

NEVADA CAPITAL INVESTMENT CORPORATION

MINUTES OF BOARD OF DIRECTORS MEETING

Thursday, May 4, 2017

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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 1:40 p.m., on Thursday, May 4, 2017. The meeting was held via teleconference and videoconference.

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
Wayne Howle,	Nevada Attorney General's Office

**AGENDA**

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

The meeting was called to order at 1:40 p.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 November 17, 2016 meeting minutes.**

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

**5) For Possible Action: Board review and discuss an investment in an operating agreement with Accion, LLC. to assist the Permanent School Fund in increasing its yield while supporting micro-lending in Nevada. (Greg Henderson, Accion)**

Chairman Schwartz noted that the investment in Accion will enhance the returns in the Permanent School Fund and assist Nevada small business owners which differ from the larger Nevada businesses which are invested in through Hamilton Lane and the Silver State Opportunities Fund.

The Accion Representative noted that an investment option for the Permanent School Fund is a 10 year Limited Liability Company (LLC) member investment. He explained the agreed upon investment of \$1million will go into the LLC, once it's formed upon execution of the operating agreement. The two members will be NCIC and the Accion LLC. He noted that the money which is invested is lent to Accion's Non Profit micro lender who in turn lends the money in Nevada to micro-businesses. He explained that 90% of the clients they loan monies to are low to moderate income or women and minority entrepreneurs. Accion Non Profit conducts the necessary due diligence or underwriting to ensure the loans are for an existing business. He noted that most loans by Accion are either too small or too risky (start-up businesses operating for less than one-year) for banks to consider or make profitable. He stated that year over year Accion has a 97% repayment rate and that it budgets for all of the losses. He noted that there are three methods of estimating their loan loss allowance and that Accion chooses the most conservative method to ensure they are planning for potential loan losses in the future. He stated that when Accion loans \$10,000 for example, per the 2016 Financial Statements, it is accruing 8.3% for potential losses on that loan making it \$830 in a loan loss provision stated in the financials for every \$10,000 loan. He noted that this is not a cash item but accrual accounting item which helps Accion hedge against potential future losses.

The Representative stated that Accion covers about two-thirds of its cost in the amounts charged to clients and one-third is covered via contributions, state and federal, corporations, individuals or foundations. He stated that the monies from NCIC in the LLC would be invested and not used to make loans. However, there is a small fee to the LLC, but that the vast majority would be their own funds that they raise or charge their clients. He stated that is what Accion will bring to the table and they are asking us for loan capital. He explained that all their borrowed funds and all their LLC funds are used for lending to clients and none is used for operations or expenses of any kind and emphasized that they absorb the losses and return all the capital to the Permanent School Fund (PSF). He noted that the return is a minimum 2.5% but will be adjusted annually over the 10 year life of the LLC. He stated that the monies (\$1 million) will be invested in the LLC and Accion LLC will also contribute a small amount (\$1,000) to the LLC; these monies will then be lent to the Accion Non Profit. He noted that the interest rate paid to the LLC is an Internal Revenue Service (IRS) Section 1274D rate which is published monthly. He noted that this rate will be adjusted annually each year in July to the IRS published rate. He noted that the current rate is 2.75% and currently the fee paid to Accion Non Profit is 0.25% which then guarantees the minimum rate of 2.5% to the LLC. The fee paid to Accion Non Profit cannot exceed 0.33% or whatever would bring the rate paid to the LLC to less than 2.5%.

**Wayne Tew** asked if the NCIC investment is only indirectly affected by the quality of the underwriting and whether or not it supports Accion's ability to survive financially. He noted that this also includes contributions received that cover the one-third costs.

The Representative stated that is correct.

**Wayne Tew** inquired as to the average loan size, interest rate and term and wanted to know what the specifics about the underwriting criteria Accion uses.

The Representative stated that the average loan size has varied over the years but it's in the loan range of about \$10,000 to \$15,000. The average term is just over two years and the average interest paid is 10.5%. As far as the underwriting criteria, the representative stated they look at the same variables the bank looks at but they are a little more flexible because they are a nonprofit. They look at personal credit, sources of income/cash flow and they require collateral on the loan as well.

**Wayne Tew** asked if Accion's intent is to be a first time lender of a last resort to get people back into the normal financial sphere and if their business grows then they are more likely to receive a larger loan from a credit union or bank eventually.

The Representative said yes, Accion's goal is to get their clients to refinance the loans back at their banks. They noted that approximately 30% of their borrowers were referred to them by a bank because the bank doesn't want the risk of loaning to them.

**Chair Schwartz** asked what the return on the Permanent School Fund is currently. He noted the primary purpose is to return a higher yield to the PSF and the secondary benefit is supporting Accion and micro lending in Nevada.

Ms. Hagan noted that the majority of the PSF is invested in government fixed income and although staff has started to invest in public equities the return is overall lower than some of the other portfolios managed by the Treasurer's Office. She stated that as of 12/31/16 the return for the entire PSF was approximately 1%.

**Wayne Tew** questioned who the oversight is for Accion.

The Representative stated they have a board of directors which is comprised of entrepreneurs, lawyers and bank executives which meet quarterly.

**Ash Mirchandani** commented that he believes in Accion and he thinks they are a great organization. He stated that his concerns with this type of funding due to the risks associated but also knows there is a large need for micro lending in Nevada. He noted that he had spoken to Ms. Hagan regarding some of his concerns and asks that she share those with the other Board members.

Ms. Hagan noted that Mr. Mirchandani would like more information regarding the protections to the Board and the \$1million investment particularly surrounding the financial health of Accion. She noted that she discussed these concerns with Accion and that the representatives will address debt to equity

ratios and she also noted that Accion provided the 2016 financial statements this week which indicate a substantial increase in the growth of the non-profit entity.

The Representative from Accion stated that since 2004 they've grown from \$4 million to \$45 million and from one state to now across five states. He stated that their net assets or equity in the for-profit world to total assets or debt to equity ratio has stayed very close to one to one since 2004. He noted that Accion attempts to anchor their growth with healthy income every year and set their fundraising goals at a level that projects an increase in their receivables and that they try to do that in a very conservative way. He also stated that in twenty two years they've never had an annual deficit. He also noted that the LLC operating agreements have increased since 2007 and named several partners, such as Wells Fargo Bank, Bank of America, City of Denver, Zion Bank and others. He also stated that many have entered into more agreements or extended the current agreement.

**Ash Mirchandani** asked if the fund starts to lose money due to the economy, what protections do we have.

The Representative explained that Accion uses three methods to calculate their loan loss allowance, stating that they back tested these through the recession and updated them as a result of the recession and they have not changed them since. He stated that even going through a very significant recession they have never had a year of a deficit and never had any real threat to them economically.

**Wayne Tew** clarified that he thought Ash's concern was what happens if there is a default on the part of Accion. He said that it's no different than if we have a default with one of our other investments. We are at risk, but it's a fairly conservative risk given the track record of Accion.

**Wayne Tew** asked as soon as we fund this do we go down as a note payable or do we go back as a non-controlling interest in the LLC.

The Representative stated that we are a non-controlling interest.

Board members had a lengthy discussion regarding the merits of the investment, the rate of return to the PSF and the risk associated with this investment along with the others associated with NCIC. The members were satisfied with the information provided by Accion and look forward to discussing with staff the reporting associated with the investment.

**Richard Bartholet** stated he spent 19 years with the Small Business Center and noted that he really likes the concept of this and commented that micro lending is very important because about 95% of new job creation in Nevada is with small businesses and it does have a significant impact on our economy. Mr. Bartholet questioned if the Treasurer's Staff could tell the Board what the due diligence process has been and who will be taking responsibility for the due diligence efforts.

Tara Hagan stated that this would be the first investment for NCIC that sits outside Hamilton Lane and the Silver State Opportunities fund; therefore, the Treasurer's Office staff has worked with Accion to modify the agreement to ensure a better upside potential if interest rates rise and also ensure that certain reports are received. The Treasurer's Office is happy to put together a packet for the Board with some ideas of due diligence efforts.

Grant Hewitt stated that in a previous board meeting about 18 months ago, the Board hired Hamilton Lane to conduct due diligence in regards to the financial health of Accion and risks associated with the investment. He noted that this is a public document which can be shared with the Board at a future meeting.

Wayne Howell, Deputy Attorney General, commented that he was satisfied with the Treasurer's Office and its due diligence efforts to date. He stated that he has looked at the statutory provisions under Nevada Revised Statute 355.340 pertaining to due diligence and control. He noted that he believes that the NCIC Board has the appropriate authority in statute to make this investment. He noted that these are his personal beliefs and not necessarily the opinion of the Nevada Attorney General.

Ash Mirchandani noted that he needed to be excused from the meeting and questioned if the Chair or members wanted him to call later or if they should make a decision on this agenda item now.

**Chair Schwartz then called for a vote on agenda item #5 which is to invest in an operating agreement with Accion, LLC to assist the Permanent School Fund in increasing its yield while supporting micro lending in Nevada. Motion passed unanimously.**

**6) For possible action: Presentation of Silver State Opportunities Fund (SSOF) report ending December 31, 2016 (Miguel Luina – Hamilton Lane)**

Miguel Luina with Hamilton Lane stated they distributed the December 31, 2016 report and that overall it is very pleased with where the portfolio stands presently. He noted that Board members had an opportunity in the fall of 2016 to meet with many of the personnel associated with the investments in SSOF. He stated that this helped to show the diversification and quality of the companies. He noted that the fund investments in SSOF are generating close to a 12% annual return which is very good for this early stage in the investments. He stated that four of the seven funds are in double digits. He opined that three funds are not in double digits but are performing very well and are expected to be significantly higher in the near future. Mr. Luina explained that as the portfolio starts to mature the fund is starting to return capital to the PSF. He stated the fund has returned close to \$4 million out of the invested capital which was primarily driven by some early exits within the fund as well as current return from some those investments we made later. He stated that between Hamilton Lane and the fund managers they have invested \$530 million into Nevada companies and those dollars have come in largely as equity or junior capital and have supported addition debt for those business to raise. He noted that when you combine the investment and the debt, the fund has supported nearly \$2 billion. As of June 30, 2016 Hamilton Lane is supporting 1,700 Nevada employees across the portfolio; hired 220 employees within the state across the portfolio which is over 15% employment since we've invested in these companies.

Richard Bartholet wanted clarification regarding the management fees and why there was a significant increase from December 31, 2016 to June 30, 2016 located on page 2 - 4 of the financial statement.

The Representative stated that their investment period ended in July of 2016 and per contract their management fee stepped down to invested capital and so the management fee for the six month period is lower on an ongoing basis than it was during the investment period.

No action by the Board.

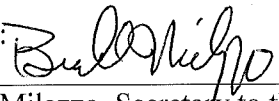
**7) Public Comment**

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

Mr. Tew motioned to adjourn the meeting. Mr. Bartholet seconded the motion.

The meeting was closed at 2:50 p.m.

Attest:

  
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Budd Milazzo, Secretary to the Board