



Executive Summary

EXECUTIVE SUMMARY

Action Items

We recommend moving \$25 million (~25% of the current Vanguard Inflation Protected Securities position) into the Vanguard **Short-Term** Inflation-Protected Securities Index. The rationale for this change is to reduce sensitivity to potential increases in interest rates, with the added benefit of modestly reduced management fees (from 7 basis points to 4bps).

In our Endowment materials we provide more detail on the Metis US Equity Index recommendation (which relates to both the Endowment and Operating Fund).

In addition to the recommendations above, the updated rebalancing table following this Executive Summary reflects the following rebalancing recommendations:

- Trim public equities to harvest strong recent gains and rebalance Equities back toward policy targets:
 - \$10 million trim from Vanguard Institutional Index
 - \$10 million trim from Vanguard Developed Markets Index
- Rebalance TIPS & Long-Term Bonds back toward policy targets:
 - \$10 million addition to Vanguard Short-Term Inflation-Protected Securities
 - \$10 million addition to PIMCO Total Return

Operating Fund Performance and Asset Allocation as of February 28, 2021

For the fiscal year through February 28, 2021, the Operating Fund posted a return of 11.4%, outperforming the Policy Index by 90 bps. The Total Long-Term Pool returned 17.0% for the period, underperforming the Total Long-Term Pool Benchmark return of 17.7% due primarily to the absence of small-cap US equities, which have strongly outperformed in the continued market rally. Global ex U.S. Equity led performance on an absolute and relative basis, returning 25.3% compared to the MSCI EAFE Index's return of 23.0%.

For the calendar year ending December 31, 2020, the Total Operating Fund posted a return of 10.4%, outperforming the Policy Index by 110 bps. The Total Long-Term Pool returned 13.4% for the calendar year, lagging the Long-Term Pool Benchmark return by 90bps due primarily to the absence of small-cap US equities, which strongly outperformed in the Q4 market rally. (We should note that US Equity still posted the highest absolute return of 18.5% for the year.) On a trailing ten-year basis, the Total Operating Fund has generated an annualized return of 5.5%, outperforming the Policy Index by 10 bps; since inception, the Total Operating Fund has generated an annualized return of 5.3%, outperforming the Policy Index by 50 bps.

As of February 28, 2021, adjusted for estimated returns through March 18, the Long-Term Pool had an overweight to Equities and underweights to TIPS and Long-Term Bonds, which we suggest moderating through our rebalancing recommendations above.

Updated with Supplemental
Performance Data

NSHE Operating Fund - Rebalancing Recommendations

| | Allocation as of Jan 31, 2021 | | 2/1/2021 - 2/28/2021 Est Perf | Estimated Allocation as of Feb 28, 2021 | | 3/1/2021 - 3/18/2021 Est Perf | Estimated Allocation as of Mar 18, 2021 | | Pending Transactions | | Recommendations (C/A) | | Pro Forma Allocation | | Current Targets | Allowable Range |
|--|----------------------------------|-------------------|-------------------------------------|--|-------------------|-------------------------------------|--|-------------------|-------------------------|------------|---------------------------------|--------------|----------------------|-------------------|--------------------|--------------------|
| | Assets (\$ mm) | Allocation (%) | (%) | Assets (\$ mm) | Allocation (%) | (%) | Assets (\$ mm) | Allocation (%) | (\$ mm) | (%) | (\$ mm) | (%) | Assets (\$ mm) | Allocation (%) | (%) | (%) |
| U.S. Equity | | | | | | | | | | | | | | | | |
| Vanguard Institutional Index | \$213.1 | 40.5 | 2.8% | \$219.0 | 41.1 | 2.8% | \$225.2 | 41.5 | | | -\$60.0 | -11.3 | \$165.2 | 30.4 | | |
| Metis US Equity Index | --- | --- | | --- | --- | | --- | --- | | | +\$50.0 | 9.4 | \$50.0 | 9.2 | | |
| Total U.S. Equity | \$213.1 | 40.5% | 2.8% | \$219.0 | 41.1% | 2.8% | \$225.2 | 41.5% | --- | --- | -\$10.0 | -1.9% | \$215.2 | 39.7% | 40.0% | 33%-50% |
| Global ex U.S. Equity | | | | | | | | | | | | | | | | |
| Vanguard Developed Markets Index | 148.0 | 28.1 | 2.5 | 151.7 | 28.5 | 3.4 | \$156.8 | 28.9 | | | -\$10.0 | -1.9 | \$146.8 | 27.1 | | |
| Total Global ex U.S. Equity | \$148.0 | 28.1% | 2.5% | \$151.7 | 28.5% | 3.4% | \$156.8 | 28.9% | --- | --- | -\$10.0 | -1.9% | \$146.8 | 27.1% | 27.0% | 17%-30% |
| Marketable Alternatives | | | | | | | | | | | | | | | | |
| Farallon Capital | 1.6 | 0.3 | 0.0 | 1.6 | 0.3 | 0.1 | \$1.6 | 0.3 | | | | | \$1.6 | 0.3 | | |
| Total Marketable Alternatives | \$1.6 | 0.3% | 0.0% | \$1.6 | 0.3% | 0.1% | \$1.6 | 0.3% | --- | --- | --- | --- | \$1.6 | 0.3% | 0.0% | |
| TOTAL EQUITIES | \$362.7 | 69.0% | 2.7% | \$372.4 | 69.9% | 3.0% | \$383.7 | 70.7% | --- | --- | -\$20.0 | -3.8% | \$363.7 | 67.0% | 67.0% | 50%-80% |
| TIPS | | | | | | | | | | | | | | | | |
| Vanguard Inflation-Protected Securities | 102.1 | 19.4 | -1.7 | 100.3 | 18.8 | -0.7 | \$99.6 | 18.4 | | | -\$25.0 | -4.7 | \$74.6 | 13.8 | | |
| Vanguard Short-Term Inflation-Protected Securities | --- | --- | | --- | --- | | --- | --- | | | +\$35.0 | 6.6 | \$35.0 | 6.5 | | |
| Total TIPS | \$102.1 | 19.4% | -1.7% | \$100.3 | 18.8% | -0.7% | \$99.6 | 18.4% | --- | --- | \$10.0 | 1.9% | \$109.6 | 20.2% | 20.0% | 8%-25% |
| Long Term Bonds | | | | | | | | | | | | | | | | |
| PIMCO Total Return | 40.3 | 7.7 | -1.4 | 39.7 | 7.5 | -1.6 | \$39.1 | 7.2 | | | \$10.0 | 1.9 | \$49.1 | 9.0 | | |
| Wells Capital Montgomery | 20.9 | 4.0 | -1.6 | 20.6 | 3.9 | -1.5 | \$20.2 | 3.7 | | | | | \$20.2 | 3.7 | | |
| Total Long Term Bonds | \$61.2 | 11.6% | -1.4% | \$60.3 | 11.3% | -1.6% | \$59.3 | 10.9% | --- | --- | \$10.0 | 1.9% | \$69.3 | 12.8% | 13.0% | 8%-25% |
| TOTAL LONG-TERM POOL | \$526.0 | 100.0% | 1.3% | \$533.0 | 100.0% | 1.8% | \$542.6 | 100.0% | --- | --- | --- | --- | \$542.6 | 100.0% | 100.0% | |
| Estimated MTD investment gain/(decline) | | | | | | | | | | | | | | | | |
| | | | | \$7.0 | | | \$9.6 | | | | | | | | | |
| Intermediate Term Bonds | | | | | | | | | | | | | | | | |
| Access Community Investment Fund SMA | --- | | -0.0 | --- | | -0.1 | --- | | Pending Transactions | | Recommendations (NSHE Staff) | | 25.0 | | | |
| WellsCap Short Duration * | 142.3 | | -0.2 | 142.0 | | -0.1 | \$141.9 | | | | | | 116.9 | | | |
| Total Intermediate Term Bonds | \$142.3 | | -0.2% | \$142.0 | | -0.1% | \$141.9 | | --- | --- | --- | --- | \$141.9 | | | |
| Estimated MTD investment gain/(decline) | | | | | | | | | | | | | | | | |
| | | | | -\$0.3 | | | -\$0.1 | | | | | | | | | |
| Short Term Bonds and Cash | | | | | | | | | | | | | | | | |
| Short Term Bonds and Cash * | 165.1 | | --- | 140.2 | | --- | 140.2 | | | | | | 140.2 | | | |
| Total Short Term Bonds and Cash | \$165.1 | | 0.0% | \$140.2 | | --- | \$140.2 | | --- | --- | --- | --- | \$140.2 | | | |
| TOTAL OPERATING FUND | \$833.3 | | 0.8% | \$815.2 | | 1.2% | \$824.7 | | --- | --- | --- | --- | \$824.7 | | | |

Note: Market values as of 2/28/2021 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 Short Term Bonds and Cash balance provided by Sytem staff as of 2/28/2021.

Updated with Supplemental Performance Data

Investment Performance by Composite

As of 2/28/2021

| Returns (%) | INCEPTION DATE | CURRENT MARKET VALUE | MONTH TO DATE | CALENDAR YEAR TO DATE | FISCAL YEAR TO DATE JUN | ANNUALIZED TRAILING 5 YEARS | ANNUALIZED TRAILING 10 YEARS | ANNUALIZED SINCE INCEPTION |
|---|-------------------|-------------------------|------------------|-----------------------------|-------------------------------|-----------------------------------|------------------------------------|----------------------------------|
| Total Long-Term Pool* | 6/30/1996 | \$533,043,207 | 1.3 | 0.6 | 17.0 | 10.9 | 8.1 | 7.1 |
| <i>Long-Term Pool Benchmark1</i> | <i>6/30/1996</i> | | <i>1.3</i> | <i>0.9</i> | <i>17.7</i> | <i>11.1</i> | <i>8.1</i> | <i>6.3</i> |
| <i>Value Add</i> | | | <i>0.0</i> | <i>-0.2</i> | <i>-0.7</i> | <i>-0.2</i> | <i>-0.0</i> | <i>0.8</i> |
| U.S. Equity | 6/30/2000 | \$219,005,571 | 2.8 | 1.7 | 24.4 | 16.9 | 13.5 | 7.1 |
| <i>S&P 500 Index</i> | <i>6/30/2000</i> | | <i>2.8</i> | <i>1.7</i> | <i>24.3</i> | <i>16.8</i> | <i>13.4</i> | <i>6.8</i> |
| <i>Value Add</i> | | | <i>0.0</i> | <i>0.0</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 | \$151,809,257 | 2.6 | 1.4 | 25.3 | 10.4 | 5.1 | 4.1 |
| <i>MSCI EAFE Index (N)</i> | <i>6/30/2000</i> | | <i>2.2</i> | <i>1.2</i> | <i>23.0</i> | <i>9.7</i> | <i>5.0</i> | <i>3.8</i> |
| <i>Value Add</i> | | | <i>0.3</i> | <i>0.2</i> | <i>2.3</i> | <i>0.6</i> | <i>0.1</i> | <i>0.3</i> |
| Marketable Alternatives* | 6/30/2000 | \$1,624,910 | 0.0 | 0.0 | -1.1 | -0.0 | 0.5 | 4.8 |
| <i>HFRI Fund of Funds Diversified Index</i> | <i>6/30/2000</i> | | <i>3.2</i> | <i>1.9</i> | <i>13.8</i> | <i>5.4</i> | <i>3.4</i> | <i>3.7</i> |
| <i>Value Add</i> | | | <i>-3.2</i> | <i>-1.8</i> | <i>-14.9</i> | <i>-5.4</i> | <i>-2.9</i> | <i>1.1</i> |
| TIPS | 6/30/2000 | \$100,316,461 | -1.7 | -1.3 | 3.3 | 4.2 | 3.5 | 5.4 |
| <i>BBG Barc US TIPS Index</i> | <i>6/30/2000</i> | | <i>-1.6</i> | <i>-1.3</i> | <i>3.4</i> | <i>4.3</i> | <i>3.6</i> | <i>5.5</i> |
| <i>Value Add</i> | | | <i>-0.1</i> | <i>-0.0</i> | <i>-0.0</i> | <i>-0.1</i> | <i>-0.1</i> | <i>-0.1</i> |
| Long-Term Bonds | 6/30/1996 | \$60,287,008 | -1.4 | -2.0 | 0.3 | 4.1 | 3.8 | 6.0 |
| <i>BBG Barc Aggregate Bond Index</i> | <i>6/30/1996</i> | | <i>-1.4</i> | <i>-2.2</i> | <i>-0.9</i> | <i>3.6</i> | <i>3.6</i> | <i>5.2</i> |
| <i>Value Add</i> | | | <i>0.0</i> | <i>0.1</i> | <i>1.2</i> | <i>0.6</i> | <i>0.2</i> | <i>0.8</i> |