

BOARD OF REGENTS
BRIEFING PAPER

1. Agenda Item Title: *Handbook* Revision, Endowment Distribution Policy

Meeting Date: March 5-6, 2015

2. BACKGROUND & POLICY CONTEXT OF ISSUE:

At the December 4, 2014 meeting of the Investment Committee, the Committee directed System Staff to reduce the NSHE endowment spending rate for institutions with a management fee agreement from 5 percent to 4.75 percent as of July 1, 2015. Within the 4.75 percent spending rate, those institutions are given the discretion to allocate proceeds between spending and management fee, of which, a maximum of 1.5 percent could be allocated to the management fee.

3. SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:

Approval of an update to Board of Regents *Handbook* language to reflect the Board of Regents action at the December 4-5, 2014 meeting to reduce the endowment spending rate from 5 percent to 4.75 percent as described above.

4. IMPETUS (WHY NOW?):

N/A

5. BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:

The updated *Handbook* reflects Board action.

6. POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:

N/A

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

N/A

8. COMPLIANCE WITH BOARD POLICY:

- Consistent With Current Board Policy: Title #____ Chapter #____ Section #____
- Amends Current Board Policy: Title #_4_ Chapter # 10_ Section #_5__
- Amends Current Procedures & Guidelines Manual: Chapter #____ Section #____
- Other: _____
- Fiscal Impact: Yes____ No__X__
Explain: _____

POLICY PROPOSAL - HANDBOOK
TITLE 4, CHAPTER 10, SECTION 5

Statement of Objectives and Policies for the Endowment Fund

Additions appear in *boldface italics*; deletions are [~~stricken~~ and bracketed]

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

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3. Endowment Distribution Policy

- a. Distributions from the Fund in each fiscal year will be up to 4.5%, subject to the restrictions in subsection c below, 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.
- b. Subject to Board of Regents approval of an institution's request, an annual fee of up to 1.5% of the institution's portion of the NSHE endowment pool, subject to the restrictions in subsection c below, and calculated and distributed in the same manner as the dividend, 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.
- c. The total cumulative distribution as described in sections a and b above will not exceed 5% total ***for distributions made through June 30, 2015. Distributions made after July 1, 2015 will not exceed 4.75%.*** The institution will have the discretion to allocate proceeds between spending and management fee, of which a maximum of 1.5% may be allocated to the management fee. Institutions will report annually the distribution allocation to the Vice Chancellor of Finance.
- d. No withdrawals from the Endowment Fund other than to fund the spending amount, the estate tax liability, and capital calls are permitted without the prior approval of the Regents. When there are withdrawals, the Director of Banking & Investments will

determine where the withdrawal will come from. This withdrawal will be used to rebalance the portfolio to be more in-line with the strategic allocation. This withdrawal will be approved by the Assistant Vice chancellor for Budget, the Assistant Vice chancellor for Finance and Banking and Investments, the Vice chancellor for Finance and Administration, or the chancellor.

- e. The spending policy shall be administered by the Banking and Investment Office 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% management fee will be imposed on the endowment pool for Board and System Administration expenses beginning July 1, 2001.