

BOARD OF REGENTS
BRIEFING PAPER

1. **AGENDA ITEM TITLE:** Handbook Revision Endowment Distribution Policy

MEETING DATE: March 2-3, 2017

2. BACKGROUND & POLICY CONTEXT OF ISSUE:

At the December 1, 2016 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 4.75 percent to a maximum of 4.5 percent as of July 1, 2017. 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.

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 1, 2016 meeting to reduce the endowment rate from 4.75 percent to 4.5 percent as described above.

4. IMPETUS (WHY NOW?):

N/A

5. BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:

The updated *Handbook* reflect 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
TITLE 4, CHAPTER 10, SECTION 5
Statement of Investment Objectives and Policies for the Endowment Fund

Effective July 1, 2017

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

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

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- a. The distribution policy represents the guidelines and administration of the annual amount of funds which can be withdrawn from the fund and made available for distribution each year.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*** [~~will be up to~~] 4.5 percent, subject to the restrictions ***herein*** [~~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 ***2016-2017*** [~~1996-1997~~] will be based on the fund's average ending quarterly market values for the 20 consecutive quarters ended December 31, 2015 [~~1995~~].

- 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[e]. 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*** [~~d below~~], and calculated and distributed in the same manner as the ***spending*** [~~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.

iii[d]. [~~The total cumulative distribution as described in Sections b and c above will not exceed 4.75 percent. The institution will have the discretion to allocate proceeds between spending and management fee, of which a maximum of 1.5 percent may be allocated to the management fee.~~] Institutions will report annually the distribution allocation to the Vice Chancellor of Finance.

c[e]. No withdrawals from the Endowment Fund other than to fund distribution to campuses noted above and the System management fee noted in 3(f h) below are permitted without the prior approval of the Regents.

d[f]. Any withdrawal will be approved by the Vice Chancellor for Finance, Director of Finance or the Chancellor 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[g]. The spending policy shall be administered by the Finance Department 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[h]A .125 percent management fee will be imposed on the endowment pool for Board and System Administration expenses beginning July 1, 2001.