



Draft for Committee Review and Approval

REPORT OF THE FINANCE COMMITTEE ON INVESTMENTS
Meeting
January 21, 2021

The Finance Committee on Investments met at 12:00 p.m. on January 21, 2021 via ZOOM/teleconference. Participating were Committee members: Morgan Rutman (Chair), Mike Pilot, Todd Black, Gregg Tewksbury, and Catherine Provencher; Trustees: Jamie Burnett, Joe Morone, Tyler Minnich, UNH President James Dean; PSU President Donald Birx, GSC President Mark Rubinstein; Student Jose Calvo

Also in attendance: Jeff Croteau, Ryan O'Quinn, and Kate Dumas from Prime Buchholz; Kerry Scala (UNH); Tracy Claybaugh and Lori Tetley (PSU), Ken Cody (KSC), Lisa Shawney (GSC), Karen Benincasa, Matt Purcell, and Lorna Jacobsen from USNH; and Samuel Karasek and Colin Rajala, journalists.

The following announcement was read by Lorna Jacobsen and attendance was taken.

This meeting is being held by electronic means in conformance with the Governor's emergency declaration of March 13, 2020, and subsequent emergency orders, as well as the applicable provisions of the New Hampshire Right-to-Know Law, RSA 91-A. If during the conduct of this meeting, anyone has difficulty connecting or staying connected to the video or audio feed please contact Tia Miller at Tia.miller@usnh.edu or 603-862-0918.

Chairman Rutman called the meeting to order at 12:30 pm. and a quorum sufficient to conduct business was noted.

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

VOTED, that the minutes of the October 22, 2020 meeting be approved.

{The Committee voted unanimously to approve this motion}

II. ITEMS FOR COMMITTEE DISCUSSION AND POSSIBLE ACTION

- A.** Review of market and Endowment and Operating Cash Portfolio Review and Performance for the period ending December 31, 2020.

Mr. O'Quinn commented on the past year and said that after a 20% drop in February 2020, at the end of the year the markets were at all-time highs today. He reported on how various markets performed.

Mr. Croteau responded to a question on the impact of the Committee's decision to raise cash in the portfolio due to the uncertainties caused by the pandemic. He said the portfolio has held 6-8% in cash since March, but the balance is currently higher because of a liquidation of a manager. Those funds (\$20 million) will be invested in two new managers in February which would leave approximately \$35-\$40 million of cash in the endowment pool. He said that the underperformance by holding higher cash was reduced by the outperformance of the managers and the overall experience was not too different from the policy index.

In response to a question, Mr. Croteau said that real assets, TIPS (Treasury Inflation-Protected Securities) and commodities are the current inflation protection assets in the portfolio.

Mr. Croteau shared portfolio performance results as of December 31, 2020. He noted that the portfolio had a return of 16.7% for the fiscal year to date and 11.5% for the calendar year to date. The market value of the portfolio is \$611 million. He discussed performance by sector pointing out over and under-performing managers. Mr. Croteau pointed out the returns in the private equity investments noting there is a lag in reporting and the results shown are through September and expected to be higher at year end. He reported the liquidation of the investment in Lakewood. He said the long-term target for return is 6.5% (5% real return and 1.5% inflation).

Mr. Croteau reviewed the short-term operating portfolio which at the end of December totaled \$209 million. He said performance has been positive, with a return of 2.5% for the calendar year to date and .7% for the fiscal year to date. He said the portfolio is generating a yield of 54 basis points and said it will be a challenge to get that same returns we have been realizing in most recent prior years in FY21 and FY22 but expects we will achieve the 1% projected return for FY21.

A. Recap of activity since the last meeting

Ms. Dumas discussed actions taken by Prime Buchholz on behalf of USNH and said that consistent with guidance from the committee, Prime Buchholz had continued to raise cash throughout 2020 as part of a risk mitigation strategy to position USNH for any uncertainties related to COVID 19. She reviewed rebalance actions and manager liquidations and replacements and noted an additional \$5 million investment with Greenspring in October.

Mr. Croteau said it had been an active year responding to a strong market and operating under the OCIO model was a big advantage. Chairman Rutman said that the one-year anniversary of the OCIO model implementation is upcoming and he thinks Prime Buchholz is doing an excellent job and it has been a good experience. Vice Chancellor Provencher said her team and Prime Buchholz were meeting next week to discuss the OCIO arrangement and would keep the committee updated. Mr. Croteau also mentioned the desire to review the asset allocation at the next meeting.

Mr. Croteau briefly described Prime's Private Equity due diligence process and Chairman Rutman suggested that an educational session be scheduled in the next few months so that Prime could discuss the process and diversification in more detail. The entire Board would be invited.

Following discussion of performance, Trustee Black asked how USNH is benchmarked with other endowments. Mr. Croteau said that USNH participates in the annual NACUBO endowment study which is specific to higher education endowments and Prime uses Investment Metrics which

benchmarks on size of endowment on a quarterly basis. The topic of benchmarking was suggested as an agenda item for the next meeting.

B. Preview of upcoming Trades

Ms. Dumas described upcoming actions in the portfolio and said that following the full redemption from Lakewood Capital, two new hedge fund investments have been scheduled for the beginning of February. USNH will be investing \$10 million in Engle Capital and \$10 million in Matrix Capital.

III. REVIEW CASH FLOW PROJECTIONS

Ms. Benincasa reviewed high level projected cash flow based on FY21 P1 update and projected cash flow for FY22 and FY23. She reviewed assumptions in the projection and noted that additional Federal CARES funding of approximately \$28M approved in December 2020 is not included in the projection. She said there is a \$99 million outflow in FY21 which is \$40 million more than budgeted, most of which is COVID related. She said based on the model, USNH will be at breakeven in FY22 and have a small operating margin in FY23. She reviewed the risks associated with the model and indicated that with the additional CARES funding, current projections indicate that we will have adequate cash funding for FY21 without using endowment fund cash. Vice Chancellor Provencher agreed with this assessment.

Trustee Rutman asked for an additional line on the cash flow projections showing the existence of the cash in the endowment that has been intentionally maintained during this period. Projected cash on hand, expressed in the number of operating days, were discussed and Ms. Benincasa announced that a Director of Treasury has been hired who will do more work on improving cash flow where opportunities currently exist.

APPROVE ENDOWMENT PAYOUT FOR FY22

VOTED, on recommendation of the Chief Administrative Officer 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 2022 be approved at 4.0% of the trailing twelve quarter average market value per unit as of December 31, 2020, and that the administrative fee payout be not more than 1% of the trailing twelve quarter average market value per unit at December 31, 2020, 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 unanimously approved this motion}

Vice Chancellor Provencher said Management is recommending that the FY22 payout to purpose unit rate be set at 4.0% of the trailing twelve quarter average market value per unit as of December 31, 2020, and the payout for administrative fee be set at 1% of the trailing twelve quarter average market

value per unit as of December 31, 2020. She noted that the proposed methodology is the same as the prior year.

Chairman Rutman asked that the policy requiring this approval each year be reviewed and possibly revised to require review of the approved methodology every 3-5 years or as needed. He thinks that if the methodology is approved in advance by the committee, there is no need to approve the payout amount annually. Trustee Tewksbury suggested that the methodology be shared with new trustees at orientation, so they are aware.

IV. CAPITAL ITEMS

A. Status of ongoing capital projects

Vice Chancellor Provencher said the report is provided for information and provides updates on ongoing projects. It was noted that all projects are currently on budget.

B. Update on KSC Innovation HUB Project

Vice Chancellor Provencher said that while the HUB remains on KSC's list of priorities, they are going to suspend the project until alternative funding sources are obtained.

C. Status of GSC Conway Project

Vice Chancellor Provencher referred Committee members to the confidential materials that were provided regarding the status of this property. Chairman Rutman requested that committee members be brought into the discussion as negotiations are close to being finalized. Chairman Rutman, Vice Chancellor Provencher and Vice President Shawney will schedule a discussion soon to obtain additional details on status.

Other Business

A. Next meeting date is April 15, 2021.

B. The Committee adjourned at 1:15 p.m.