

**BOARD OF REGENTS and its
INVESTMENT COMMITTEE
NEVADA SYSTEM OF HIGHER EDUCATION**

System Administration, Reno
2601 Enterprise Road, Conference Room

Friday, March 29, 2019

Video Conference Connection from the Meeting Site to:
System Administration, Las Vegas
4300 South Maryland Parkway, Board Room
and
Great Basin College, Elko
1500 College Parkway, Berg Hall Conference Room

Members Present: Mr. Rick Trachok, Chair
Dr. Patrick R. Carter, Vice Chair
Mrs. Carol Del Carlo
Mr. Trevor Hayes
Ms. Laura E. Perkins

Advisory Member Present: Mr. Russell Campbell, Your Second Opinion, LLC.

Others Present: Dr. Thom Reilly, Chancellor
Mr. Dean J. Gould, Chief of Staff & Special Counsel to the Board
Mr. Andrew Clinger, Chief Financial Officer
Mr. Joseph Reynolds, Chief General Counsel
Dr. Marta Meana, President, UNLV
Dr. Marc A. Johnson, President, UNR

For others present, please see the attendance roster on file in the Board Office.

Chair Rick Trachok called the meeting to order at 10:00 a.m. with all members present.

1. Information Only-Public Comment – None.
2. Approved-Minutes – The Committee recommended approval of the minutes from the November 29, 2018, meeting. (Ref. INV-2 on file in the Board Office)

2. Approved-Minutes – *(continued)*

Regent Del Carlo noted that the word “different” in the last paragraph on page 2 of the minutes should be “difference.”

Mr. Joseph Reynolds, Chief General Counsel, said the typographical error will be corrected by the Board Office.

Motion carried.

3. Information Only-Endowment Pool Performance – Cambridge Associates (Agenda Item 4) – Staff from Cambridge Associates presented a report on asset allocation and investment returns for the Pooled Endowment Fund as of February 28, 2019. *(Ref. INV-4 on file in the Board office.)*

Chair Trachok shared that there are four pools that the Investment Committee, along with the full Board, oversees: two Endowment Pools, a Legacy Pool and the Operating Pool.

Ms. Wendy Walker, Cambridge Associates, presented a report on asset allocations, investment returns and investment manager fees for the Pooled Endowment Fund as of February 28, 2019.

Chair Trachok asked what the difference is between the annualized terms at 6.1 percent from 2017-2019 and the March 31, 2017, Net of Fees at 5.8 percent. Ms. Walker answered the difference is Cambridge Associates’ OCIO fee of 30 basis points. Chair Trachok asked what the total fees amount to in dollars. Ms. Walker said for the current fiscal year through February 8, 2019, the OCIO fee is \$342,000, the asset management fee is \$962,000 and the incentive fees are \$366,000.

Chair Trachok asked what the criteria is for the incentive fees. Ms. Walker answered that each manager has a different incentive fee structure depending on their own specific results. The current fiscal year return would be for July 1, 2017-June 30, 2018. For example, the private investment managers receive 20 percent of the absolute performance subject to performance hurdles. In addition, there are market managers that only get paid incentive fees if they outperform their individual benchmark. The managers set the performance fees and Cambridge Associates will negotiate the incentive fees with the managers. In response to a follow up inquiry from Chair Trachok, Ms. Walker said Cambridge Associates is satisfied with the current fee structures.

Chair Trachok confirmed with Ms. Walker that Cambridge Associates oversees the legacy assets; however, t

4. Information Only-Endowment Pool Performance – Russell Investments (Agenda Item 3)
– *(continued)*

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– *(continued)*

need to be certain that the expectations are realistic.

5. Approved-Operating Pool Performance Discussion and Recommendations – Staff from Cambridge Associates and System Administration presented a report on asset allocation and investment returns for the Pooled Operating Fund as of February 28, 2019. The Committee recommended approval of the following rebalancing actions: a) \$10 million

5. Approved-Operating Pool Performance Discussion and Recommendations – (continued)

from the above mentioned withdrawals, added to Short-Term Bonds & Cash bringing the allocation closer to the 30 percent policy target; e) Full redemption from Manning & Napier (est. \$56.8 million as of March 25, 2019); f) Full redemption from MFS International (est. \$64.4 million as of March 25, 2019); and g) \$115 million initial investment in the Vanguard Developed Markets Index Fund. Regent Hayes seconded.

Vice Chair Carter requested some context on the rebalancing recommendation.

Mr. Campbell said that it comes down to the NSHE Investment Policy and that policy should be reviewed each year. The current direction is what the NSHE has given to Cambridge Associates for the purpose of the rebalancing recommendation. Also, the recommendation is solely within the context of the longer-term pool.

Chair Trachok said it is important for the Committee to take a look at the entire Operating Pool, what the requirements are and why it is broken down in the way it is. Until the Committee understands what the cash operating requirements of each of the eight institutions and the System Office are, it is difficult for the Committee to make a decision for appropriate allocation for the long-term, intermediate-term and short-term. That information must be known first and then the Committee can balance the funds amongst those pools.

Motion carried.

Chair Trachok said it is critical for the Committee to keep in mind that the overall return on the Operating Pool is a significant amount of money and has outperformed the other pools. He also mentioned at a previous meeting there was a policy decision made, approved by the Board, that the maximum distribution from the Operating Pool to the institutions is 2.75 percent. Chair Trachok's suggestion to staff is to work together with the eight NSHE institutions and conduct a cash flow analysis, so the Committee is comfortable that the amount of cash in the short-term investments, which cannot be equities and has to be liquid, is the correct amount each institution will need going forward. The same analysis needs to be done on the intermediate goals because there are certain projects that each institution has targeted over the medium term 3-5 years. The Committee must ensure that the Operating Pool will have sufficient cash to meet those needs.

Chair Trachok asked the Committee to consider whether the NSHEe apeiderhor th f t 5eo (er)-1 (m(d)2 (

6. Approved-Handbook Revision, Statement of Investment Objectives and Policies for Endowment Fund and Operating Funds – The Committee recommended approval of the proposed revisions within the Statement of Investment Objectives and Policies for the Endowment Fund (*Title 4, Chapter 10, Section 5*) and the Statement of Investment Objectives and Policies for the Operating Funds (*Title 4, Chapter 10, Section 6*) with the amendment to include the Board Chair, in conjunction with the Chief Financial Officer, for approvals of the termination of investment managers under certain conditions and approvals of investment rebalancing recommendations made by the investment advisor between Investment Committee meetings. The policy revision adds the Nevada System of Higher Education goals to the Investment Policy Statements and changes the definition of the Operating Funds, Short-Term Pool, Intermediate-Term Pool and Long-Term Pool to allow NSHE staff to determine the appropriate reserve level. (*Ref. INV-6 on file in the Board office.*)

Chair Trachok provided an overview of the proposed revisions. He acknowledged two additional edits that were omitted in the reference materials.

Regent Del Carlo moved approval of the proposed policy revisions as presented. Vice Chair Carter seconded.

Mr. Campbell provided background on the policy revisions. The purpose of the rebalancing recommendation and delegating rebalancing and manager termination to staff is that with the Investment Committee meeting schedule being off-cycle, issues may arise in the interim and staff should have the ability to make changes.

Chair Trachok offered a friendly amendment to the motion to have a combination of the Chief Financial Officer and the Chair of the Board to approve rebalancing and fund manager termination recommendations between Investment Committee meetings.

Vice Chair Carter asked why not the Chair of the Committee versus the Chair of the Board in this role. Chair Trachok answered that he believes it is more appropriate for the Chair of the Board to make these approvals as the assumption is the Chair of the Board

7. Information Only-Divestment/Carbon Neutral Plan – (continued)

Mr. Campbell said there are a variety of different paths for the Board to take in pursuit of a carbon neutral plan: Set up a series of pilot projects such as combining the fossil-free index fund as an alternative to the index fund in the Operating Pool, and/or create a list with staff and the investment advisors which will offer a handful of different options for the Committee to choose from. This will get the System on the path to mitigating the risk of climate change on the portfolio. Over time, the NSHE can develop a policy on its experience/impact and it can encompass investment, divestment, or perhaps simply advocacy.

Chair Trachok recommended that the list of options should be short and concise.

Ms. Walker agreed with Mr. Campbell's suggestions. She added that stakeholder meetings can be helpful in building consensus around the objectives of the organization. She expressed concern that if NSHE has not gone through a process to set clear objectives, there is a worry that the NSHE would abandon the investment strategy after a short-term period of underperformance which may potentially lock in losses.

Chair Trachok agreed with Ms. Walker's suggestion. He requested any literature on this topic to be provided to the Committee, along with a list of conferences that specifically focus on divesting from fossil fuels and/or investing in a carbon neutral plan. Those conferences would be a good opportunity for Regents to learn more about the topic. Chair Trachok asked staff to put together a questionnaire to send to all the stakeholders of the institutions for feedback, so when the Committee makes a recommendation to the Board there will be enough data that the recommendation will be defensible. Ms. Walker added that UNR and UNLV are the two largest participants in the pools and she believed it would be relevant to see what the universities are doing for their assets and stand-alone foundations, as this can ensure that there is buy-in from the different institutions.

Mr. Campbell said his proposal was more of a test to see how the stakeholders in the NSHE would respond and see what the overall impact would be. Chair Trachok said before the actual test, he believes the Committee should have more data. Mr. Campbell commented at times people may have difficulty understanding something until they are exposed to it. Chair Trachok agreed with his statement. Ms. Walker added that Cambridge Associates can highlight some of the divestment from fossil fuels and carbon neutral initiatives it already has in place.

Mr. Beardsley said that in its decarbonization approach, Russell Investments emphasizes green energy. In response to a follow-up question from Ms. Walker, Mr. Beardsley answered that this is an implementation option that can be turned on in the NSHE portfolio and he can present the information to the Committee at a future meeting.

Regent Del Carlo commented that she would like the information discussed to be presented to the Committee within a reasonable time frame.

