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, or designee 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 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. Consistent with the exercise of fiscal prudence and to more fully reflect the highly diverse population of Nevada and the System's institutional values of inclusion, diversity, equity and access, the System seeks to achieve robust diversity within its investment program and through enhanced inclusive investment practices by its Fund Manager. Accordingly, the Fund Manager will make best efforts to hire diverse investment managers that are women, disadvantaged and minority owned.

4. 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."

5. 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.

6. 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.

7. 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.
8. 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.

9. 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 C(4)[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[5]. System staff [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. System staff [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 consistent with 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[6]. 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 Chief Financial Officer with approval from the Chair of the Board 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 Chief Financial Officer with approval from the Chair of the Board 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.

5. The Committee will periodically review the related services provided to the System, including securities custody, performance evaluation, and investment advisory services. 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 System staff[the Committee] as provided in Section 6 (c) 4.

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. If the reserve balance in the operating pool is negative on the last day of the month, the NSHE Banking and Investment Office will not make a distribution for that month. If the reserve balance in the operating pool falls below 3% of the total operating pool on the last day of the month for three consecutive months, the NSHE Banking and Investment Office will withhold distributions until the reserve balance returns to a 3% balance. If the reserve balance in the operating pool is greater than 8% of the total operating pool on the last day of the month for three consecutive months, the NSHE Banking and Investment Office will distribute the amount of the reserve balance above 8% after making the monthly distribution. In order to minimize the potential for a shortfall relative to expectations, the Committee will establish a spending rate on a biennial [biannual] basis to allow the institutions to develop their biennial[biannual] budgets with greater certainty. Each semiannual[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.