REPORT OF THE FINANCE COMMITTEE ON INVESTMENTS
Meeting
January 16, 2020

The Finance Committee on Investments met at 11:30 a.m. on January 16, 2020 at the UNH Franklin Pierce School of Law in Concord, NH. Present were Committee members: Morgan Rutman (Chair), Mike Pilot, George Hansel, Todd Black and Catherine Provencher

Also in attendance: Jeff Croteau, Ryan O’Quinn, and Kate Dumas from Prime Buchholz, and Karen Benincasa and Lorna Jacobsen from USNH.

Chairman Rutman called the meeting to order at 11:30 am.

I. APPROVAL OF MINUTES (Moved by Vice Chancellor Provencher and duly seconded)

VOTED, that the minutes of the June 27, 2019 and September 19, 2019 meetings.

be approved

{The Committee voted unanimously to approve this motion}

II. ITEMS FOR COMMITTEE DISCUSSION AND POSSIBLE ACTION

A. Approve FY21 payout distribution from endowment

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

MOVED, on recommendation of the Investment Committee, that payout from the USNH endowment pool to support purpose for fiscal year 2021 be approved at 4.0% of the trailing twelve quarter average market value per unit as of December 31, 2019, and that the administrative fee payout be not more than 1% of the trailing twelve quarter average market value per unit at December 31, 2019, 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.

{The Committee voted unanimously to approve this motion}
Vice Chancellor Provencher said Management recommends that the FY21 payout to purpose unit rate be set at 4.0% of the trailing twelve quarter average market value per unit as of December 31, 2019, and the payout for administrative fee be set at 1% of the trailing twelve quarter average market value per unit as of December 31, 2019. She noted that the proposed methodology is the same as the prior year and that it is consistent with the methodology used by the UNHF.

Information on UPMIFA, historical payout, and the purposes for which payout is used was discussed. Chairman Rutman asked that information on the endowment payout for 2017 and 2018 be provided so Committee members could understand how the funds are used on the campuses.

B. Endowment and Operating Cash Portfolio Review and Performance for the period ending December 31, 2019

Mr. Croteau reviewed performance results as of December 31, 2019 noting a 19.2% for the calendar year. He discussed performance by sector pointing out over and under-performing managers. Mr. Croteau said the market value of the endowment at the end of December is $566 million and noted that when Prime Buchholz was engaged in 2009, the value of the endowment was $144 million. The Committee discussed liquidity in the portfolio and Mr. Croteau noted that $256 million is available daily. The criteria used to terminate a manager was shared and Mr. Croteau said Prime Buchholz tends to be patient with managers if they understand the cause of the underperformance and provided the strategy and people have not changed.

For the benefit of the new Committee members, Mr. Croteau described the structure of Prime Buchholz, assets under management, number of clients and the services they provide.

The Committee discussed the return of capital from the Adamas investment and after discussion, on motion of Trustee Rutman and duly seconded took the following action:

VOTED, that the Investment Committee approve the following rebalance actions as recommended by Prime Buchholz to include: 1) Investment of $5 million in Lakewood Capital Offshore Fund Ltd., 2) Investment of $5 million in Palestra Capital Offshore Fund, Ltd., and 3) the remaining balance of the proceeds from Adamas Funds return of capital be invested in other equity funds.

{The Committee voted unanimously to approve this motion}

Mr. Croteau reviewed the performance of the operating cash portfolio reporting a fiscal year to date return of 1.1% and a calendar year to date of 3.4%. He said market value at the end of December was $283 million but varies over the course of the year. It was noted that the annual return assumption used by USNH for the Cash and Short-term investment pool is 1% and that this past year return (fiscal and calendar year) was very unusual and not something that can be expected on an annual basis.

C. Nonpublic Session

At 12:35 p.m. the following motion to enter nonpublic session was made by Trustee Pilot. The motion was duly seconded and approved by roll call vote. In addition to trustees, representatives from Prime Buchholz and system administrators 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.

Upon a motion to exit nonpublic session, made by Trustee Hansel, duly seconded, and approved, Chairman Rutman reconvened the public meeting at 12:45 p.m. and announced that the Committee took the following actions during nonpublic session:

VOTED, that the Investment Committee approve private equity commitments as recommended by Prime Buchholz to include: 1) A total commitment of $6 million in Battery Ventures XIII, L.P. with the default pro-rata to the side fund to be determined by Battery at close; and 2) A commitment of $5 million in Newbury Equity Partners VI main fund

{The Committee voted unanimously to approve this motion}

Chairman Rutman suggested that an educational session on private equity and venture capital be scheduled sometime before June to give Committee members a better understanding of USNH’s private equity investments, the different types of funds available, and Prime Buchholz’s internal review and due diligence process for private equity investments.

D. Recommendation on investment management services (Moved by Vice Chancellor Provencher and duly seconded)

VOTED, that USNH modify the level of investment services received from the existing investment advisor, Prime Buchholz, to provide OCIO services to USNH at no increase in cost over their current contract with USNH for endowment management services for a one year period; AND FURTHER that the USNH Treasurer be authorized to finalize and sign the contract with Prime Buchholz for OCIO services; AND FURTHER that the USNH Treasurer be authorized to update relevant USNH policies and guidelines as a result of the transition to the OCIO model.

{The Committee voted unanimously to approve this motion}

Vice Chancellor provided background on discussions that have taken place over the last year about the appropriate level of investment advisory services. She said that Prime Buchholz offered to increase their level of service to the OCIO level at no additional cost for a year to allow USNH to try the increased level of service prior to making a longer-term commitment to an OCIO model. She shared management’s recommendation to enter into a new contract with Prime Buchholz for OCIO services at no additional cost over the current contract, for a one-year trial period and that the UNSH Treasurer be authorized to finalize and sign the contract. At the end of the one-year period, the Investment Committee will evaluate and determine if the OCIO model is a good fit for USNH and worth the additional cost going forward. It is likely that an RFP will be issued at this point.
Mr. Croteau said that if the proposal is approved, he would serve as the CIO with Ms. Dumas and Mr. O’Quinn serving as deputy CIOs. He described the oversight within Prime Buchholz for this model and said that shifting to an OCIO model is becoming more and more common.

After a discussion of the benefits of the OCIO model and the risks that are transferred to Prime Buchholz and those that remain with USNH, the Committee voted to approve the recommendation. It was noted that the Committee retains responsibility to set the asset allocation and investment guidelines for the endowment fund which are reviewed by the Committee on an annual basis. Chairman Rutman indicated that he would like the Committee to review the asset allocation and investment guidelines in the near future as well as updated cash flow projections. Chairman Rutman thanked Prime Buchholz for their excellent service, competitive pricing and their willingness to offer a trial period.

III. OTHER BUSINESS

A. Next scheduled meeting date is April 23, 2020 at PSU

B. The Committee adjourned at 1:00 p.m.