

## **BOARD OF REGENTS BRIEFING PAPER**

### **1. AGENDA ITEM TITLE: Annual Review of Investment Pools**

**MEETING DATE:** March 25, 2022

### **2. BACKGROUND & POLICY CONTEXT OF ISSUE:**

Per BOR policy, Title 4 Chapter 10, Section 6(B)(7) 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.

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."

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. 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.

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.

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.

NSHE staff has completed an annual review of the Short-Term, Intermediate-Term, and Long-Term Pools. The analysis indicates that:

- The Short-Term Pool has comfortably covered the daily cash requirements of the System.
- The Intermediate-Term Pool was not used to cover obligations.
- The Long-Term Pool has not been needed to meet cash requirements.

### **3. SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:**

The NSHE CFO requests approval to reallocation up to \$150m from ST and IT to LT and delegate staff to approve CA recommendations across the various funds within the LT Pool in proportions that rebalance the expanded portfolio to the Pro Forma Allocation weights per policy.

### **4. IMPETUS (WHY NOW?):**

Over the last two years the largest single day draw was ~\$73m. The current Short-term and Intermediate-term pools have approximately \$235m in excess funds needed to cover the expected daily cash requirements of the System. Historically, the Long-Term Pool investment returns have exceeded the returns of the Short-Term and Intermediate-Term Pools .

### **5. CHECK THE NSHE STRATEGIC PLAN GOAL THAT IS SUPPORTED BY THIS REQUEST:**

- Access (Increase participation in post-secondary education)
- Success (Increase student success)
- Close the Achievement Gap (Close the achievement gap among underserved student populations)
- Workforce (Collaboratively address the challenges of the workforce and industry education needs of Nevada)
- Research (Co-develop solutions to the critical issues facing 21<sup>st</sup> century Nevada and raise the overall research profile)
- Not Applicable to NSHE Strategic Plan Goals

### **INDICATE HOW THE PROPOSAL SUPPORTS THE SPECIFIC STRATEGIC PLAN GOAL**

May potentially provide institutions with more investment income to support the overall strategic plan.

### **6. BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:**

- The working capital cycle often leaves a tranche of the Short-Term and Intermediate-Term Pool untouched. These “excess” cash balances can be invested in assets with higher expected returns.
- Reallocating funds to Long-Term Pool may potentially increase investment returns.
- Historically, Long-Term Pool has a larger range of historical returns.
- Short-Term and Intermediate-Term Pools will continue to meet the System’s daily cash needs.
- Long-Term Pool can be used to backstop the System’s daily cash needs, if necessary.

**7. POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:**

- Long-Term Pool has the greatest odds of sharp declines over short periods (volatility risk).
- Reduction of the Short-Term Pool increases drawdown risks.
- Known or contingent obligations with a payout horizon of one to several years are not well-defined system wide.

**8. ALTERNATIVE(S) TO WHAT IS BEING REQUESTED/RECOMMENDED:**

- Make no change.
- Reallocate Short-Term Pool assets into Intermediate-Term Pool investments which generate slightly better historical returns.

**9. RECOMMENDATION FROM THE CHANCELLOR’S OFFICE:**

The Chancellor’s office recommends approval to move forward with a plan to reallocate up to \$150 million from the Short-Term and Intermediate-Term Pool into the Long-Term Pool.

**10. COMPLIANCE WITH BOARD POLICY:**

- Consistent With Current Board Policy: Title # 4 Chapter # 10 Section # 6
- Amends Current Board Policy: Title # \_\_\_\_\_ Chapter # \_\_\_\_\_ Section # \_\_\_\_\_
- Amends Current Procedures & Guidelines Manual: Chapter # \_\_\_\_\_ Section # \_\_\_\_\_
- Other: \_\_\_\_\_
- Fiscal Impact: Yes X No \_\_\_\_\_  
Explain: May positively or negatively impact available investment income as a result of higher or lower investment returns.