



Executive Summary

EXECUTIVE SUMMARY

Operating Fund Performance and Asset Allocation as of August 31, 2020

For the calendar year through August 31, 2020, the Operating Fund posted a return of 5.4%, outpacing the Policy Index return of 4.3%. The Total Long-Term Pool returned 5.5% for the period, slightly underperforming the Total Long-Term Pool Benchmark return of 5.8%. U.S. Equity led performance on an absolute basis with a 9.8% return, while the Global ex U.S. Equity had the highest relative performance of 90 bps over the MSCI EAFE Index.

For the fiscal year ending June 30, 2020, the Total Operating Fund posted a return of 4.0%, outperforming the Policy Index by 10 bps. The Total Long-Term Pool returned 4.1% for the fiscal year, slightly below the Long-Term Pool Benchmark return of 4.6%. Long-Term Bonds posted the highest absolute return of 8.6%. On a trailing ten-year basis, the Total Operating Fund has generated an annualized return of 5.1%, performing in-line with the Policy Index; since inception, the Total Operating Fund has generated an annualized return of 4.9%, outperforming the Policy Index by 40 bps.

At the Committee's request, an accounting of manager/OCIO fees paid in CY2019 from the Operating Fund is as follows:

Operating Fund

	(\$,000)	(%)
C A Advisory fee	\$ 50	0.01%
<i>Investment manager fees:</i>		
Annual management fees	\$ 1,339	0.15%
Incentive fees	\$ (9)	0.00%

As of August 31, 2020, adjusted for estimated returns through September 21 and pro forma for pending and recommended transactions, the Long-Term Pool has a slight underweight to Total Equities (including Opportunistic) and Long-Term Bonds, with an offsetting overweight to TIPS. We are comfortable with positioning within the Long-Term Pool and recommend no rebalancing at this time.

August transactions to move \$73.0m from the Long-Term Pool to Intermediate Term Bonds were completed on August 25 following the Board's motion on August 21.

Operating Fund Return Projections

As shown in the following pages, while the Operating Fund Policy has a 3.8% expected real compound return over the long term (i.e., 25+ years), there is a wide range of potential outcomes, particularly over shorter time periods. For example, over any given 3-year period, the Operating Fund has a 50% likelihood of a real return between 0.9% and 6.7%, with a 25% likelihood of returns either above or below this range.



NSHE Operating Fund - Portfolio Estimates

	Allocation as of Aug 31, 2020		9/1/2020 - 9/21/2020 Est Perf (%)	Estimated Allocation as of Sep 21, 2020		Recommendations (C A)		Pro Forma Allocation		Current Targets	Allowable Range
	Assets (\$ mm)	Allocation (%)	(%)	Assets (\$ mm)	Allocation (%)	(\$ mm)	(%)	Assets (\$ mm)	Allocation (%)	(%)	(%)
U.S. Equity											
Vanguard Institutional Index	\$199.6	40.4%	-6.2%	\$187.2	39.3%			\$187.2	39.3%		
Total U.S. Equity	\$199.6	40.4%	-6.2%	\$187.2	39.3%	---	---	\$187.2	39.3%	40.0%	33%-50%
Global ex U.S. Equity											
Vanguard Developed Markets Index	130.7	26.5	-2.9	126.9	26.6			\$126.9	26.6		
Total Global ex U.S. Equity	\$130.7	26.5%	-2.9%	\$126.9	26.6%	---	---	\$126.9	26.6%	27.0%	17%-30%
Marketable Alternatives											
Farallon Capital	1.9	0.4	0.1	1.9	0.4			\$1.9	0.4		
Total Marketable Alternatives	\$1.9	0.4%	0.1%	\$1.9	0.4%	---	---	\$1.9	0.4%	0.0%	
TOTAL EQUITIES	\$332.2	67.3%	-4.8%	\$316.1	66.3%	---	---	\$316.1	66.3%	67.0%	50%-80%
TIPS											
Vanguard Inflation-Protected Securities	100.3	20.3	-0.5	99.8	20.9			\$99.8	20.9		
Total TIPS	\$100.3	20.3%	-0.5%	\$99.8	20.9%	---	---	\$99.8	20.9%	20.0%	8%-25%
Long Term Bonds											
PIMCO Total Return	40.0	8.1	0.0	40.0	8.4			\$40.0	8.4		
Wells Capital Montgomery	20.9	4.2	0.0	20.9	4.4			\$20.9	4.4		
Total Long Term Bonds	\$60.9	12.3%	0.0%	\$60.9	12.8%	---	---	\$60.9	12.8%	13.0%	8%-25%
TOTAL LONG-TERM POOL	\$493.4	100.0%	-3.4%	\$476.8	100.0%	---	---	\$476.8	100.0%	100.0%	
<i>Estimated MTD investment gain/(decline)</i>				-\$16.6							
Intermediate Term Bonds											
WellsCap Short Duration *	68.6		-0.0	141.6		Recommendations (NSHE Staff)		141.6			
Total Intermediate Term Bonds	\$68.6		0.0%	\$141.6		---		\$141.6			
<i>Estimated MTD investment gain/(decline)</i>				---							
Short Term Bonds and Cash											
Short Term Bonds and Cash *	228.6		---	138.2				138.2			
Total Short Term Bonds and Cash	\$228.6		---	\$138.2		---		\$138.2			
TOTAL OPERATING FUND	\$790.6		-2.1%	\$756.6		---		\$756.6			

Note: Market values as of 9/21/2020 are estimated using manager preliminary or mutual fund returns or (if highlighted in peach) index proxies. Actual client-specific returns may ultimately differ from managers' fund-level preliminary estimates. Cash accounts assume a 0% return for the period.

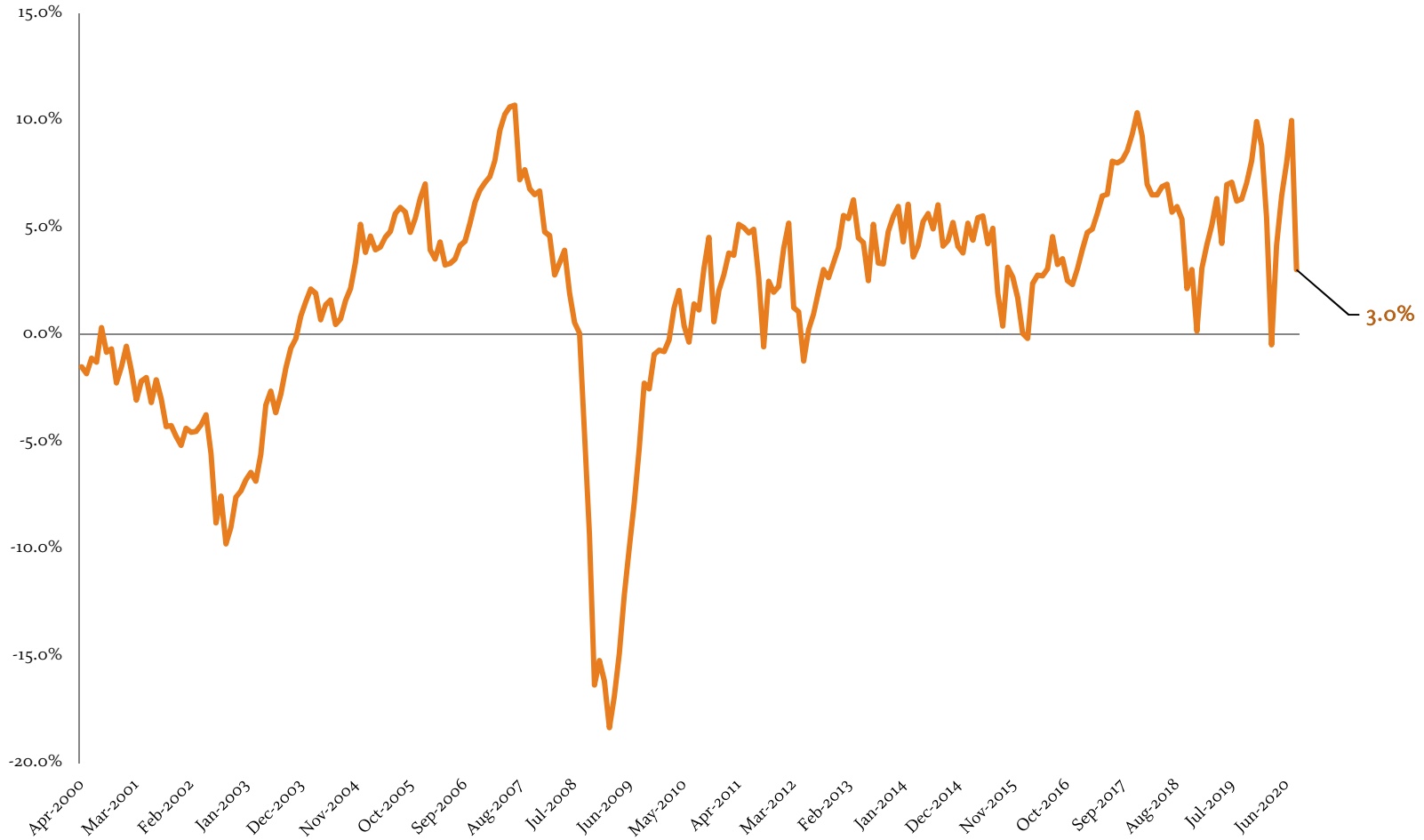
* Estimated allocation to Intermediate Term Bonds is adjusted for \$73mm addition in early September. Est. Short Term Bonds and Cash balance provided by Sytem staff as of 9/21/2020.

Investment Performance by Composite

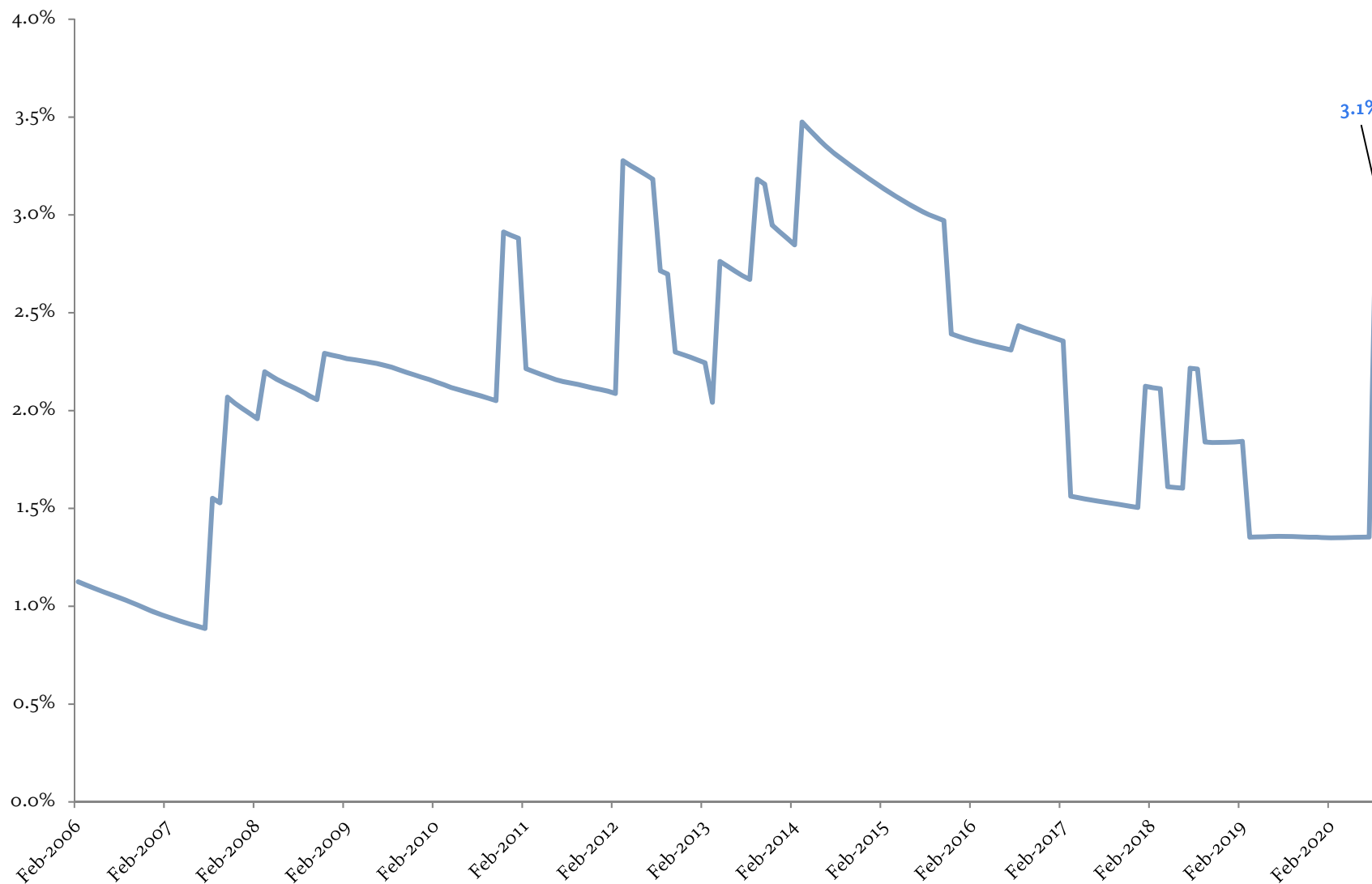
As of 8/31/2020

Returns (%)	INCEPTION DATE	CURRENT MARKET VALUE	FISCAL YEAR TO DATE JUN	CALENDAR YEAR TO DATE	ANNUALIZED TRAILING 5 YEARS	ANNUALIZED TRAILING 10 YEARS	ANNUALIZED SINCE INCEPTION
Total Long-Term Pool*	6/30/1996	\$493,419,537	8.3	5.5	8.7	8.5	6.9
<i>Long-Term Pool Benchmark1</i>	<i>6/30/1996</i>		<i>8.1</i>	<i>5.8</i>	<i>8.6</i>	<i>8.5</i>	<i>6.0</i>
<i>Value Add</i>			<i>0.1</i>	<i>-0.3</i>	<i>0.1</i>	<i>0.0</i>	<i>0.9</i>
U.S. Equity	6/30/2000	\$199,555,550	13.3	9.8	14.5	15.2	6.8
<i>S&P 500 Index</i>	<i>6/30/2000</i>		<i>13.2</i>	<i>9.7</i>	<i>14.5</i>	<i>15.2</i>	<i>6.5</i>
<i>Value Add</i>			<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.0</i>	<i>0.2</i>
Global ex U.S. Equity	6/30/2000	\$130,721,379	7.9	-3.7	5.7	5.9	3.5
<i>MSCI EAFE Index (N)</i>	<i>6/30/2000</i>		<i>7.6</i>	<i>-4.6</i>	<i>4.7</i>	<i>5.9</i>	<i>3.3</i>
<i>Value Add</i>			<i>0.3</i>	<i>0.9</i>	<i>1.0</i>	<i>-0.0</i>	<i>0.2</i>
Marketable Alternatives*	6/30/2000	\$1,927,769	-0.2	-10.5	0.2	1.4	4.9
<i>HFRI Fund of Funds Diversified Index</i>	<i>6/30/2000</i>		<i>4.2</i>	<i>3.2</i>	<i>2.7</i>	<i>3.2</i>	<i>3.3</i>
<i>Value Add</i>			<i>-4.3</i>	<i>-13.7</i>	<i>-2.5</i>	<i>-1.8</i>	<i>1.6</i>
<i>Blend: BofA ML T-Bill + 6%</i>	<i>6/30/2000</i>		<i>1.0</i>	<i>4.6</i>	<i>7.2</i>	<i>6.6</i>	<i>7.6</i>
<i>Value Add</i>			<i>-1.2</i>	<i>-15.1</i>	<i>-7.0</i>	<i>-5.2</i>	<i>-2.7</i>
TIPS	6/30/2000	\$100,343,910	3.3	9.6	4.5	3.5	5.5
<i>BBG Barc US TIPS Index</i>	<i>6/30/2000</i>		<i>3.4</i>	<i>9.6</i>	<i>4.6</i>	<i>3.7</i>	<i>5.6</i>
<i>Value Add</i>			<i>-0.1</i>	<i>-0.0</i>	<i>-0.1</i>	<i>-0.2</i>	<i>-0.1</i>
Long-Term Bonds	6/30/1996	\$60,870,930	1.3	7.5	4.5	3.9	6.1
<i>BBG Barc Aggregate Bond Index</i>	<i>6/30/1996</i>		<i>0.7</i>	<i>6.9</i>	<i>4.3</i>	<i>3.7</i>	<i>5.4</i>
<i>Value Add</i>			<i>0.6</i>	<i>0.6</i>	<i>0.2</i>	<i>0.3</i>	<i>0.8</i>

Reserve/(Deficit) as % of Total Operating Pool



5-Yr Special Distribution as % of 5-Yr Average Market Value



NEVADA SYSTEM OF HIGHER EDUCATION
RESERVE ACCOUNT ANALYSIS
April 2000 - August 2020

	<u>Operating Fund</u>	<u>Investment Income</u>	<u>Investment Income</u>	<u>Reserve Account</u>	<u>Reserve/(Deficit) as %</u>
	<u>Market Value*</u>	<u>Earned</u>	<u>Distributed</u>	<u>Ending Balance</u>	<u>of Total Operating Fund</u>
Apr-2017	887,806,037	7,463,148	- 1,217,247	50,184,988	5.65
May-2017	887,269,645	8,464,067	- 1,198,145	57,369,255	6.47
Jun-2017	847,739,260	675,163	- 1,143,788	55,459,088	6.54
Jul-2017	813,856,671	10,359,659	- 1,076,066	65,797,343	8.08
Aug-2017	839,204,422	2,535,845	- 1,066,881	67,230,046	8.01
Sep-2017	881,692,900	5,616,527	- 1,202,797	71,754,200	8.14
Oct-2017	901,627,087	6,727,263	- 1,229,105	77,279,939	8.57
Nov-2017	897,702,172	7,822,907	- 1,153,420	83,851,878	9.34
Dec-2017	855,516,473	5,905,871	- 1,073,414	88,582,274	10.35
Jan-2018 ^[17]	870,092,454	18,446,268	- 1,084,399	80,652,619	9.27
Feb-2018	895,531,308	- 16,708,736	- 1,163,952	62,862,530	7.02
Mar-2018	866,802,937	- 5,188,184	- 1,208,065	56,484,006	6.52
Apr-2018	869,750,629	1,383,567	- 1,207,801	56,632,529	6.51
May-2018	868,282,529	4,480,231	- 1,010,580	59,885,226	6.90
Jun-2018	828,275,019	504,749	- 1,105,523	58,061,099	7.01
Jul-2018 ^[18]	781,211,535	11,568,283	- 1,004,059	44,605,676	5.71
Aug-2018	810,642,123	4,837,891	- 1,076,126	48,410,834	5.97
Sep-2018	879,381,343	- 14,451	- 1,137,144	47,294,965	5.38
Oct-2018	843,212,368	- 27,059,717	- 1,137,144	18,072,015	2.14
Nov-2018	762,699,933	6,136,519	- 1,136,756	23,111,191	3.03
Dec-2018	752,705,668	- 20,825,049	- 1,078,367	1,167,391	0.16
Jan-2019 ^[19]	753,528,570	23,632,965	- 1,096,327	23,296,550	3.09
Feb-2019	754,807,467	9,824,828	- 1,452,664	31,564,140	4.18
Mar-2019	761,309,536	9,279,311	- 1,515,302	38,857,044	5.10
Apr-2019	764,955,436	11,312,489	- 1,614,169	48,487,968	6.34
May-2019	774,616,352	- 13,890,657	- 1,571,635	32,952,377	4.25
Jun-2019	746,443,912	21,045,778	- 1,567,035	52,205,793	6.99
Jul-2019	720,007,773	381,944	- 1,395,492	51,172,462	7.11
Aug-2019	785,158,884	- 779,722	- 1,450,754	48,914,638	6.23
Sep-2019	846,535,697	6,233,348	- 1,617,017	53,507,273	6.32
Oct-2019	856,744,736	8,834,730	- 1,693,946	60,625,110	7.08
Nov-2019	850,439,695	10,005,189	- 1,662,312	68,946,980	8.11
Dec-2019	806,757,327	12,830,074	- 1,577,866	80,177,860	9.94
Jan-2020	891,688,604	- 67,519	- 1,500,526	78,625,336	8.82
Feb-2020	922,289,270	- 26,731,149	- 1,768,312	50,103,331	5.43
Mar-2020	811,327,908	- 52,289,889	- 1,670,447	- 3,927,762	-0.48
Apr-2020	775,956,294	37,779,458	- 1,594,553	32,236,898	4.15
May-2020	762,669,298	18,944,864	- 1,504,025	49,410,102	6.48
Jun-2020	739,239,986	11,363,713	- 1,436,870	59,317,547	8.02
Jul-2020	715,432,013	13,526,497	- 1,367,936	71,458,484	9.99
Aug-2020 ^[20]	750,071,933	24,059,497	- 1,362,878	22,672,930	3.02

* Average Market Value for the month
See endnotes at the end of this exhibit

**NEVADA SYSTEM OF HIGHER EDUCATION
RESERVE ACCOUNT ANALYSIS
April 2000 - August 2020**

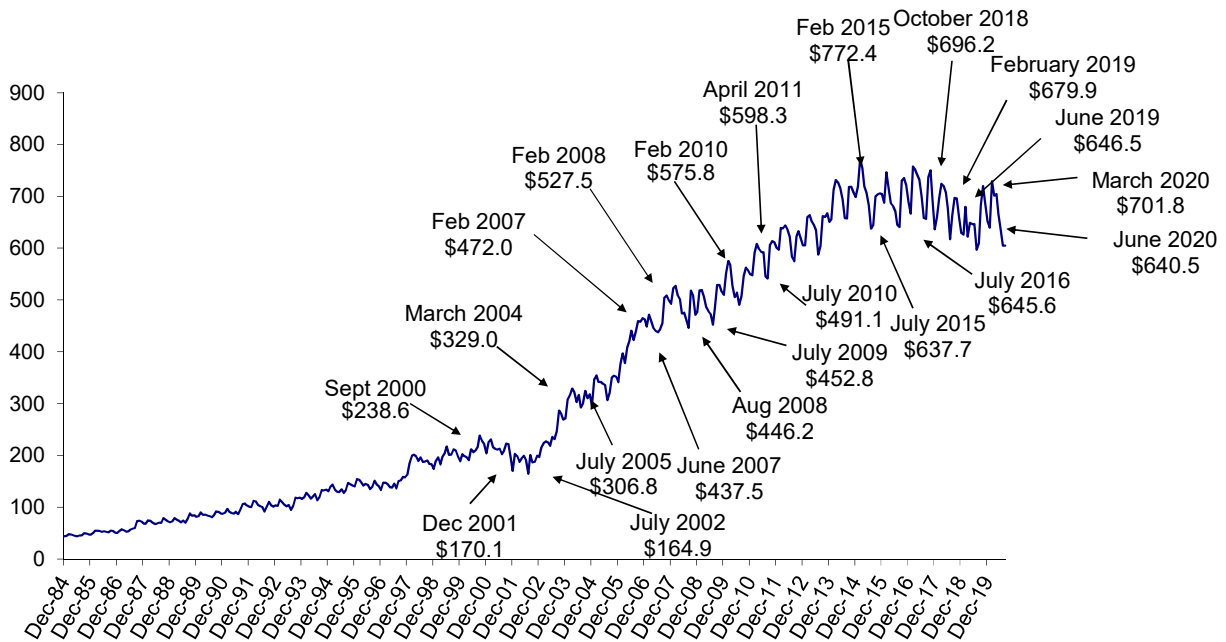
<u>Operating Fund</u> <u>Market Value*</u>	<u>Investment Income</u> <u>Earned</u>	<u>Investment Income</u> <u>Distributed</u>	<u>Reserve Account</u> <u>Ending Balance</u>	<u>Reserve/(Deficit) as %</u> <u>of Total Operating Fund</u>
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ENDNOTES

- [1] New Board policy to distribute 5.0% of the average cash balance was approved at the March 2000 Investment Committee meeting, and made retroactive to January 2000. A special cash distribution was made in April to adjust the year to date campus investment income allocation.
- [2] Annual distribution rate increased to 6.2%.
- [3] Annual distribution rate cut to 5.0%, effective July 2001.
- [4] Annual distribution rate cut to 4.0%, effective January 1, 2002.
- [5] Annual distribution rate cut to 3.5%, effective July 1, 2002.
- [6] At the Oct 2002 mtg, the Committee established a "trigger" point for the Operating Fund. The distribution rate would be automatically reduced to 1.8% should the reserve account deficit exceed \$20M.
- [7] Includes a \$15.0 mm distribution to the iNtegrate project.
- [8] Includes a distribution of \$10.0 mm to the campuses, \$1.5 mm to Health Science, and \$107,000 to WNC for Athletic Fee Waiver.
- [9] Includes a distribution of \$10.0 mm to the campuses.
- [10] Includes a distribution of \$5.2 mm to integrate.
- [10.5] Includes a distribution of \$5.0 mm to the campuses.
- [11] Includes a distribution of \$20.0 mm to the iNtegrate project, as approved by the Investment Committee at the December 2010 meeting.
- [12] At the March 2012 meeting, the committee approved to decrease the Reserve Account by \$30.0 mm for reallocation into the Market Fluctuation acc
- [13] Includes a further decrease of the Reserve Account of \$20.0 mm for reallocation into the Market Fluctuation account.
- [14] Includes a distribution of \$15.0 mm to address formula implementation and budgetary items otherwise foregone or delayed without this funding.
- [15] Includes a distribution of \$20.0 mm to the iNtegrate project.
- [16] Includes a distribution of \$5.0 mm for campus initiatives such as the medical education transition in Las Vegas, program start-up and other budgetary opportunities.
- [17] Includes a special distribution of \$25.0 mm to the campuses.
- [18] Includes a special distribution of \$25.0 mm to the campuses.
- [19] At the November 2018 meeting, the Committee increased the annual distribution rate from 2.0% to 2.75%.
- [20] At the special meetign on 8/21/20, the BOR approved a special distribution of \$71.5 million to the campuses.

NEVADA SYSTEM OF HIGHER EDUCATION OPERATING FUND AVERAGE DAILY CASH BALANCES

Operating Fund Average Daily Cash Balances
January 1985 through August 2020



	<u>\$ (mm)</u>	<u>Date</u>
Largest Monthly Decline	-59.4	July 2018
Largest Quarterly Decline	-100.3	Fourth Quarter 2017
Largest Peak to Valley	-134.7	February 2015 - July 2015