



Draft for Committee Review and Approval

**REPORT OF THE FINANCE COMMITTEE ON INVESTMENTS
January 17, 2019**

The Finance Committee on Investments met at 11:30 a.m. on January 17, 2019 at Keene State College in Keene, NH. Present were Committee members: Morgan Rutman (Chair), Ken Moulton, and Catherine Provencher; Trustee Burnett and Rhonda Hensley representing the Governor.

Also in attendance: System Office staff, Jeff Croteau, Kate Dumas and Ryan O'Quinn from Prime Buchholz; and for the non-public session Heidi Pearlson and Steve Berger from Adamas Investment.

I. APPROVE MINUTES

On motion of Trustee Moulton and duly seconded, The Committee voted to approve the minutes of the October 25, 2018 meeting.

II. Items for Committee discussion and possible action

A. Nonpublic session

At 11:35 a.m. Vice Chancellor Provencher made the following motion to enter into nonpublic session and it was seconded by Trustee Moulton and approved unanimously by roll call vote. In addition to trustees, system staff, Ms. Dumas, Mr. Croteau and Mr. O'Quinn from Prime Buchholz and Ms. Pearlson and Mr. Berger from Adamas attended the non-public session.

MOVED, that the USNH Board of Trustees Finance Committee for Investment go into nonpublic session for the purposes of discussing the proprietary, confidential, commercial, and financial information of a private third party that is exempt from disclosure under RSA 91-A:5, IV.

Return to Public Session

Upon a motion to exit nonpublic session, made by Trustee Moulton, duly seconded, and approved, Chairman Rutman reconvened the public meeting at 12:30 p.m. and announced that the Committee received a report from Adamas Partners on USNH investments in Adamas Partners, LP and Adamas opportunities, LP.

B. Endowment and Operating Cash Portfolio Review for period ending December 31, 2018.

Because of time constraints, Mr. Croteau referred Committee members to the performance results as of December 31, 2018 indicating that he would be happy to answer any questions.

Mr. Croteau updated the Committee on the winddown of the Highfields investment and said the first return of \$13 million in cash was on December 31. He reviewed a recommendation from Prime Buchholz for rebalance of the portfolio. He noted that at the time of the posting of materials, the December results were not yet available so the rebalance was based on estimates.

After discussing the timing of the recommended actions, (February 1 for Varde and Farallon, and as soon as possible for Schwab) the Committee took the following action on motion by Trustee Moulton and duly seconded:

VOTED, that the Investment Committee approve the following rebalance actions as recommended by Prime Buchholz from existing endowment cash to include:

- 1) An investment of \$5.92 million in Schwab S&P 500 Index
- 2) An investment of \$4 million in Varde Investment Partners Offshore, Ltd.
- 3) An investment of \$ 4 million in Farallon Capital Institutional Partners

{The Committee unanimously approved the motion}

C. Review Asset Allocation

Mr. Croteau described Prime Buchholz's philosophy for asset allocation and reviewed modeling which showed expected return of the asset allocation of the current policy, the NACUBO/Commonfund (NCES) endowment study allocation for endowments of similar sizes, and a recommendation for an allocation with a higher percentage in private equity although a similar total allocation within what they consider the 'growth engine' of the portfolio (Global Public and Private Equity & Flexible Capital). He noted that NCES peers have slightly higher returns with more volatility. Mr. Croteau said Prime Buchholz is recommending that USNH increase its allocation to Private Equity over a four to six year period. The current range for allocation to Private Equity is 0 to 15%, and the recommendation is to increase the upper end of the range to 20% with a target of 15%. To accomplish this with current commitments and distributions, USNH will need to make new commitments of approximately \$18 million per year.

The Committee considered the recommendation and asked questions on risk, return and timing. In response to Chairman Rutman's observation about the lack of credit exposure, Mr. Croteau said that the portfolio has some limited credit exposure through Farallon, Varde and Adamas but would consider investments in that area opportunistic and would also be part of the allocation to Private Equity.

On motion of Vice Chancellor Provencher and duly seconded, the Investment Committee took the following action:

VOTED, that the Investment Committee approve a change to its asset allocation guidelines to increase to its allocation to Private Equity over a period of five years from the current target of 5% to a target of 15% while reducing the targets for Global Public Equity and Flexible Capital by 5% each.

{The Committee unanimously approved the motion}

The Treasurer's Office will work with Prime Buchholz and bring revised guidelines (ranges) considering the new targets for approval to the April meeting.

D. Approve Endowment Payout for FY20

On motion of Vice Chancellor Provencher and duly seconded the Committee took the following action:

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 the purposes specified by the respective donors be approved for fiscal year 2020 at 4.0% of the trailing twelve quarter average market value per unit as of December 31, 2018, and that the administrative fee payout be not more than 1% of the trailing twelve quarter average market value per unit as of December 31, 2018, 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 AND FURTHER, that the Investment Guidelines be revised to clarify that the 1% Administrative Fee is based on the trailing twelve quarter average market value per unit as of the preceding December 31.

{The Committee voted unanimously in favor of this motion}

Vice Chancellor Provencher said it is the responsibility of the Investment Committee to recommend endowment spending guidelines to the Financial Affairs Committee each year for the amounts to be allocated for "purpose" and "administrative fees." Management is recommending that the FY20 payout to purpose and the payout for administrative fee be set at 4.0% and 1% of the average market value per unit for the twelve quarters ended December 31, 2018, respectively. She said this proposed action is consistent with last year's payout to purpose and a change for payout for administration to be consistent with industry practice and the UNH Foundation. If approved, USNH will revise the Investment Guidelines to clarify that payout for administrative fee is based on the 12 Quarter moving average rather than the market value as of December 31.

In response to a question, Vice Chancellor Provencher said the UNH Foundation uses the same methodology but has a payout to purpose of 4.25%.

III. Information Items – The items below were not discussed.

- A. Private Equity investment approval process
- B. Benefits Cost Containment Quasi Endowment
- C. Discussion on Investment Advisory Services

IV. OTHER BUSINESS

- A. Comments by the Chair

Chairman Rutman suggested that periodic educational sessions with Prime Buchholz would be beneficial and asked Vice Chancellor Provencher to consult with the General Counsel to see how this could be accomplished while still adhering to the laws governing public meetings. If possible, he suggested that the first session is scheduled in February.

- B. Next scheduled meeting date is April 25, 2019 at UNH.
- C. The Committee adjourned at 1:05 p.m.