

## NEVADA CAPITAL INVESTMENT CORPORATION

### MINUTES OF BOARD OF DIRECTORS MEETING

Thursday, November 17, 2016

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Chair Dan Schwartz called the meeting of the Board of Directors of the Nevada Capital Investment Corporation (NCIC) to order at 10:03 a.m., on Thursday, November 17, 2016. The meeting was held via teleconference.

#### Board Members

Chair Dan Schwartz  
Vice Chair Anand Nair  
Richard Bartholet  
Wayne Tew  
Ash Mirchandani

#### Staff

Grant Hewitt,	Chief of Staff
Tara Hagan,	Chief Deputy Treasurer
Budd Milazzo,	Sr. Deputy Treasurer
Kim Arnett,	Deputy Treasurer - Investments
Shane Chesney,	Deputy Attorney General

## AGENDA

#### **1) Call to order (Chair Schwartz)**

The meeting was called to order at 10:03 a.m.

#### **2) Roll Call (Budd Milazzo)**

All members were present representing a quorum. Staff indicated the meeting was properly noticed and that the agendas were posted in accordance with the Nevada Open Meeting Law.

#### **3) Public Comment**

There was no public comment in Carson City or Las Vegas.

#### **4) For Possible Action: Approval of the October 20, 2016 meeting minutes.**

**Mr. Tew motioned to approve the meeting minutes. Mr. Nair seconded the motion. Motion passed unanimously.**

**5) For Possible Action: Presentation of Silver State Opportunities Fund (SSOF) annual report ending June 30, 2016 (Miguel Luina – Hamilton Lane)**

The Representative noted in terms of capital deployment they are fully invested and committed with approximately \$7.0 million remaining in reserves for follow-on investments and fees. He noted that the performance of the fund is on track and 5 of the 7 fund investments are out of the j-curve (initial underperformance of all private equity funds caused by impact of fees and expenses). The Representative noted that several of the fund managers have begun to make distributions and he expects to see them sell additional positions and provide more liquidity back to the program. He noted that the Providence Corporate Development Holding Company (Providence), as stated in the last meeting, is in an unsustainable position from a capital structure perspective and that as of June 30, 2016, the investment was marked down to \$0.32 on a \$1.00. He explained the most recent update is that Providence has been holding ongoing negotiations with the lenders and has not been able to come to an agreement in terms of restructuring the outstanding loans. He noted that it appears that the lender may not agree to any loan modification and that the likely outcome will be the program may not be able to recover much value from the investment. He stated that the Board should expect to see in the September 30, 2016 report an investment which is marked-down to zero rather than the \$0.32 which is reflected in the annual report. He stated that it is important to keep in mind that we see write offs early within a fund's life relative to the positive performance within the portfolio and it's not abnormal to see this with other similar funds they manage. He stated that the overall portfolio is healthy and that the firm doesn't have any changes to our overall return expectations for the fund.

**Chair Schwartz** questioned the amount of the write down for Miller Heiman. The Representative noted that the cost basis was \$3.5 million.

Ms. Hagan noted that when you look at SSOF financial statements, they include the 1% that Hamilton Lane invests and stated for the Board that the NCIC investment was \$3,765,124. She stated that we received a combination of principal and interest over the last couple of years in the amount of \$369,189 making the net loss of the investment for NCIC \$3.3million.

**Richard Bartholet** questioned the financial statements on page 9 that appears to show the fair value as \$1.14 million and noted that the fair value in the financial statements appears to include the written off. The Representative noted that was correct and stated it was the remaining fair value as of June 30, 2016 and as of September 30, 2016, we can expect it to be written down to zero.

Ms. Hagan questioned that the representative previously stated that it was \$0.32 on a \$1.00 and wanted to know why the number is zero now. The Representative explained that as of June 30<sup>th</sup> it was valued at \$0.32; however, because of what has transpired since the June 30, 2016 it has trended in a negative direction; therefore the investment is expected to be written down to \$0.00 in the September 30 2016 financials

Ms. Hagan stated that Hamilton Lane has left \$3 million for any kind of expenses related to the fund and explained that the statement shows \$42.9 million as of June 30 and questioned the difference. The Representative explained that the \$3 million is net of fees which are included within the NCIC commitment.

The Representative gave an update on the ancillary performance of the portfolio stating that they have 25 companies who receive funding through SSOF and their partners; they have invested \$530 million in Nevada companies which have supported over \$2 billion of total investments within those companies. In terms of progress on the ecosystem, he noted that 5 private equity offices have been opened, within the state of Nevada, and we now have 7 managers actively looking for opportunities within the state. He noted that they are supporting 1,660 employees which have grown 15% from their initial investment and the salaries are higher salaries than average and they are exceeding state and national benchmarks.

**Vice Chair Nair motioned to accept the SSOF annual report for period ending June 30, 2016. Richard Bartholet seconded the motion. Motion passed unanimously.**

**6) For possible action: Presentation of SSOF's FY 2016 Financial Statements (Hamilton Lane Representative)**

Samantha Leandry with Hamilton Lane noted that she oversaw the June 30, 2016 audit engagement for the SSOF. She stated that the firm does engage an outside third party administrator who is responsible for maintaining the official books and records of the Fund. She noted that on an annual basis they engage Ernst and Young, which is an accounting firm, to perform an annual audit of the financial statements. This firm reviews all cash positions, looks at all investment income and expense information and pays attention to high risk areas such as investment valuations, carried interest accrual and the management fees.. Ms. Leandry also reviewed the valuation approach regarding the underlying fund investments and co-investments in the Fund. She stated that they engage a third party outside evaluation firm to value all of the underlying holdings.

No discussion on this item

**Vice Chair Nair motioned to accept the SSOF's FY 2016 Financial Statements presented by Hamilton Lane. Wayne Tew seconded the motion. Motion passed unanimously.**

**7) For possible action: Presentation of the NCIC FY 2016 Financial Statements (Dan Carter, Eide Bailly)**

The Representative pointed out, in regards to the independent auditors report, they were happy to present that the firm is issuing an unmodified opinion on the financial statements of NCIC which is the highest level of assurance they can provide. He reviewed the various changes from this year to last year and noted issues impacting NCIC. He stated that the notes to the financial statement are very consistent to the prior year with only one substantial change being the implementation of GASB 72. The Representative explained that GASB 72 requires NCIC to report the fair value of the investment in the new hierarchy of level one, level two or level three inputs and because of the type of investment the SSOF represents to NCIC, it is a level three input.

In regards to the internal controls, the Representative stated that they identified one issue, similar to last year, which was the fact that NCIC hires their firm to prepare the financial statements, they deem that to be a weakness with internal control, primarily around the timeliness of financial statement preparation. No discussion on this item.

**Ash Mirchandani motioned to accept the NCIC FY 2016 Financial Statements presented by Eide Bailly. Vice Chair Nair seconded the motion. Motion passed unanimously.**

**8) For possible action: Review and approve the 2017 NCIC Board of Directors meeting dates.**

Ms. Hagan asked for approval of the 2017 NCIC Board of Directors meeting dates and stated that staff is recommending to move the meetings to teleconference meetings three out of the four dates and the Board will meet one time during the year in-person

**Vice Chair Nair motioned to accept the 2017 NCIC Board of Directors meeting dates. Richard Bartholet seconded the motion. Motion passed unanimously.**

**9) Public Comment**

**Treasurer Schwartz** asked Ms. Hagan to provide an update to the Board regarding the Nevada Administrative Code (NAC) regulation changes which staff submitted to the Legislative Counsel Bureau (LCB).

Ms. Hagan explained that when the Board met in the spring or summer the Board approved a NAC regulation change which expanded the investments option available for idle capital. We conducted workshops and other requirements surrounding the regulation change and it's currently with LCB. Ms. Hagan stated that she believes the Legislative Commission will have another meeting in December and these regulations will be considered. She stated that we will continue to keep the Board updated on the status of the regulation change.

There was no public comment in Carson City or on the telephone.

The meeting was closed at 10:31 a.m.

Attest:

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Budd Milazzo, Secretary to the Board