



**Final - Approved on February 1, 2018**

**REPORT OF THE FINANCE COMMITTEE ON INVESTMENTS**

**October 19, 2017**

The Finance Committee on Investments met at 11:00 a.m. on October 19, 2017 at Keene State College in Keene, NH. Present were Committee members: Morgan Rutman (Chair), Ted Dey, Amy Begg, and Catherine Provencher; Trustees Shawn Jasper and PSU President Don Birx

Also in attendance: Kate Dumas from Prime Buchholz; and additional USNH staff members.

**I. APPROVE MINUTES**

The Committee voted to approve the minutes of the June 22, 2017 meeting.

**II. ITEMS FOR COMMITTEE DISCUSSION AND POSSIBLE ACTION**

A. Endowment pool performance

1. Review FY17 actual results

Ms. Dumas reviewed performance results from the fiscal year ending June 30, 2017. She noted a return of 13% for the fiscal year ending June 30, 2017 and said that the return was above both the policy and actual index. There was a discussion about USNH's performance relative to the Plan Sponsor Peer Group and the fact that USNH performance is reported net of fees where the Plan Sponsor Peer Group is reported gross excluding fees. Chairman Rutman asked if Prime could provide a comparison using the same methodology. Ms. Dumas said that the NACUBO endowment study results would be reported in February, and they provide a good comparison with other higher education institutions.

2. Portfolio review and performance for period ending September 30, 2017

Ms. Dumas reviewed performance results and activity for the period ending September 30, 2017 noting returns of 1.7% for the month, 3.3% for the quarter, and 10.7% for the calendar year to date. The market value at September 30 was \$509.2 million. She noted that USNH is slightly over-weighted in public equity compared to target and reviewed performance by segment. She discussed liquidity of the overall portfolio and said that approximately 50% of the portfolio is liquid on a daily basis.

B. Consider recommendations for portfolio rebalance/restructure

Mr. Dumas reviewed recommendations from Prime Buchholz for rebalancing the portfolio in the Domestic Equity, Flexible Capital and Emerging Market segments. The Committee discussed in-person or over the phone manager visits with active managers and while not required by policy,

thought it would be prudent to meet with managers periodically even though due diligence activities are primarily outsourced to Prime Buchholz. Ms. Dumas described the due diligence Prime conducts on a quarterly basis and she said additional details of the due diligence performed could be shared with the Committee as requested. For certain newly recommended investments, Ms Dumas said that she would share the more detailed reports with the Committee, and specifically, at the request of Chairman Rutman, the additional Flexible Capital manager reports as well. After discussion, the Committee took the following action:

**MOVED**, that the Investment Committee approve rebalance actions as recommended by Prime Buchholz to include:

- 1) Full redemption of the Vanguard Institutional Fund (approximately \$73 million), the proceeds of which to be invested in the Schwab S&P 500 Index Fund.
- 2) Invest the proceeds of the liquidation of BGA Horizon Fund (Par) and Weatherlow Offshore Fund as follows: \$1.75 million in Davidson Kempner Institutional Partners; \$2 million in Varde Investment Partners Offshore, LTD and the remaining balance of approximately \$24 million divided between Lakewood Capital and Palestra Offshore Fund (approximately \$12 million each).
- 3) Full liquidation of Parametric Emerging Markets (approximately \$14 million), the proceeds of which to be invested in Wellington Emerging Markets.
- 4) AND Further, that the Investment Committee approve an exception to the current Investment Guideline H.4.1.2 to allow for a single investment in the new Schwab Fund to exceed \$50 million as recommended by Prime Buchholz

The Committee requested that the Treasurer's Office and Prime Buchholz execute the Domestic Equity piece of the rebalance recommendation in the most efficient manner possible to minimize the market risk impact associated with the time and the amount of funds that would be in transition and not invested. It is estimated that the transition will take 1 day. The Treasurer's Office will work with Prime to that end, possibly phasing in the money from one manager to another rather than moving all at once.

The Committee discussed the allocation to Private Equity and discussed an investment opportunity. Ms. Dumas said that the reason why Prime does not include this fund on its recommended list is that Prime does not at this point have direct access. The USNH access came from a former member of the Committee. Chairman Rutman asked Prime to conduct due diligence on the investment and the Committee authorized USNH to execute a non-binding indication of interest. Assuming successful due diligence, it is anticipated that this would be a Prime Buchholz recommended investment in time to make the actual commitment to this fund.

C. Review Committee policy, charter and consider revisions to the guidelines

**MOVED**, on recommendation of the Treasurer that the attached revisions to the Investment Guidelines be approved

{The Committee deferred this item to the next meeting}

A. Review Operating Investments Portfolio

The Committee reviewed the performance of the operating cash portfolio noting that the portfolio return fiscal year to date is yield .4% and calendar YTD is 1.5%. Prime was asked to conduct a stress test to see how the portfolio would perform in a sudden market drop. The Committee discussed the need to integrate the cash flow projections with the multi-year plan to refine the amount of operating cash needed in the longer-term.

## **B. OTHER BUSINESS**

1. Chairman Rutman asked Prime to make a recommendation, either in terms of asset allocation or an investment product designed to protect capital invested in equity markets during a sudden downturn in the market. The recommendations and the idea of cushioning the downside will be explored more at the next meeting.
2. Chairman asked that the next Investment Committee meeting be scheduled for 90 minutes rather than 60 minutes.
3. Next scheduled meeting date is February 1, 2018.
4. The Committee adjourned at 12:05 p.m.