Section 5. Statement of Investment Objectives and Policies for the Endowment Fund

1. Introduction

a. 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.

b. 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 and the Chief Financial Officer or designee shall serve as ex officio nonvoting members of the Committee. The Chair of each University Foundation Investment Committee or their designee shall serve as an ex officio nonvoting member of the Committee to provide advice for items involving the Endowment Fund. 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 Officer 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. 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.

d. 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 5[6](b)(1) below) over rolling three-year periods.

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 Chief Financial Officer.

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 Chancellor, Chief Financial Officer or designee 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 Chancellor, Chief Financial Officer or designee 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:

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<tbody>
<tr>
<td>Growth</td>
<td>62%</td>
<td>[64%]</td>
<td>[64.5%]</td>
<td>50%-70%</td>
</tr>
<tr>
<td>Diversifiers</td>
<td>18%</td>
<td>[42%]</td>
<td>[45.0%]</td>
<td>5%-25%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>10%</td>
<td>[42%]</td>
<td>[44%]</td>
<td>5%-20%</td>
</tr>
<tr>
<td>Fixed Income &amp; Cash</td>
<td>10%</td>
<td>[45%]</td>
<td>[42.5%]</td>
<td>5%-25%</td>
</tr>
</tbody>
</table>

   Due to the nature of the Investment Assets in which the Fund Manager invests the client portfolio, from time to time, it may be necessary for the portfolio to temporarily exceed or fall below the exposures set forth within the Policy Ranges/Investment Guidelines to facilitate efficient movement between paired transactions of Investment Assets. Such temporary deviations shall not constitute a breach of the Policy Ranges/Investment Guidelines provided that the exposure deviations are rectified within one business day.

   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 the [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 will have six months 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

| Allocation | [C|A] Benchmark | [Russell Benchmark] |
|------------|----------------|---------------------|
| Growth     | MSCI All Country World Index (net)[*] | MSCI All Country World Index (net)[*] |
| Diversifiers | 0.3 beta-adjusted MSCI ACWI (net)[*] | 0.3 beta-adjusted MSCI ACWI (net)[*] |
| 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 **semiannually** [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 Manager[s] was[have been] granted full
discretion to manage the Fund. Subsequent to the approval of these Guidelines of
Investment Policies and Objective, there was[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 was[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 Manager[s] will opportunistically commit capital to illiquid private
investment (“PI”) strategies with the long-term target exposures in the table
below, which will be built gradually over time given the nature of private
investments. Private Investment structures may include fund interests
acquired on a primary or secondary basis.

<table>
<thead>
<tr>
<th>[Blended Total Assets]</th>
<th>[Russell]</th>
<th>Long-Term Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Growth</td>
<td>17%</td>
<td>[40%]</td>
</tr>
<tr>
<td>Private Diversifiers</td>
<td>5%</td>
<td>[0%]</td>
</tr>
<tr>
<td>Private Real Assets</td>
<td>8%</td>
<td>[5%]</td>
</tr>
<tr>
<td>Total Private Investments</td>
<td>30%</td>
<td>[45%]</td>
</tr>
</tbody>
</table>

Illiquidity Constraints:
   - Total PI net asset value
   - Total PI net asset value + unfunded commitments

   ii. The [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 or (2) while the Total
Private Investment net asset value plus unfunded commitments is greater
1.8- times its [respective] long-term target, both as detailed in the table
above. For the purpose of gauging compliance with each of these liquidity
constraints, [50 percent of] Legacy Assets shall be attributed to the [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, the [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.

b. Concentration

i. Fund Concentration

1. No single actively managed investment will be larger than 10% of [each Fund Manager’s] assets.
2. No single passively managed investment will be larger than 20% of [each Fund Manager’s] assets.

ii. Firm Concentration

1. Exposure to one external investment management firm will be limited to 15% of [each Fund Manager’s] assets.
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 [each Fund Manager’s] assets.

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 reasonably practicable.

iv. For the purpose of gauging compliance with these concentration limits, [50 percent of] Legacy Assets shall be attributed to each Fund Manager’s portfolio.

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.

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 semiannual [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 Manager[s];
• 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.