



Draft for Committee Review and Approval

REPORT OF THE FINANCE COMMITTEE ON INVESTMENTS

February 1, 2018

The Finance Committee on Investments met at 10:45 a.m. on February 1, 2018 at Plymouth State University in Plymouth, NH. Present were Committee members: Morgan Rutman (Chair), Ted Dey, Amy Begg, and Catherine Provencher; Trustees Rick Ladd and John Small

Also in attendance: Kate Dumas and Bill McCarron from Prime Buchholz; Dan MacDougall from Adage and additional USNH staff members.

I. APPROVE MINUTES

The Committee voted to approve the minutes of the October 19, 2017 meeting and the January 24, 2018 meeting.

II. Items for Committee discussion and possible action

At 10:45 a.m. Chairman Rutman called the meeting to order and asked those in attendance to introduce themselves. He welcomed Dan MacDougall from Adage, noting that both USNH and the UNH Foundation have a strong positive history with Adage and that Adage represents the largest allocation in both portfolios.

Mr. MacDougall from Adage Capital Management gave an overview of his firm discussing their strategy, track record, management approach, ownership structure and compensation. He noted their objective is to beat the S&P 500 by 2-4% after fees. He reviewed their fee structure noting that all clients are charged the same fees.

Mr. MacDougall reviewed Adage's valuation process and risk profile. He said the overall total portfolio risk is actively managed by maintaining a balance between the analysts' portfolios. He answered questions from Committee members about general performance and performance during market downturns or interruptions in the banking industry. In response to a question, he described their research and due diligence regarding management in the corporations in which they invest.

A. Endowment and operating cash portfolio review

Ms. Dumas briefly recapped the decision made at the special meeting held on January 24 to invest in Battery Ventures XII. Chairman Rutman said the standard process is for potential investment opportunities to be recommended by Prime Buchholz before a decision to invest is made. Battery had an earlier than anticipated close which required a decision prior to this meeting and prior to the formal

approval by Prime Buchholz. He noted this was a unique opportunity and Prime Buchholz had completed enough of their due diligence that the Committee felt comfortable.

Ms. Dumas reviewed performance results from the period ending December 31, 2017. She noted a return of 14.7% for the calendar year and 13% for the fiscal year. She discussed performance by sector and highlighted over and under-performing managers. She shared results of the NACUBO Endowment Study and noted that USNH with a 13% return for the fiscal year is ahead of the NACUBO average of 12.2%, and the average return for institutions over \$500 million of 12.7%.

Ms. Dumas reviewed recommendations from Prime Buchholz for rebalancing the portfolio. The Committee discussed the need to fund an endowment payout in February. After discussion, the following action was taken:

VOTED, that the Investment Committee approve rebalance actions as recommended by Prime Buchholz and amended by the Committee to include:

- 1) Redemption of \$11 million in Schwab S&P 500 Index Fund.
 - 2) Redemption of \$5 million in iShares EAFE Index ETF
 - 3) Redemption of \$5 million in Vanguard FTSE Emerging Markets ETF
- Invest \$5 million of proceeds in IRM US Intermediate Term Treasury account
Invest \$2.5 million of proceeds and any cash not projected to be needed in IRM TIPS account
Invest \$10 million in FPA Crescent Fund

{This motion was unanimously approved by the Committee}

B. Report on actions taken between meetings

Report accepted as submitted without discussion.

C. Endowment and Operating stress testing and protection options

Ms. Dumas called attention to the materials provided in advance on stress testing the portfolio and said Prime Buchholz would be happy to answer questions at the next meeting.

D. Approve endowment payout proposal

VOTED, on recommendation of the Chancellor that the following motion be presented for consideration by the Financial Affairs Committee.

MOVED, on recommendation of the Investment Committee, that payout from the USNH endowment pool to support purpose for fiscal year 2019 be approved at 4.0% of the trailing twelve quarter average market value per unit as of December 31, 2017, and that the administrative fee payout be not more than 1% of the market value per unit at December 31, 2017, with both components to be paid regardless of the current market value of individual endowment funds as allowed under the Uniform Prudent

Management of Institutional Funds Act (UPMIFA) which was adopted by USNH in 2009.

{This motion was unanimously approved by the Committee}

Vice Chancellor Provencher said endowment payout has been discussed at various times over the last year and management recommends that the FY19 payout to purpose unit rate be set at 4.0% of the trailing twelve quarter average market value per unit as of December 31, 2017, and the payout for administrative fee be set at 1% of the December 31, 2017 market value per unit.

In response to a question, Chairman Rutman said 12 quarters is used because it is long enough to smooth the volatility trends. He noted that the UNH Foundation uses a 12 quarter moving average for payout and there are advantages to having both portfolios using the same methodology.

E. Review Committee policy, charter and consider revisions to Investment guidelines

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

{This motion was unanimously approved by the Committee}

Vice Chancellor Provencher pointed out three changes to the Investment Guidelines. She said the Treasurer's Office in consultation with the System's investment advisor have reviewed the guidelines and certain requirements appear to be limiting to the effective and optimal operations and/or no longer applicable. She said the first change is to the proposed payout methodology and moving to a percentage of a trailing 12 quarter moving average. The second change is formalizing in the guidelines the authority of the USNH Treasurer and Investment Committee Chair to act between meetings under certain circumstances and up to \$10 million dollars. Chairman Rutman said he does not anticipate using this authority often, but it reduces the risk of the negative impact of missing opportunities or waiting for the next meeting in order to react to market changes. The third change is in the section on monitoring credit risk and establishes maximum concentrations in managers and funds by percentage rather than a hard dollar cap. This change is being made to reflect the growth in the portfolio and to adopt guidelines in line with peers.

III. OTHER BUSINESS

- A. Chairman Rutman asked Prime to make a recommendations for additional investments in Private Equity for the Committee's consideration.
- B. Next scheduled meeting date is April 19, 2018 at UNH
- C. The Committee adjourned at 12:15 p.m.