

Endowment OCIO Update – Executive Summary

- For the calendar year through August 31, 2020, the NSHE Endowment returned a *preliminary* -1.8%. (Private Investments are as of 3/31/2020, due to the manager reporting lag). This brings the NSHE Endowment *preliminary* return to +5.5% annualized since inception of the OCIO track record, underperforming the Policy Benchmark by 20 bps. The breakdown by sleeve is as follows:
 - +6.5% - Cambridge Associates (lagging benchmark by 30 bps)
 - +4.0% - Russell Investments (lagging benchmark by 290 bps)
 - +5.7% - Legacy Assets (leading benchmark by 820 bps)

Endowment OCIO Update – Executive Summary (*cont'd*)

- Per the Endowment’s Investment Policy Statement, it is important to *monitor* returns on an ongoing basis and *evaluate* portfolio returns and risk over time periods that are suitably long for the long-term investment strategy of this perpetual pool. The selloff in early CY2020 has dragged down the NSHE Endowment 10-year return to 4.8%, 30bps behind the Policy Benchmark and 10bps behind similarly sized peers.
- At the Committee’s request, an accounting of manager/OCIO fees paid in CY2019 from the Endowment is as follows:

	C A Managed Assets		Legacy Assets	
	(\$,000)	(%)	(\$,000)	(%)
C A OCIO fee	\$ 340	0.30%	---	---
Custody fees	\$ 16	0.014%	\$ 4	0.014%
<i>Investment manager fees:</i>				
Annual management fees	\$ 916	0.80%	\$ 271	0.84%
Incentive fees	\$ 535	0.47%	\$ (64)	-0.20%

B. Asset Allocation and Guideline Compliance:

- The Total Endowment (encompassing C|A, Russell and Legacy Assets) is in compliance with all investment guidelines and restrictions [with the sole exception that one manager has breached the 10% manager concentration limit in CA Managed Assets as a result of strong performance. CA has already submitted paperwork to trim the position at its next quarterly redemption window on September 30, to bring the position back into compliance.](#)
- Within the C|A Portfolio, we continue to rebalance to stay fairly close to long-term policy targets, with modest deviations. The portfolio is currently positioned slightly defensively, with an overweight to Fixed Income & Cash offset by an underweight to Real Assets. The Growth and Diversifier allocations are roughly in-line with targets.

Updated with performance
through 8/31

8/31/2020 Performance Is Still Preliminary Due to Private Investments Reporting Lag

Returns (%)	INCEPTION DATE	MARKET VALUE AS OF AUG 2020 (\$ MM)	FISCAL YEAR TO DATE JUNE	CALENDAR YEAR TO DATE	ANNUALIZED SINCE MAR 2017	ANNUALIZED TRAILING 10 YEARS	ANNUALIZED SINCE INCEPTION
Total Endowment*	6/30/1984	\$259.3	6.3	-1.8	5.5	6.8	9.5
Policy Benchmark ²	6/30/1984		6.2	-2.7	5.7	7.3	9.4
Total C A Managed Assets Net of Fees*	11/30/2016	\$121.2	8.1	1.4	6.5	---	7.8
C A Normalized Benchmark ²	11/30/2016		7.4	0.9	6.9	---	---
Value Add			0.8	0.5	-0.3	---	---
Total Russell Managed Assets	12/31/2016	\$108.0	6.1	-2.6	4.0	--	4.6
Russell Normalized Benchmark ²	12/31/2016		6.8	1.3	6.9	---	---
Value Add			-0.7	-3.9	-2.9	---	---
Total Legacy Assets*	11/15/1998	\$30.0	0.0	-11.2	5.7	9.4	10.6
Legacy Benchmark ²	11/30/1998		0.0	-25.3	-2.5	--	---
Value Add			0.0	14.1	8.2	---	---
Other Legacy Assets*	11/30/2012	\$1.5	-0.1	-4.0	-0.5	--	3.1
Legacy Private Growth*¹	11/15/1998	\$23.2	---	---	---	---	---
Legacy Private Natural Resources*¹	11/15/1998	\$5.4	---	---	---	---	---

US Department of State Letter on Chinese Stocks

- On August 18, the US State Department sent a letter to the boards of US colleges and universities warning them of Chinese influence on campuses. The letter also highlighted the risks of owning Chinese equities and suggested endowments divest from Chinese companies listed in the United States (which could theoretically be held by NSHE managers) as well as Chinese companies placed on the US Commerce Department’s “Entity List” (which are not publicly traded and therefore not a risk for NSHE).
- If the US government escalates from just suggesting to actually mandating divestment from Chinese securities publicly-listed in the US, the companies likely will seek local listings (e.g., on Hong Kong or Singapore exchanges), if they are not doing so already. The compliance timeline for managers looks likely to be December 2021, giving managers ample time to comply and reducing the risk of adverse impact on any manager’s portfolio. *(For more detail, please see our CA Minute publication on the following page.)*
- CA has reached out to all public equity and hedge fund managers that we recommend for client portfolios and has thus far collected responses from over 500 of them. Exposure appears relatively contained; the six Chinese companies that appear in portfolios most often are Alibaba, Baidu, JD.com, NetEase, Yum China, and Autohome.
- NSHE has *de minimis* exposure to the US-listed Chinese companies in question:
 - **Operating Fund:** none
 - **Endowment:** we have identified only 8 out of 36 managers with any exposure, which ranges from 0.1%-16.1% of their respective portfolios, implying total CA Managed Assets exposure of 0.8%. (We are still awaiting response from 12 managers, but we expect any potential exposure to be similarly miniscule.)

Racial Equity Investing – Overview & Operating Fund Recommendation

- Cambridge Associates recently published a report, *Racial Equity Investing: the Time is Now* (included in the Appendix for reference). We believe racial inequities pose both risks and opportunities for society as a whole, as well as for investment portfolios. We have identified a broad range of investment opportunities to support systemic solutions to these systemic challenges.
- We recommend a \$25 million investment to RBC Access Capital Community Investment in the Intermediate-Term Pool of the Operating Fund, funded by trimming WellsCap Short Duration.
 - RBC Access Capital is a high-quality, transparent product that supports low- and moderate-income (LMI) communities, primarily through AAA-rated government/agency-backed mortgage securities. The strategy has no exposure to subprime and does not invest in hybrids or adjustable-rate mortgages.
 - Ron Homer, the African American founder and chief strategist of the Access strategy, has built deep networks since the 1990s with Community Development Financial Institutions (CDFIs) across the US to source investments that deliver positive impact to underserved populations.
 - Notably, Access investors can customize their geographic exposures (e.g., within Nevada, or even select census tracts within Nevada) and tilt portfolios toward certain impact targets (e.g., housing, education and/or racially diverse neighborhoods).
- Separately, Cambridge Associates is currently engaging with a minority-owned asset manager on potentially launching a fund to passively track the S&P 500 Index.
 - The NSHE Operating Fund currently has \$200 million invested in Vanguard Institutional Index with an ultra-low total annual expense ratio of 0.02% (which is made possible by Vanguard's massive assets and economies of scale). A new fund from a smaller firm would likely need to charge a relatively higher expense ratio to be economically viable.
 - We welcome direction from the Committee on whether an incremental fee might be palatable to seed such an opportunity for a minority-owned manager. For example, if NSHE were to invest \$100 million, a hypothetical 0.05% increase in the expense ratio would translate to an incremental \$50,000 of fees paid out of the Operating Fund per year.

RBC Access Capital Community Investment Strategy – Overview

Firm and Strategy Summary

- The RBC Access Capital Community Investment Strategy predominately invests in low-income single-family mortgage backed securities (MBS), multifamily MBS, asset-backed securities, and Agency bonds. The goal is to support low- and moderate-income homebuyers and renters, education, healthcare, and job creation in underserved communities.
- The strategy seeks to outperform the Barclays Capital US Securitized Index by investing in securities with slower prepayment profiles, stable cash flows, and AAA guarantor diversification with attractive yields and option-adjusted spreads.
- The total expense ratio is 0.53% for the mutual fund vehicle, or (with a \$25 million minimum investment) 0.4% plus custody expense for a separate account. [We recommend the separate account vehicle to benefit from lower fees and greater customization options.](#)

Investment Case

- Ronald Homer, the African American founder and Chief Strategist of the Access Strategy, has sourced and invested in community-targeted fixed income investments since 1998 and has built strong networks in this space.
- This is a team-managed product with a strong leader in PM Scott Kirby. While he and co-PM Brian Svendahl are ultimately responsible for the portfolio's success, the entire team contributes to sourcing and researching securities.
- Access provides exposure to fixed income sectors not typically included in traditional bond mandates, including multifamily MBS and taxable municipal bonds (although the exposure to munis is small – typically less than 5% and only 3% as of March 2020).

Mission Alignment

- RBC Access accounts can be customized by geography, income demographic, or mission – such as housing, jobs, or education. The manager also provides custom impact reporting.
- Access has also created partnerships with Community Development Finance Institutions (CDFIs) to enhance community-based organizations. For example, the firm has a partnership with Community Reinvestment Fund (CRF) to invest in Federal Housing Administration (FHA) risk-share and SBA loans.
- From its inception through year-end 2019 the strategy had funded the following:
 - 17,735 low- to moderate-income (LMI) home buyers
 - 93,024 affordable rental units
 - 6,071 nursing home facility beds
 - 27 rural housing projects
 - 101 rural enterprise projects
 - 574 SBA loans
 - 132 community economic development loans
 - 17 non-profit organization loans

Impact Snapshot

Metropolitan Gardens Apartments – Reno, NV

- Section 8 assisted living for low-income seniors and the disabled.
- Residency is restricted to persons who earn 50% of the Area Median Income (AMI) or less and tenant contribution is set at 30% of a tenant's income.
- Conveniently located in downtown Reno, close to public transportation.

RBC Access Capital Community Investing offers complementary exposure to Wells Montgomery in the Intermediate-Term Pool

	Current Manager	Prospective Manager
Firm	Wells Fargo Asset Management	RBC Global Asset Management
Firm Founded	1981	1959
Firm Assets	\$ 483,532.42 M (as of 06/30/2020)	\$ 331,408.04 M (as of 03/31/2020)
Location	San Francisco, CA	Toronto, Ontario, Canada
Product/Strategy	WFAM Montgomery U.S. Short Duration Fixed Income Strategy	RBC Access Capital Community Investing Strategy
Investment Philosophy/Strategy	Short-Term	Mortgage-Backed
Index	BBG Barc 1-3 Yr Govt Bond Index	BBG Barc US Securitized Bond Index
Product/Strategy Inception Date	01/01/1993	06/30/1998
Product/Strategy Assets	\$ 3,362.15 M (as of 06/30/2020)	\$ 1,267.48 M (as of 03/31/2020)
Vehicle and Fees	Separately Managed Account	Separately Managed Account
Fund	Wells Fargo Short Duration Government Bond Fund	Access Capital Community Investment Fund
Fee Description	Share Class: Institutional	Separate Accounts
Total Annual Expenses	0.420% on first \$15 M 0.300% on next \$85 M 0.250% on next \$100 M 0.200% on next \$550 M 0.150% over \$750 M*	0.4% plus custody
Exit	Daily, on any business day, with no required notice.	Daily, on any business day, with no required notice.

C | A *Implies a blended fee of 0.3% on 7/31 market value of ~\$141m.