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

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)

c. A .125% management fee will be imposed on the endowment pool for Board and System Administration expenses beginning July 1, 2001. (B/R 6/01)

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:

	Strategic Allocation	Permitted Ranges
Equity portfolio	77%	70-85%
Fixed income portfolio (B/R 12/01)	23%	15-30%

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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 permiw(S1.[bal o)]TJ-15.34 -1.15 TD-

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.

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. **<u>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</u>**

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 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**

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 (0.0.0025 Tw(036toyees

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**.

3{2}. In hiring and evaluating managers, the Committee will consider the diversification, credit quality, and duration of the portfolio and other appropriate factors.

4{3}. 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.

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.

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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.

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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 ty in-5.8(en b)-4 the 162 237.18 315232

to the investment outlook and current surplus or deficit to consider it's continued appropriateness. (B/R 10/00)

<u>4</u>{2}. The distribution policy is administered by the Banking & Investment Office in accordance wit.000aeUniform Management of Institutional Funds Act, adopted by000aeRegents on August 30, 1984 in accordance wit.000aeauthority granted to them by NRS 396.380 and 396.420 to control and invest000aeSystem's funds.
(B/R 6/03)