. Chester O. Burton, Chief Financial Officer
 Mr. Dean J. Gould, Chief of Staff & Special Counsel to the Board
 Mr. Jamie Hullman, Senior Director, Finance
 Mr. James Martines, System Counsel
 Ms. Stephanie Shepherd, Assistant Vice Chancellor,
 Accounting & Finance, and System Controller
 Dr. Kristen Averyt, President, DRI
 Mr. Bart J. Patterson, President, NSC
 Dr. Karin Hilgersom, President, TMCC
 Dr. Len Jessup, President, UNLV
 Dr. Marc A. Johnson, President, UNR
 Mr. P. Mark Ghan, Acting President, WNC

Ms. Shannon Sumpter, Faculty Senate Chair, UNLV, 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 3:31 p.m. with all members present.

1. Information Only-Public Comment – None.

2. Approved-Minutes – The Committee recommended approval of the minutes from the June 8, 2017, meeting. (*Ref. INV-2 on file in the Board office*)

Regent Anderson moved approval of the minutes for the June 8, 2017, meeting. Vice Chair Del Carlo seconded. Motion carried.

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 September 30, 2017. NSHE staff also provided an update on the status of the Operating Pool Reserve. The Committee recommended approval of rebalancing the Long-Term Pool, and adding \$10 million to Short-Term Bonds and Cash to bring the allocation in line with the 30 percent policy target. (*Ref. INV-3 on file in the Board office*)

Ms. Wendy Walker, Cambridge Associates, presented a report on asset allocation and investment returns for the pooled Operating Fund for the quarter ended September 30, 2017.

In response to an inquiry from Regent Hayes, Ms. Walker confirmed they are taking asset allocations closer to policy targets because with the recent outperformance of equities, the equity targets are overweight. It has been a long time since the last market correction and Cambridge Associates believes that by rebalancing to a neutral risk position some of those gains could be harvested.

Mr. Jamie Hullman, Senior Director, Finance, reported on the activities and the current balance of the reserve account of the System Operating Fund which was a positive \$82.5 million as of close of business on Wednesday, November 29, 2017.

Chair Trachok asked Senior Director Hullman for his opinion on the recommendation from Cambridge Associates. Senior Director Hullman answered based on his experience with the Investment Committee, the investment pools of the System and Cambridge Associates, he felt very comfortable with the recommendation.

Regent Hayes thought the recommendation seemed overly conservative; however, he supported the recommendation.

Regent Hayes moved approval of the following rebalancing items: 1) Within the Long-Term Pool, realize the strong equity gains and redeploy proceeds into bonds: (a) \$10 million redemption from Vanguard Institutional Index; (b) \$5 million redemption from Manning and Napier; (c) \$10 million redemption from MFS

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

International; (d) \$5 million redemption from PIMCO ALL Asset All Authority; (e) \$10 million addition to PIMCO Total Return; and (f) \$10 million addition to Wells Capital Montgomery; and 2) \$10 million addition to Short-Term Bonds and Cash, to bring the allocation in line with the 30 percent policy target. Vice Chair Del Carlo seconded. Motion carried.

4. Information Only-Endowment Pool Performance Discussion – Russell Investments – Mr. Matt Beardsley from Russell Investments presented a report on asset allocation and investment returns for the Pooled Endowment Fund as of September 30, 2017. *(Supplemental Material on file in the Board office)*

There were no questions from the Committee.

5. Information Only-Endowment Pool Performance Discussion – Cambridge Associates – Ms. Wendy Walker from Cambridge Associates presented a report on asset allocation and investment returns for the Pooled Endowment Fund as of September 30, 2017. *(Supplemental Material on file in the Board office)*

Regent Hayes asked which legacy assets will eventually contribute to the different pools. Ms. Walker answered that the legacy assets are private equity and venture capital. She further explained that part of the reason these legacy assets are trailing for the calendar year-to-date period is because it only has six months of performance which is reported on a lag. Ms. Walker noted that for most private investment funds, the way the assets are marked each quarter they do not tend to show as much volatility as marketable securities which can vary more in the market environment. The underlying asset classes fundamentally have similar volatility; however, because of the way the assets are marked they appear to have more stable value.

Regent Hayes asked what must occur before the legacy assets are moved into the two different funds. Ms. Walker said the legacy assets are illiquid assets. The bulk of the legacy funds are in venture capital, fund-of-funds, secondary funds (focused on private equity) and real assets fund-of-funds. These funds have a fund life between 7-10 years and to ultimately wind down the entire fund, those may have extensions which can take longer. Over the long-term, the legacy assets have been highly additive to the Endowment portfolio.

Ms. Walker confirmed for Chair Trachok that the recommendation of Cambridge Associates in regard to the legacy funds is to continue to let the assets perform and in time it will distribute cash back to the System. Ms. Walker said they are

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

comfortable with leaving the funds as they currently stand.

Ms. Walker provided an overview of the hedge fund portfolio.

6. Approved-Distribution from the Endowment Fund – The Committee recommended approval to continue the current distribution rate of 4.5 percent and up to 4.25 percent may be distributed for spending; institutions with a management fee agreement may distribute a management fee of up to 1.5 percent, effective July 1, 2018. The Committee also discussed current NSHE distributions from the Endowment Fund, and reviewed the past performance of the NSHE Endowment Fund and the university foundation endowment funds. (*Ref. INV-6 on file in the Board office*)

Senior Director Hullman provided general information on the spend rate. The maximum spending amount that can be distributed from the pool is 4.5 percent. Based on the information from the institutions and the foundations, Senior Director Hullman recommended leaving the spend rate at 4.5 percent.

Senior Director Hullman confirmed for Chair Trachok and Vice Chair Del Carlo that the 4.5 percent was changed from 4.75 percent in December 2016, and the current spend rate of 4.5 percent also includes the management fee.

Regent Hayes provided a recap of the discussion regarding the spend rate at the Investment Committee meeting from December 2016 for the new members.

Regent Hayes moved approval of continuing with the current distribution rate of 4.5 percent and up to 4.25 percent may be distributed for spending; institutions with a management fee agreement may distribute a management fee of up to 1.5 percent, effective July 1, 2018. Regent Anderson seconded.

Mr. Chester Burton, Chief Financial Officer, concurred with Senior Director Hullman's recommendation.

Motion carried.

7. Information Only-Review of the Investment Committee Duties – The Committee conducted a review of and recommended revisions to the Committee duties as set forth in the *Board of Regents Handbook*, Title 1, Article VI, Section 3. (Ref. INV-7 on filed in the Board office)

As discussed at the October 2017 Board Workshop, Chief Financial Officer Burton reviewed the duties of the Committee. He also suggested the Committee may want to review the meeting schedule and consider reducing the number of meetings going forward as there does not seem to be a need to meet as often due to the implementation of the OCIO model.

Regent Hayes thought it may be interesting to compare benchmarks from year to year to measure how the OCIO is progressing. He also thought it may be useful to have an orientation for new Committee members at the beginning of each year. Regent Hayes suggested that the Investment Committee meet twice annually.

Vice Chair Del Carlo agreed with Regent Hayes regarding an orientation when new members join the Committee. She shared her appreciation for the work Cambridge Associates and Russell Investments have done, and added that she would like to see more year-to-year comparisons in the form of tables and graphs.

Regent Anderson thought it would be beneficial for the Committee to have an annual workshop at the beginning of each year.

Regent Crear noted the Investment Committee used to be an off-cycle committee and the meetings would last for a few hours.

Chair Trachok said in terms of the Board's fiduciary responsibilities, he believes it is important to keep the Investment Committee as an on-cycle Committee. In regard to the meeting schedule, Chair Trachok said it may be adequate for the Investment Committee to meet once a year in December, and hold a workshop every March.

Regent Crear added if a matter should arise that needed immediate attention from the Investment Committee, a special meeting could always be scheduled.

Chief Financial Officer Burton addressed a few inquiries from Chair Trachok and Regent Crear by stating that with the OCIO model in place, there is no active management from the NSHE staff, as the OCIO manages the investments full-time. Chief Financial Officer Burton shared his support of having a workshop annually in March and said the finance department could create a tutorial for new Investment Committee members.

Senior Director Hullman noted a couple of points: 1) The Endowment spend rate discussion takes place at every December meeting because the finance department produces an estimated number for spending which is provided to the foundations for the next year; and 2) With the Operating Pool, there are regular rebalancing

7. Information Only-Review of the Investment Committee Duties – (continued)

recommendations for the pool. Senior Director Hullman said it is possible to have fewer Investment Committee meetings; however, there may be a need to schedule additional meetings as rebalancing recommendations may need to be presented to the Committee.

Regent Anderson suggested that once the meeting schedule is changed, perhaps a meeting in either June or September would be prudent to ensure the new meeting schedule is adequate.

Regent Hayes asked how much authority does the NSHE staff need from the Committee to make rebalancing decisions. Senior Director Hullman answered with the Endowment Pool there is a discretionary arrangement with the OCIO which means they can trade funds at their own discretion. With the Operating Pool there is an advisory relationship with Cambridge Associates which means approval by the Committee is required for rebalancing, and the System Office manages the trades.

Regent Hayes asked if there is any reason why the Operating Pool could not move to an OCIO model. Senior Director Hullman said the Endowment Pool and the Operating Pool have two very different purposes. The way the Operating Pool is currently structured, it is cost effective. To move it to an OCIO arrangement would cost substantially more.

Regent Hayes asked both Russell Investments and Cambridge Associates if it would be adequate for the Investment Committee to meet less frequently. Mr. Beardsley said communication of changes is always beneficial. Lately, there have not been a lot of changes to report; however, if there are major changes to the market, the conversations will become more important. Mr. Beardsley thought meeting more frequently would be best until the Committee feels comfortable enough to reduce the number of meetings. Ms. Walker concurred with the comments from Senior Director Hullman and Mr. Beardsley. She said at the June 2017 meeting there was an inquiry about whether the policy of the Operating Fund was still meeting the needs of the System. She believed that discussion may be a good thing to cover at a future meeting.

8. Approved-One-Time Distribution from Operating Pool Reserve – In light of the current balance and performance of the Operating Pool Reserve, the Investment Committee recommended approval of a special one-time distribution from the fund in an amount up to \$25 million. The Committee directed NSHE institutions and System Administration to provide the Chancellor a prioritized listing of initiatives and amounts of how funds from the distribution would be used at their institutions to support academic and student services as well as supporting the strategic initiatives approved by the Board. The Chancellor was requested to present a list of the initiatives before the full Board at a future meeting. The

8. Approved-One-Time Distribution from Operating Pool Reserve – *(continued)*

funding for initiatives approved by the Board will be distributed in early 2018.
(Ref. INV-8 on file in the Board office)

Chief Financial Officer Burton provided a background on the request for the one-time distribution. He noted the amount of \$25 million was selected for the purpose of being cautious and leaving a cushion in the Operating Pool Reserve. Another reason to approve the one-time distribution is there are System-wide initiatives on the horizon which could benefit all the campuses, such as the Workday licensing.

Dr. Thom Reilly, Chancellor, said the plan for how the funds will be spent by each institution will be presented at the special meeting in January 2018.

Chair Trachok clarified that the motion is to approve the one-time distribution of up to \$25 million, conditional upon a presentation from each of the institutional presidents at the January 2018 special meeting. At that meeting, the Board will consider approving the proposals from the presidents.

Regent Anderson moved approval of a one-time distribution from the Operating Pool Reserve of up to \$25 million to the NSHE institutions. The distribution is subject to each president providing a proposal on how the funds will be spent. Regent Hayes seconded.

In response to an inquiry from Regent Hayes, Chair Trachok clarified the Committee will leave it up to the full Board to approve the proposals that the presidents will come forward with.

Motion carried.

9. Information Only-New Business – Chair Trachok said the Committee will work with the Chancellor's staff to design a workshop that will be scheduled in March 2018.

Regent Hayes suggested that the workshop be scheduled for September 2018 since there may be new Investment Committee members. Chair Trachok said he will take the suggestion under consideration.

10. Information Only-Public Comment – Chief Financial Burton recognized Senior Director Hullman's work over the years and congratulated him on his new move. He also welcomed Ms. Stephanie Shephard, Assistant Vice Chancellor, Accounting and Finance, and System Controller, who is taking over for Senior Director Hullman.

The meeting adjourned at 4:40 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