Revision to Title 4, Chapter 10, Section 4 -6

The following proposed handbook revision is to update the Investment Committees Policies. Material to be deleted appears in brackets {deletions}. New material is underlined.

Section 4. 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 University and Community College System of Nevada (the "System"). These Guidelines relate to the Fund as a whole.

   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 spending 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 management of the Fund within the parameters of these Guidelines. The Chancellor, the Vice Chancellor for Finance, and the Director of Banking & Investments shall serve as ex officio nonvoting members of the Committee. The Chairman of the Board of Regents 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. The Investment Committee shall meet at least quarterly. Minutes of each meeting of the Investment Committee shall be provided to the Regents for acceptance at their next succeeding meeting. (B/R 1/04)

   d. The Committee shall select external investment managers to manage the assets of the Fund. Subject to the manager-specific guidelines referenced in subsection 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.

   e. The Committee shall have discretion to allocate funds among managers, subject to the permitted ranges set forth herein, and to hire and terminate managers for any reason at any time.
f. The Committee shall choose an independent investment consultant to provide services it deems to be necessary or helpful, including without limitation advice with respect to asset allocation and manager evaluation.

g. 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 promulgated to govern the conduct of public officers and employees, and Regents are also subject to certain additional conflict of interest provisions.) (B/R 10/98)

2. Financial and Investment Objectives

a. The long-term financial objective of the Fund is 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 investment objective of the Fund is to attain an inflation-adjusted total return, net of fees, at least equal to the contemplated spending rate of 4.5%. (For example, if average annual inflation were 3.0%, a total nominal return of 7.5% net of fees would have to be earned. 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.) (B/R 6/01)

3. Endowment Distribution Policy

a. Distributions from the Fund in each fiscal year will be 4.5% of the average market value for the 20 quarters ending the December 31 immediately preceding such fiscal year. (For example, distributions for fiscal year 1996-97 will be based on the Fund's average ending quarterly market values for the twenty consecutive quarters ended December 31, 1995. No withdrawals from the Endowment Fund other than to fund the spending amount are permitted without the prior approval of the Regents. (B/R 10/98)

b. The spending policy shall be administered by the Banking & 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 NRS 396.380 and 396.420 to control and invest the System’s funds.  (B/R 10/98)

4. Asset Allocation; Evaluating Performance of the Fund

a. For purposes of investment policy, the Fund will be comprised of two components: an "equity portfolio" and a "fixed income portfolio."

b. The strategic allocation and permitted ranges for the equity portfolio and the fixed income portfolio will be as follows:

<table>
<thead>
<tr>
<th></th>
<th>Strategic Allocation</th>
<th>Permitted Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity portfolio</td>
<td>77%</td>
<td>70-85%</td>
</tr>
<tr>
<td>Fixed income portfolio</td>
<td>23%</td>
<td>15-30%</td>
</tr>
</tbody>
</table>

(B/R 12/01)

For purposes of this paragraph, the permitted ranges shall refer to the allocations to equity and fixed income managers, respectively, and, with respect to assets managed by balanced managers allocations to equities and fixed income, respectively. Thus the permitted ranges shall not be deemed to be violated by virtue of a manager’s discretionary use of investment reserves, cash, or bonds as described in subsection 5.f.

c. The purposes of the equity portfolio are to provide long-term capital appreciation and a growing stream of income. (It is recognized that the "equity portfolio" will have greater return variability than the "fixed income portfolio.")

d. The purposes of the fixed income portfolio are to provide a hedge against extended deflation, to provide higher current income than equities, and to help diversify the Fund.

e. The overall return of the Fund, net of fees, should equal or exceed each of the following:  (B/R 6/01)

(1) The Fund's spending rate plus the increase in the Consumer Price Index measured over rolling periods of ten years or longer.
(2) An appropriate blend of capital market benchmarks constructed by the committee with reference to the strategic allocation measured over rolling periods of five years or longer.

(3) The median return of a pool of endowments with similar investment objectives and policies measured over rolling periods of ten years or longer. (B/R 10/98)

5. Guidelines for the Equity Portfolio

a. To meet the return objective with an acceptable level of risk, the "equity portfolio" will be diversified across different types of assets with expected returns, which are not perfectly correlated (i.e., the returns of which do not always move in tandem). The strategic allocation and permitted ranges for the equity asset classes will be as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Strategic Allocation</th>
<th>Permitted Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic common stock</td>
<td>35%</td>
<td>35 - 60%</td>
</tr>
<tr>
<td>International common stock</td>
<td>13{15}%</td>
<td>5 - 25%</td>
</tr>
<tr>
<td>{Emerging markets securities}</td>
<td>5%</td>
<td>0 - 8%</td>
</tr>
<tr>
<td>Alternative Strategies</td>
<td>19{15}%</td>
<td>0 –30{15}%</td>
</tr>
<tr>
<td>Real estate and other inflation hedging assets</td>
<td>10%</td>
<td>0 - 15%</td>
</tr>
<tr>
<td>Equity fund (total)</td>
<td>77{80}%</td>
<td></td>
</tr>
<tr>
<td>Permitted range of equity fund</td>
<td>70 - 85%</td>
<td></td>
</tr>
</tbody>
</table>

For purposes of this paragraph, the permitted ranges shall refer to the allocations to managers investing in a particular asset class and, with respect to assets managed by each balanced manager, the benchmark strategic allocation, if any, to that asset class. Thus the permitted ranges shall not be deemed to be violated by virtue of a manager's discretionary use of investment reserves, cash, or bonds as described in subsection 5.f.

b. The Committee shall periodically review asset allocation guidelines for the equity portfolio, including the strategic allocation to various types of equities and permitted ranges for each type of equity, and may in its sole discretion adjust the strategic allocation within the permitted ranges.
c. Common stocks will be managed by managers with distinct and complementary investment styles resulting in domestic and international marketable securities equity portfolios, respectively that are diversified by economic sector, industry, and market capitalization.

d. The performance objective of the domestic and international marketable security portions of the equity portfolio (excluding real estate and other illiquid investments) is to achieve returns, net of manager fees, that are (1) superior to those of the appropriate market benchmarks selected by the Committee and (2) on par with or in excess of the median of an appropriate universe of institutional-quality investment managers.

e. Alternative strategies will include asset classes that would be expected to increase the diversification of the total portfolio while also helping to improve the risk/return characteristics of the Fund. These asset classes may include: absolute return strategies, venture capital and/or private equity. (B/R 10/00)

f. Performance against objectives is to be measured quarterly and evaluated over rolling periods of five years or longer. (It is recognized that the objectives may be difficult to attain in every period but should be attainable over most market cycles.)

g. Equity portfolio managers will normally invest in common stocks. However, managers may at their discretion hold investment reserves of either cash equivalents or bonds (including convertible issues) without limitation, with the understanding that their performances (including any cash or bonds) will be measured against the common stock benchmarks established for each account by the Committee.

h. Managers may not sell securities short, buy securities on margin, borrow money, pledge of loan assets, or buy or sell options or commodities without the advance written approval of the Committee. (B/R 10/98)

6. Guidelines for the Fixed Income Portfolio

a. The guidelines for the fixed income portfolio are intended to promote the goals set forth in subsection 4.d. To provide a hedge against extended deflation, the fixed income portfolio should ordinarily maintain a high credit quality (i.e., normally a weighted average credit rating of AA or better and never below A) and an intermediate to long-term duration (i.e., normally at least 3.0 years and always at least 2.0 years). Money market instruments as well as bonds may be used in the fixed income portfolio, but equities are excluded. In general, the
fixed income portfolio shall be well diversified with respect to economic sector, financial sector, and issuer in order to minimize risk exposure. A maximum of 5% of the fixed income portfolio may be invested in the securities of any single issuer, provided that issues of the U.S. Government or agencies of the U.S. Government may be held without limitation and provided further that issues of agencies of the U.S. Government shall be limited to the extent set forth in the manager-specific guidelines referenced in subsection 7.b. A maximum of 35% of the fixed income portfolio may be invested in non-dollar denominated fixed income securities.

b. The primary long-term investment objective of the fixed income portfolio is to outperform the Lehman Brothers Aggregate Bond Index, net of manager fees, and the median return of an appropriate peer group of managers over rolling five-year periods. The Committee may also establish as a secondary long-term investment objective outperforming a benchmark that is a blend of the appropriate indices to reflect the allocation to non-dollar bonds. (B/R 10/98)

7. Monitoring of Objectives and Results; {Rebalancing;} Use of Derivatives

a. The Committee will review these investment objectives and policies at least once every two years for their continued appropriateness.

b. The Committee shall provide each manager of a separately managed account with a set of mutually agreed-upon guidelines. Such guidelines shall provide that, if at any time the manager believes that any 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, it is the responsibility of the manager to communicate this view to staff in a timely fashion. Additionally, such guidelines shall require the managers to inform the System's staff promptly of any change in firm ownership of fundamental investment philosophy, any significant change in organizational structure or professional personnel, and any change in portfolio manager(s) for the System's accounts. The Committee acknowledges that managers of commingled funds are unable to respond to specific guidelines. 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 within 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.

c. The Committee shall have prepared and shall review on a quarterly basis 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 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 time as are specified herein. Regular communication with the managers concerning investment strategy and outlook is expected. 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.

d. The Committee will periodically review the related services provided to the System, including securities custody, performance evaluation, and consulting.

e. The Committee will establish and review from time to time a policy for the investment of unallocated cash held for investment in the Fund. (B/R 10/98)

f. Derivatives may be used by the Fund's managers to hedge existing portfolio investments (e.g., to hedge the currency risk of a foreign stock or bond position) or to create unleveraged investment positions as a more efficient and cheaper alternative to investments that would otherwise be made in the cash market. Derivatives may not be used by marketable securities managers to leverage a portfolio or increase its risk above that of an account with similar objectives that is managed without derivatives. Use of derivatives by a manager other than as described in this paragraph is permitted only if such use is authorized by the Committee. The manager-specific guidelines referenced in subsection 7.b shall include negative covenants with respect to use of derivatives and shall require the managers to give written notice to the System's staff immediately upon discovering that any of the guidelines have been violated. The Committee shall periodically review the derivative policy of each manager of a commingled vehicle to ensure
that such policy is within these Guidelines or that it has made an exception in appropriate cases.

g. No agreement to engage in a securities lending or directed brokerage program shall be entered into without the prior approval of the Committee. (B/R 1/96)

Section 5. Allocation of Investment Income Earned on UCCSN Pooled Cash Assets

1. It is the policy of the Board of Regents to pool all UCCSN cash assets for investment in accordance with guidelines stated in the following Section 5 of this Chapter.

2. Except as provided herein, effective July 1, 1996, the UCCSN Banking & Investment Office will, on a monthly basis, allocate the investment income earned on pooled cash assets to all UCCSN institutions based on the institutions' average daily cash in bank balance.

   a. The interest income 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. (B/R 6/03)

Section 5(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 University and Community College System of Nevada (the "System"). These Guidelines relate to the Fund as a whole.

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 Chancellor, the Vice Chancellor for Finance,
and the Director of Banking & Investments will serve as ex officio nonvoting members of the Committee. The Chairman 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 Investment Committee will meet at least quarterly. Minutes of each meeting of the Investment Committee will be provided to the Regents for acceptance at their next succeeding meeting.

4. The Committee will choose an independent investment consultant 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. 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."

2. The Short-Term Pool shall be funded in an amount sufficient to meet the expected daily cash requirements of the System. 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.

3. 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. 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.
4. 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. These investments may include fixed income, Treasury Inflation Protection Securities (TIPS), US and international common stocks, and absolute return strategies. (B/R 10/00)

5. The Committee will determine at least annually the appropriate size of each pool within the parameters of these Guidelines.

6. 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 Corporation 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.

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. In hiring and evaluating managers, the Committee will consider the diversification, credit quality, and duration of the portfolio and other appropriate factors.

3[2] 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 that 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. 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 within 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.

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 System's staff will obtain monthly investment performance reports from each manager. The Committee will have prepared and will review quarterly an investment performance and strategy report setting forth the investment returns for individual funds and accounts. The Committee will use the performance and strategy report and periodic face-to-face meetings with the managers to monitor the Fund and the managers for consistency of investment philosophy, returns relative to objectives, and investment risk. Regular communication with the managers concerning investment strategy and outlook is expected.

3. The Committee will periodically review the related services provided to the System, including securities custody, performance evaluation, and consulting.

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 the Committee as provided in C.3.

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 UCCSN cash assets for investment in accordance with guidelines stated in the following Section 5 of this Chapter.

2. Except as provided herein, effective July 1, 1996, the UCCSN Banking & Investment Office will, on a monthly basis, allocate the investment income earned on pooled cash assets to all UCCSN institutions based on the institutions’ average daily cash in bank balance.

   a. The interest income 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. (B /R 6/03)

3{1}. Distributions from the Fund will be made monthly at an appropriate rate as determined by the Investment Committee. In order to minimize the potential for a shortfall relative to expectations, the Committee will establish a spending rate on a bi-annual basis to allow the institutions to develop their bi-annual budgets with greater certainty. Each quarterly period, the Investment Committee will review the rate relative
to the investment outlook and current surplus or deficit to consider its continued appropriateness. (B/R 10/00)

4\{2\}. The distribution policy is administered by the Banking & 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 NRS 396.380 and 396.420 to control and invest the System's funds. (B/R 6/03)