

Fund.

2. ~~No single passively managed investment will be larger than 20% of the Fund.~~

ii. ~~Firm Concentration~~

1. ~~Exposure to one external investment management firm will be limited to 15% of the Fund.~~
 2. ~~In circumstances where an external firm manages assets for the Fund on a solely passive basis, exposure to that firm will be limited to 25% of the Fund.~~
- iii. ~~It is recognized that significant changes in investment market values could cause the portfolio to be positioned outside of these liquidity and concentration parameters. If this occurs, the Fund Manager will communicate this breach to the Investment Committee and will take action to reposition the portfolio consistent with these parameters as soon as practicable.~~

c. ~~Derivatives~~

- i. ~~It is understood that certain investment managers in the Fund, chiefly those generally categorized as "Marketable Alternatives," may use derivatives and leverage as part of their investment strategies. Managers using derivatives and/or leverage should have in place systems to analyze and monitor liquidity and counter party credit risk in order to minimize the risks associated with the use of derivatives.~~
- ii. ~~The Fund Manager may use derivatives in the Fund to hedge investment risks or to replicate investment positions in a more efficient manner or at a lower cost than would otherwise be possible in the cash markets. Selling of uncovered options is prohibited.~~

d. ~~UBTI Sensitivity~~

- i. ~~The System understands that its share of any income from the Fund (and possibly the gain on the sale of all or a portion of its interest in the Fund) may constitute unrelated business taxable income ("UBTI"), as defined in the U.S. Internal Revenue Code. UBTI generally is subject to taxation at rates applicable to taxable investors.~~
- ii. ~~The Fund Manager will use reasonable efforts to limit the amount of UBTI derived from investments of the Fund. However, the Fund Manager will not be prohibited from causing the Fund to make investments that generate UBTI, and the Fund likely will make such investments if the Fund Manager believes that the overall potential after tax returns from such investments justify any potential UBTI costs attributable to such investments. The System understands and agrees that the realization of UBTI may result in additional administrative costs, including tax and accounting advice required for making the required state and federal tax filings. The System understands that since the characterization of income of the Fund derived from underlying funds as UBTI depends in part on the nature of the underlying investments made by underlying funds, the Fund will be limited in its ability to avoid UBTI.~~

8. Roles and Responsibilities

- a. ~~The Board of Regents has delegated overall oversight of the Fund to the Committee. In addition, the Board has delegated certain responsibilities for the day to day management of the investment program to the Fund Manager and to the Finance Department.~~
- b. ~~Effective and cohesive relationships between the Board of Regents, the Committee, the Finance Department and the Fund Manager are important to fulfilling the purposes of this Policy and the Fund. The major duties and responsibilities of the parties as determined by the Board are summarized as follows:~~

~~Fund Manager~~

- ~~• Develop and recommend policies, guidelines and benchmarks to Investment Committee for approval.~~
- ~~• Review at least annually these Guidelines of Investment Policies and Objectives to ensure its appropriateness in the context of macroeconomic and market environments and the System's and the Fund's financial situation.~~
- ~~• Implement the policy asset allocation within specified ranges approved by the Investment Committee.~~
- ~~• Select and terminate investment managers in accordance with these Guidelines.~~
- ~~• Determine the amount of assets delegated to each investment manager.~~
- ~~• Monitor and report to the Committee and System Staff the performance of each manager, each asset class, and the total portfolio on at least a quarterly basis.~~
- ~~• Communicate to the Investment Committee and System Staff any significant portfolio issues that might arise.~~
- ~~• Administer the Fund's day to day investment activities including the movement of funds within the Fund as well as inflows and outflows.~~
- ~~• Prepare all manager documentation for execution. Track and monitor the flow of such paperwork.~~
- ~~• Provide documentation to support the System's audit preparation.~~

~~NSHE Investment Committee~~

- ~~• Provide initial input and approve investment policies, guidelines asset allocation targets/ranges and benchmarks.~~
- ~~• Adopt and review at least annually these Guidelines of Investment Policies and Objectives, which establishes eligible investments, asset classes, and policy allocation guidelines.~~
- ~~• Monitor effects of the distribution policy on the Fund and make modifications, as necessary.~~
- ~~• Evaluate and approve of deviations from these Guidelines of Investment Policies and Objectives deemed necessary to support the System's financial objectives.~~
- ~~• Evaluate the performance of the Fund Manager on a periodic basis.~~

~~NSHE Finance Department~~

- ~~• Manage the System's relationship with the Fund Managers;~~
- ~~• Manage relationships with financial, legal, tax and audit service providers;~~
- ~~• Authorize/sign off on cash withdrawals out of Fund;~~
- ~~• Work with Fund Manager and Investment Committee on investment program as needed;~~
- ~~• Review monthly custodian statements; and~~
- ~~• Maintain paperwork and manager materials to augment CIA's Audit Support Package for audit preparation.]~~

(B/R 6/17)

Section 5. Statement of Investment Objectives and Policies for the Endowment Fund **[(effective July 1, 2017)]**

1. Introduction

- This statement of investment objectives and policies (*the "Guidelines"*) governs the investment management of the Endowment Fund (the "Fund") of the NSHE (*the "System"*). These Guidelines relate to the Fund as a whole. The purpose of these Guidelines is to establish a clear understanding between all parties as to the objectives, investment policies, and goals of the Fund.
- The Regents are responsible for establishing the investment policies for the Fund. Accordingly, the Regents have promulgated these Guidelines pursuant to which they have established permitted asset classes, ranges, and distribution policy. The Regents will review and revise these Guidelines from time to time as appropriate.

- c. The Regents have delegated to the Investment Committee (the "Committee") the oversight of the Fund. The Chancellor, the Vice Chancellor for Finance, and the Director of Finance shall serve as ex officio nonvoting members of the Committee. The Board Chair shall appoint a Chair of the Committee and may appoint one or more individuals with investment knowledge or expertise to serve as nonvoting members of the Committee. Minutes of each meeting of the Investment Committee shall be provided to the Regents for acceptance at their next meeting.
- d. The Regents have granted investment management authority of the Fund to one or more Outsourced Chief Investment Office service providers (collectively, the "Fund Manager"). The Fund Manager will manage the Fund on a discretionary basis, in accordance with the guidelines listed below.
- e. No member of the Board of Regents and no voting or nonvoting member of the Committee shall accept or approve the acceptance by staff or any other person of any gift, travel expense, or other perquisite proffered by an investment manager, the value of which exceeds \$25, without the advance approval of the Committee. Regents and employees of the System are also subject to the Code of Ethical Standards of the State of Nevada codified at NRS 281A.400-480 and promulgated to govern the conduct of public officers and employees, and Regents are also subject to certain additional conflict of interest provisions.

2. Objectives

- a. The long-term financial objectives of the Fund are to provide a relatively stable stream of spendable revenue that increases over time at least as fast as the general rate of inflation, as measured by the Consumer Price Index. In order to achieve this objective over the long term, the unit value of the Fund must also increase at least as fast as the rate of inflation.
- b. *The long-term objectives of the Fund should align with the following overall Nevada System of Higher Education goals.***
 - i. Increase participation in post-secondary education.***
 - ii. Increase student success.***
 - iii. Close the achievement gap among underserved student populations.***
 - iv. Collaboratively address the challenges of the workforce and industry education needs of Nevada.***
 - v. Co-develop solutions to the critical issues facing 21st century Nevada and raise the overall research profile.***
- c [b].** To meet the long-term financial objectives, the long-term investment objective of the Fund is to achieve an average annual real total return at least equal to the contemplated distribution rate set forth in Section 3 below over ten-year periods, net of fees. It is recognized that the real return objective may be difficult to attain in every ten-year period, but the Fund will seek to achieve the objective over a series of ten-year periods. In order to achieve this objective over extended periods, endowments have had to exceed the objective substantially during some periods, such as the 1980s, in order to compensate for shortfalls during other periods, such as the 1970s. It is also recognized that given the static nature of this objective, it is not directly related to market performance; this reinforces the view that success or failure in achieving this objective should be evaluated in the context of the prevailing market environment and over the long term. The secondary objective of the fund is to outperform the Fund's custom Policy Benchmark (set forth in 6(b)(1) below) over rolling three-year periods.

d [e]. The Fund will be invested in a manner that is expected to maximize the long-term total return with reasonable and acceptable levels of investment risk. Investment risk is defined in two ways: (1) the possibility of investments declining in value, and (2) the expected performance volatility of the investments in the portfolio. The Fund aims to achieve the stated return objective with a targeted annualized standard deviation similar to a simple blend of 70% global stocks (MSCI All Country World Index)/30% Bonds (Barclays Aggregate) portfolio over rolling five- to ten-year periods (or a full equity market cycle). Similar to the return objective, it is recognized that these objectives may be difficult to attain in every five-year period, but the Fund will seek to achieve these objectives over a series of five-year periods.

3. Endowment Distribution Policy

- a. The distribution policy represents the guidelines and administration of the annual amount of funds which can be withdrawn from the fund and made available for distribution each year. The Regents are responsible for review of the distribution policy and approval of the distribution rate.
- b. Total cumulative distributions from the Endowment Fund in each fiscal year shall not exceed 4.5 percent, subject to the restrictions herein, of the average market value for the 20 quarters ending December 31 immediately preceding such fiscal year. For example, distributions for Fiscal Year 2016-17 will be based on the fund's average ending quarterly market values for the 20 consecutive quarters ended December 31, 2015.
 - i. Within the 4.5 percent distribution rate, up to 4.25 percent may be distributed for spending, and institutions with a management fee agreement may distribute a management fee of up to 1.5 percent.
 - ii. Subject to Board of Regents' approval of an institution's request, an annual management fee of up to 1.5 percent of the institution's portion of the NSHE endowment pool, subject to the restrictions in Subsection i above, and calculated and distributed in the same manner as the spending, will be transmitted to that institution in consideration of additional foundation management, stewardship and development activities. Any transfer of such funds directly to the foundation for such activities is subject to the institution having an operating agreement in place between the institution and the foundation providing for adequate accounting and oversight of such funds consistent with Board of Regents' requirements specified in Title 4, Chapter 10, Section 10. After the management fee has been approved by the Board of Regents, the management fee may only be suspended or revoked by the Board of Regents:
 - 1) due to a material breach of the operating agreement,
 - 2) upon the declaration of a financial exigency by the Board of Regents, or
 - 3) without cause and effective June 30 upon written notice to the institution no later than March 1 of the preceding year.
 - iii. Institutions will report annually the distribution allocation to the Vice Chancellor of Finance.

- c. No withdrawals from the Endowment Fund other than to fund distribution to campuses noted above and the System management fee noted in 3(f) below are permitted without the prior approval of the Regents.
- d. Any withdrawal will be approved by the Vice Chancellor for Finance, Director of Finance or the Chancellor who will also specify the operating checking or money market accounts for receipt of such withdrawal. The Fund Manager will determine the source of these funds.
- e. The spending policy shall be administered by the Finance Department in accordance with the Uniform Prudent Management of Institutional Funds Act, adopted by the Regents in accordance with the authority granted to them by *Nevada Revised Statutes (NRS) 396.380 and NRS 396.420* to control and invest the System's funds.
- f. A .125 percent management fee will be imposed on the endowment pool for Board and System Administration expenses beginning July 1, 2001.

4. Fund Composition and Asset Allocation

- a. The Fund will be managed according to Long-Term Policy asset allocation targets and ranges outlined as follows:

Allocation	C A Target	Russell Target	Blended Total Assets Policy Target	Policy Range For Each OCIO
Growth	62%	61%	61.5%	50%-70%
Diversifiers	18%	12%	15.0%	5%-25%
Real Assets	10%	12%	11%	5%-20%
Fixed Income & Cash	10%	15%	12.5%	5%-25%

- b. Roles of Investments

- i. The purpose of Growth Assets (e.g. domestic stocks, foreign stocks, equity hedge funds, private equity, venture capital and growth-oriented debt) is to provide a stream of current income and appreciation of principal that more than offsets inflation. It is recognized that pursuit of this objective could entail the assumption of significant variability in price and returns. Return premiums may exist for investors who accept the illiquid and inefficient characteristics of the private equity market. For private investments, the performance objective is to achieve an internal rate of return over the life of the investment that is commensurate with public equity benchmarks plus a premium for illiquidity and risk.
- ii. The Diversifiers allocation (e.g. absolute return hedge funds, liquid alternatives, emerging markets debt and private diversifiers) is intended to provide equity-like returns with low equity correlation and lower levels of risk than Growth Assets. The investments are intended to help moderate the volatility of the Fund in order to provide additional year-to-year stability in Fund values.

- iii. The purpose of the Real Assets allocation (e.g. public and private investments in hard assets such as real estate, oil and gas, natural resources equities, and commodities) is to provide potential portfolio protection against the risk of unanticipated severe inflation, thus preserving the real value of the portfolio over the long term.
 - iv. The Fixed Income allocation (e.g. domestic and foreign bonds and cash) is intended to: (1) provide some asset appreciation in periods of declining interest rates (especially in periods of significant equity price deflation) and (2) provide ready liquidity.
- c. Tactical asset allocation decisions will be made from time to time by the Fund Manager within the parameters of this Investment Policy Statement. In addition, the Fund Manager may invest in opportunistic strategies that are generally shorter-term, tactical investments and can be allocated across the portfolio.
- d. Rebalancing decisions will be made by the Fund Manager as part of ongoing monitoring of the Fund's actual asset allocation relative to the targets and ranges described in 4(a) above. For the purpose of gauging compliance with asset allocation policy ranges, 50 percent of Legacy Assets shall be attributed to each Fund Manager's portfolio. Rebalancing the actual allocation of the Fund to policy targets is useful for maintaining the risk profile adopted by the Committee. Contributions to and withdrawals from the Fund shall be allocated and managed in the discretion of the Fund Manager. In managing contributions to and withdrawals from the Fund, the Fund Manager will seek to adhere to the asset allocation policy and guidelines. In the event of cash contributions exceeding 10 percent of the Fund's total asset size, the Fund Manager shall develop and recommend an implementation plan for Investment Committee approval, setting forth the timeline and number of tranches to deploy the new cash in order to bring the Fund into compliance with asset allocation policy and guideline. In the event that the Fund otherwise falls outside of the ranges described in 4(a) above, the Fund Manager will communicate this breach to the Investment Committee and have a reasonable period of time to bring the Fund back into compliance with the applicable guidelines

5. Benchmarking

- a. The results of the Fund will be compared with the following benchmarks, to be evaluated over varying time horizons:
 - i. Policy Benchmark – rolling three-year periods
 - ii. Simple Benchmark (Risk Equivalent) – rolling five- to ten-year periods (full equity market cycle)
 - iii. Long-Term Financial Objective – rolling ten-year periods
- b. Benchmark definitions:
 - i. The Policy Benchmark represents a passive investment in the Long-Term Policy Target allocation described previously. The table below defines the asset class indices which are weighted by the Long-Term Target allocations at the beginning of each month. The Total Assets Policy Benchmark shall be computed as an asset-weighted blend of the respective Fund Manager Benchmarks listed below:

Allocation	CJA Benchmark	Russell Benchmark
Growth	MSCI All Country World Index (net)*	MSCI All Country World Index (net)*
Diversifiers	0.3 beta-adjusted MSCI ACWI (net)*	LIBOR + 400bps
Real Assets	One-quarter mix* of: S&P NA Natural Resources Index/ S&P GSCI / Alerian MLP Index/ FTSE EPRA-NAREIT Global RE Index	Public Real Assets: One-third mix of: Bloomberg Commodity Index Total Return/ FTSE EPRA NAREIT Developed RE Index/ S&P Global Infrastructure Index Private Real Assets: NCREIF Fund Index Open- End Diversified Core Equity Index
Fixed Income	Bloomberg Barclays Aggregate	Bloomberg Barclays Aggregate
Cash	90-day T-Bills	90-day T-Bills

*For the portion of the portfolio that is allocated to illiquid Private Investments, each investment will be self-benchmarked for the first 5 years of its life. This is to address the “J-curve” inherent in private investments. After each investment’s fifth year of life, it will be retroactively benchmarked to the relevant public market index to reflect any value that has been added over this timeframe.

- ii. The Simple (Risk Equivalent) Benchmark shall be a weighted blend of 70% MSCI All Country World Index/30% Bloomberg Barclays Aggregate Bond Index
- iii. The Long-Term Objective is a static benchmark reflecting the System’s long-term performance objective of total portfolio returns exceeding the sum of its distribution policy and inflation, as defined in Section 1 (“Objectives”) above. Given that this static benchmark is not directly related to market performance, success or failure in achieving this goal should be evaluated in the context of the prevailing market environment over rolling ten-year periods.

6. Monitoring of Objectives and Results

- a. The Fund will be monitored for consistency in each manager's investment philosophy, return relative to objectives, and investment risk. The Fund Manager will provide reports to the System as are necessary including statements detailing all activity in the accounts and quarterly performance reports. Not less than quarterly, the Fund Manager will provide to the System and the Committee Chair a written summary of overall portfolio performance and review of asset allocation in relation to the investment objectives.
- b. All objectives and policies are in effect until modified by the Committee, who will review these at least annually.
- c. If at any time the Fund Manager believes that any policy guideline inhibits investment performance, it is the Fund Manager’s responsibility to clearly communicate this view to the Committee.

- d. Effective December 1, 2016, the Fund Managers have been granted full discretion to manage the Fund. Subsequent to the approval of these Guidelines of Investment Policies and Objective, there will be an implementation window of approximately four months to allow for the portfolio to transition from the pre-existing legacy investments into the Fund Manager-managed portfolio. For purposes of assessing Fund Manager performance, the System agrees that the official Fund Manager track record will begin April 1, 2017, after which the Fund Manager will be responsible for the Fund's performance relative to the previously stated return and risk objectives.

7. Investment Restrictions

a. Liquidity.

- i. The Fund Managers will opportunistically commit capital to illiquid private investment strategies with the following long-term target exposures, which will be built gradually over time given the nature of private investments:

	C A Long-Term Target	Russell Long-Term Target	Blended Total Assets Long-Term Target
Private Growth	17%	10%	13.5%
Private Diversifiers	5%	0%	2.5%
Private Real Assets	8%	5%	6.5%
Total Private Investments	30%	15%	22.5%

- ii. Each Fund Manager shall refrain from making new Private Investment commitments (1) while the Total Private Investment net asset value is greater than 1.3-times its respective long-term target above or (2) while the Total Private Investment net asset value plus unfunded commitments is greater 1.8- times its respective long-term target above. For the purpose of gauging compliance with these liquidity guidelines, 50 percent of Legacy Assets shall be attributed to each Fund Manager's portfolio.
- iii. The illiquidity constraint defined above is meant to reflect the Committee's maximum tolerance for illiquidity but does not imply the intent to reach this limit. The guideline is meant to acknowledge the reality that private investment exposure could increase meaningfully beyond the target exposures in the event of severe market stress.
- iv. Given the illiquid, long-term nature of Private Investment funds, each Fund Manager shall preview any planned Private Investment commitments with the System pursuant to a "negative consent" protocol, as follows:
1. The Fund Manager shall send details of and rationale for the planned commitment to the NSHE Finance Department by email;
 2. The Finance Department shall have one week to raise questions, request a conference call to discuss the planned commitment, or instruct that a decision shall be deferred until the next regularly scheduled Committee meeting;

3. Absent any questions or concerns raised by the Finance Department within one week of the proposal, the Fund Manager is authorized to move forward with the commitment.
- e. Concentration
- i. Fund Concentration
 1. No single actively managed investment will be larger than 10% of the Fund.
 2. No single passively managed investment will be larger than 20% of the Fund.
 - ii. Firm Concentration
 1. Exposure to one external investment management firm will be limited to 15% of the Fund.
 2. In circumstances where an external firm manages assets for the Fund on a solely passive basis, exposure to that firm will be limited to 25% of the Fund.
 - iii. It is recognized that significant changes in investment market values could cause the portfolio to be positioned outside of these liquidity and concentration parameters. If this occurs, the Fund Manager will communicate this breach to the Investment Committee and will take action to reposition the portfolio consistent with these parameters as soon as practicable.
- f. Derivatives
- i. It is understood that certain investment managers in the Fund, chiefly those generally categorized as “Marketable Alternatives,” may use derivatives and leverage as part of their investment strategies. Managers using derivatives and/or leverage should have in place systems to analyze and monitor liquidity and counter party credit risk in order to minimize the risks associated with the use of derivatives.
 - ii. The Fund Manager may use derivatives in the Fund to hedge investment risks or to replicate investment positions in a more efficient manner or at a lower cost than would otherwise be possible in the cash markets. Selling of uncovered options is prohibited.
- g. UBTI Sensitivity
- i. The System understands that its share of any income from the Fund (and possibly the gain on the sale of all or a portion of its interest in the Fund) may constitute unrelated business taxable income (“UBTI”), as defined in the U.S. Internal Revenue Code. UBTI generally is subject to taxation at rates applicable to taxable investors.
 - ii. The Fund Manager will use reasonable efforts to limit the amount of UBTI derived from investments of the Fund. However, the Fund Manager will not be prohibited from causing the Fund to make investments that generate UBTI, and the Fund likely will make such investments if the Fund Manager believes that the overall potential after-tax returns from such investments justify any potential UBTI costs attributable to such investments. The System understands and agrees that the realization of UBTI may result in additional administrative costs, including tax and accounting advice required for making the required state and federal tax filings. The System

understands that since the characterization of income of the Fund derived from underlying funds as UBTI depends in part on the nature of the underlying investments made by underlying funds, the Fund will be limited in its ability to avoid UBTI.

8. Roles and Responsibilities

- a. The Board of Regents has delegated overall oversight of the Fund to the Committee. In addition, the Board has delegated certain responsibilities for the day-to-day management of the investment program to the Fund Manager and to the Finance Department.
- b. Effective and cohesive relationships between the Board of Regents, the Committee, the Finance Department and the Fund Manager are important to fulfilling the purposes of this Policy and the Fund. The major duties and responsibilities of the parties as determined by the Board are summarized as follows:

Fund Manager

- Develop and recommend policies, guidelines and benchmarks to Investment Committee for approval.
- Review at least annually these Guidelines of Investment Policies and Objectives to ensure its appropriateness in the context of macroeconomic and market environments and the System's and the Fund's financial situation.
- Implement the policy asset allocation within specified ranges approved by the Investment Committee.
- Select and terminate investment managers in accordance with these Guidelines.
- Determine the amount of assets delegated to each investment manager.
- Monitor and report to the Committee Chair and System Staff the performance of each manager, each asset class, and the total portfolio on at least a quarterly basis.
- Communicate to the Investment Committee and System Staff any significant portfolio issues that might arise.
- Administer the Fund's day-to-day investment activities including the movement of funds within the Fund as well as inflows and outflows.
- Prepare all manager documentation for execution. Track and monitor the flow of such paperwork.
- Provide documentation to support the System's audit preparation.

NSHE Investment Committee

- Provide initial input and approve investment policies, guidelines asset allocation targets/ranges and benchmarks.
- Adopt and review at least annually these Guidelines of Investment Policies and Objectives, which establishes eligible investments, asset classes, and policy allocation guidelines.
- Monitor effects of the distribution policy on the Fund and make modifications, as necessary.
- Evaluate and approve of deviations from these Guidelines of Investment Policies and Objectives deemed necessary to support the System's financial objectives.
- Evaluate the performance of the Fund Manager on a periodic basis.

NSHE Finance Department

- Manage the System's relationship with the Fund Managers;
- Manage relationships with financial, legal, tax and audit service providers;
- Authorize/sign off on cash withdrawals out of Fund;
- Work with Fund Manager and Investment Committee on investment program as needed;
- Review monthly custodian statements; and
- Maintain paperwork and manager materials to augment CJA's Audit Support Package for audit preparation.

(B/R 11/18)

POLICY PROPOSAL
TITLE 4, CHAPTER 10, SECTION 6
General Business Management

Additions appear in *boldface italics*; deletions are [~~stricken~~ and bracketed]

Section 6. Statement of Investment Objectives and Policies for the Operating Funds

A. Introduction

1. This statement of investment objectives and policies (*the "Guidelines"*) governs the investment management of the Operating Funds (*collectively the "Fund"*) of the NSHE (*the "System"*). These Guidelines relate to the Fund as a whole. Because the Fund is perpetual, the investment objectives and policies are based on an investment horizon greater than ten years.
2. The Regents are responsible for establishing the investment policies for the Fund. Accordingly, the Regents have promulgated these Guidelines pursuant to which they have established the permitted investment parameters and distribution policy. The Regents will review and revise these Guidelines from time to time as appropriate.
3. The Regents have delegated to the Investment Committee (*the "Committee"*) the management of the Fund within the parameters of these Guidelines. The Committee will be comprised of four Regents appointed by the Chair of the Board of Regents. The Chancellor, the **Chief Financial Officer** [~~vice for budget and finance~~], **or designee** [~~and the director of banking and investments~~] will serve as ex officio nonvoting members of the Committee. The Chair of the Board of Regents will appoint a Chair of the Committee and may appoint one or more individuals with investment knowledge or expertise to serve as nonvoting members of the Committee. The Committee will meet at the discretion of the Committee Chair, but not less than two times during each calendar year during the first and third quarters. Minutes of each meeting of the Committee will be provided to the Regents for acceptance at their next meeting.
4. The Committee will choose an independent investment **advisor** [~~consultant~~] to provide services it deems to be necessary or helpful, including without limitation, advice with respect to manager selection, termination, and evaluation.
5. No member of the Board of Regents and no voting or nonvoting member of the Committee will accept or approve the acceptance by staff or any other person of any gift, travel expense, or other perquisite proffered by an investment manager, the value of which exceeds \$25, without the advance approval of the Committee. Regents and employees of the System are also subject to the Code of Ethical Standards of the State of Nevada promulgated to govern the conduct of public officers and employees, and Regents are also subject to certain additional conflict of interest provisions.

B. Financial and Investment Objectives of Discrete Pools; Investment Policy

1. The long term objective of the Fund is to provide a relatively stable stream of revenue that equals or exceeds the general rate of inflation. The measurement of risk that will be used to determine if the long term objective of the Fund is met with an acceptable level of risk is that the overall return of the Fund, net of fees, should equal or exceed the CPI over rolling periods of ten years.

2. **The long-term objectives of the Fund should align with the following overall Nevada System of Higher Education goals.**

- a. **Increase participation in post-secondary education.**
- b. **Increase student success.**
- c. **Close the achievement gap among underserved student populations.**
- d. **Collaboratively address the challenges of the workforce and industry education needs of Nevada.**
- e. **Co-develop solutions to the critical issues facing 21st century Nevada and raise the overall research profile.**

3[2]. For purposes of investment policy, the Fund will be considered as three discrete pools of funds: a "Short-Term Pool," an "Intermediate-Term Pool," and a "Long-Term Pool."

4[3]. The Short-Term Pool shall be funded in an amount sufficient to meet the expected daily cash requirements of the System, **as determined by the NSHE Chief Financial Officer**. All cash receipts will be deposited into, and all disbursements will be paid from, this Pool. The Short-Term Pool will be invested in fixed income securities generally having an average maturity of one year or less and thus are highly liquid with little risk of principal loss.

5[4]. The Intermediate-Term Pool is intended to provide a liquid source of funds in the unlikely event the Short-Term Pool is insufficient to meet the System's cash needs **and to serve as a reserve for known or contingent obligations with a payout horizon of one to several years, as determined by the NSHE Chief Financial Officer**. Since the Short-Term Pool is funded at an amount sufficient to meet expected cash requirements, the Intermediate-Term Pool will be invested in fixed income securities generally having an average maturity of three years or less in order to take advantage of the higher yields typically paid for longer maturities while still maintaining low risk of principal loss and to diversify the portfolio.

6[5]. The Long-Term Pool includes all available funds not needed to fund the Short-Term or Intermediate-Term Pool. Because the allocation strategy results in a very low likelihood that this pool will be needed to meet cash requirements, the Long-Term Pool will be invested in fixed income securities that lower the volatility and/or enhance the investment performance of the portfolio taken as a whole, decrease market risk and to diversify. These investments may include fixed income, Treasury Inflation Protection Securities (*TIPS*), US and international common stocks, and absolute return strategies. The Committee recognizes that certain non-US securities are not within the jurisdiction of the US courts and may result in the loss of investment monies with no avenue for redress. **Strategic asset allocation targets and benchmarks within the Long-Term Pool shall be developed and recommended by the investment advisor with input from and approval by the Investment Committee.**

7[6]. The Committee will determine at least annually, **with input from the NSHE Chief Financial Officer**, the appropriate size of each pool within the parameters of these Guidelines.

8[7]. The weighted-average credit quality rating of the Fund's investments will generally be at least AA or the equivalent and will never be below A as rated by one or more national credit rating agencies such as Standard & Poor's Rating Services or Moody's Investors Service.

C. Manager Selection, Termination, and Guidelines

1. The Committee shall select external investment managers to manage the assets of the Fund. Subject to these Guidelines, the Committee will have discretion to hire and terminate managers for any reason at any time and to allocate funds among managers. The funds may be managed in a commingled fund or in a separately managed account at the discretion of the Committee. Subject to the manager-specific guidelines referenced in Subsection 7.b and the usual standards of fiduciary prudence and responsibility, the managers will then have complete discretion over the investment of the funds in their respective accounts, including the discretion to vote proxies, the use of soft dollars and how to execute trades. Fees will be set at the time of hiring managers. The Committee may invest in indexed funds if deemed appropriate.
2. Subject to the manager-specific guidelines and the usual standards of fiduciary prudence and responsibility, the managers will then have complete discretion over the investment of the funds in their respective accounts, including the discretion to vote proxies.
3. In hiring and evaluating managers, the Committee will consider the diversification, credit quality, and duration of the portfolio and other appropriate factors.
4. The Committee will provide each manager of a separately managed account with a set of mutually agreed-upon guidelines. Such guidelines will provide that, if at any time the manager believes any policy guideline contained therein adversely affects, or has the potential to adversely affect, its investment performance or would prevent the manager from handling the System's portfolio in a manner similar to the firm's other discretionary accounts with a similar investment objective, it is the responsibility of the manager to communicate this view to the System's staff in a timely fashion. Additionally, such guidelines will require the managers to inform the System's staff promptly of any change in firm ownership or fundamental investment philosophy, any significant change in organizational structure or professional personnel, and any change in portfolio manager(s) for the System's account. The Committee acknowledges that managers of commingled funds are unable to respond to specific guidelines. The Committee will maintain and review periodically descriptions of the investment policies and practices of managers of commingled funds to ensure that the Committee understands such policies and practices and has determined that they are within the spirit of these Guidelines. The matters reviewed will include without limitation the managers' policies and practices with respect to risk control generally and derivatives, non-dollar denominated securities, and securities lending.
5. ***The Committee has discretion to terminate any manager at any time if it determines, for whatever reason, that the manager is no longer appropriate for the Fund. Any decision to terminate a manager will normally be based on long-term, i.e., over a full market cycle, investment performance as well as other relevant factors. If a manager experiences an organizational change (including but not limited to loss of a key person, legal/regulatory action, etc.) that prompts the investment advisor to recommend terminating the manager before the next Committee meeting, the Committee delegates authority to the NSHE Finance Department to approve such termination, with written notice to the Committee.***

D. Monitoring of Objectives and Results

1. The Committee will review these investment objectives and policies at least once every two years for their continued appropriateness.
2. The Committee will review the strategic allocations at least annually. At this time a modeling of investment returns will be performed to determine what expected returns the current strategy should produce.
3. At least annually, the Committee will determine if any rebalancing of actual allocations should be made. ***Between Committee meetings, the Committee delegates authority to the NSHE Finance Department to approve rebalancing recommendations made by the investment advisor for transactions between existing managers in the Fund, provided that the resulting asset allocation exposures fall within previously established policy ranges. No advance written notice to the Committee shall be required for such rebalancing transactions, but such rebalancing transactions shall be reported to the Committee at the subsequent Committee meeting.***
4. The System's staff will obtain monthly investment performance reports from each manager. The Committee shall have prepared and shall review, at least two times per year, an investment performance report setting forth the asset allocation of the total Fund and the investment returns for individual manager accounts and for the Fund. The returns shall be calculated on a time-weighted basis net of manager fees for the most recent quarter for which data are available and any other short-term periods that the Committee may select, including fiscal-year returns when such data are available. The Committee shall select an appropriate benchmark for each manager. The Committee will use the short-term performance data to monitor the fund and the managers for consistency of investment philosophy, returns relative to objectives and investment risk. Risk will be evaluated as a function of asset concentration, exposure to extreme economic conditions and performance volatility. At least one performance report each year shall include data for such longer periods of times as are specified herein. Regular communication ***by the investment advisor*** with the managers concerning investment strategy and outlook is expected. ~~[Any decision to terminate a manager will normally be based on long term, i.e., over a full market cycle, investment performance as well as other relevant factors.]~~
5. The Committee will periodically review the related services provided to the System, including securities custody, performance evaluation, and ***investment advisory services*** ~~[consulting]~~. Fees for these services will be explicitly stated in the contract.

E. Derivatives Policy; Securities Lending; Non-Dollar Denominated Securities

1. Investment managers may utilize derivative securities only in a manner consistent with the policies described below.
2. The primary intent of derivative security transactions should be to hedge risk in portfolios or to implement investment strategies more efficiently and at a lower cost than would be possible in the cash market. Derivative securities primarily include interest rate futures, options on interest rate futures, currency futures and forwards, international interest rate futures, and collateralized mortgage obligations. Derivatives will generally not be used to leverage portfolios. Derivatives-based investment strategies should not expose the portfolios to greater risk than would be typical under a strategy utilizing only cash securities. For example, derivative strategies should not be used to alter the effective duration of the portfolio beyond the appropriate ranges. The Committee may make

exceptions to these general parameters in the case of particular managers or funds, provided that any exceptions pertaining to separately managed accounts will be referenced in the applicable manager specific guidelines.

3. No agreement to engage in a securities lending or directed brokerage program will be entered into without the prior approval of the Committee.
4. The policy with respect to non-dollar denominated securities will be specified in the applicable manager specific guidelines or, in the case of commingled funds, will be reviewed periodically by the Committee as provided in Section 6 (c) 4[3].
5. The Committee expects that its investment managers will have in place processes and procedures to control and measure risk.

F. Distribution Policy

1. It is the policy of the Board of Regents to pool all NSHE cash assets for investment in accordance with guidelines stated in Section 6 of this Chapter.
2. Except as provided herein, effective July 1, 1996, the NSHE Banking and Investment Office will, on a monthly basis, make a distribution to all NSHE institutions an amount equal to a set percentage of the institutions' average daily cash balance.
 - a. The allocation by the Board of Regents to the institutions is established with the understanding that each institution will assume responsibility for the cash basis payment of all expenses not provided for by the state appropriated budgets including, but not limited to, employment perquisites, interview and recruiting expenses and litigation expenses.
3. Distributions from the Fund will be made monthly at an appropriate rate as determined by the Committee. In order to minimize the potential for a shortfall relative to expectations, the Committee will establish a spending rate on a biannual basis to allow the institutions to develop their biannual budgets with greater certainty. Each quarterly period, the Committee Chair will review the rate relative to the investment outlook and current surplus or deficit to consider its continued appropriateness.
4. The distribution policy is administered by the Banking and Investment Office in accordance with the Uniform Management of Institutional Funds Act, adopted by the Regents on August 30, 1984 in accordance with the authority granted to them by *Nevada Revised Statutes* (NRS) 396.380 and NRS 396.420 to control and invest the System's funds.
5. A market fluctuation account may be established within the Fund. The account may be utilized to finance monthly distributions to NSHE institutions when the operating pool is unable to generate sufficient investment income on a temporary basis due to market downturns or other equivalent events. Funds may be deposited into the account through a transfer from the reserve balance in the operating pool or through a portion of the monthly distribution allocated to the institutions from the operating pool. The account shall not exceed an amount equal to 10 percent of the balance of the operating pool. All funds deposited into or transferred out of the account require the approval of the Board of Regents upon recommendation of the Chancellor and the Investment Committee.

(B/R 11/18)