Draft for Committee Review and Approval

REPORT OF THE FINANCE COMMITTEE ON INVESTMENTS
Meeting
April 15, 2021

The Finance Committee on Investments met at 12:30 p.m. on April 15, 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, 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, Tracy Claybaugh, Pat Bahr, MB Luftkin, Lydia Mardin, Katheryn Aydelotte, Lisa Thorne, 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 Trustee Hansel and duly seconded)

VOTED, that the minutes of the January 21, 2021 meeting be approved.

{The Committee voted unanimously to approve this motion}

II. ITEMS FOR COMMITTEE DISCUSSION AND POSSIBLE ACTION


Mr. Coteau commented on the market environment and economic outlook, commenting on the stunning recovery in the equity markets and the positive impact the vaccines and the definitive election results had on the economic outlook. Mr. Coteau shared portfolio performance results as of March 31, 2021.
He noted that the portfolio had a return of 21.5% for the fiscal year to date, 37% for the trailing one-year period and 4.2% for the calendar year to date. The market value of the portfolio is $630 million. Trustee Rutman commented that these results were achieved even with a higher allocation to cash, pointing out that the Committee instructed Prime Buchholz to increase its allocation to cash to provide liquidity in case it was needed.

Mr. Croteau described the impact holding additional cash had on the portfolio by comparing USNH returns to those of the policy and actual indices noting that the couple of percentage points under was made up by manager outperformance. He said that they have reduced the level of cash to around $20 million and are seeking Committee feedback on whether it should be further reduced to policy target. After a brief discussion, the Committee requested that the current level of approximately $20 million in cash be maintained for a few more months until there is more clarity on enrollment and COVID protocols that may be needed in the fall. Mr. Croteau pointed out that in addition to cash, the endowment has about $230 million in daily liquidity should there be an emergency need.

Mr. Croteau discussed performance by sector pointing out over and under-performing managers. He indicated that equity returns were a driver of performance and pointed out the returns in the private equity investments and related benchmarks reflect December 31 performance as there is a lag in reporting and the results through March are expected to be higher.

Mr. Croteau reviewed the short-term operating portfolio which at the end of March totaled $290 million. He said performance for the calendar year to date is -.1 and .5% for the fiscal year to date. He said the portfolio is invested in money market funds and high quality, low duration bond funds and has returned 2.4% over the last year. It was stated that USNH should expect returns in the short-term operating portfolio between .5% to 1% for the fiscal year.

B. Prime Buchholz Recap of activity since the last meeting

Mr. Croteau discussed actions taken by Prime Buchholz on behalf of USNH and reported that a full redemption from Lakewood was completed as of December 31, 2020. and the proceeds were used to fund two new investments in Engle Capital and Matrix Capital at the end of January. Other activity included a $4 million commitment to Battery Select Fund I in January and a $10 investment with Generation Global Equity in March.

C. USNH Recap of activity since the last meeting

During initial discussions, Chairman Rutman asked Vice Chancellor Provencher and Mr. Croteau to comment on the OCIO relationship with Prime Buchholz. Both Mr. Croteau and Vice Chancellor Provencher had positive comments on the arrangement indicating the flexibility to act between meetings enabled Prime to navigate the pandemic to USNH’s benefit. Some reduction of staff time spent on investment transactions and review was also noted.

D. Discussion of Asset Allocation

Mr. Croteau reviewed the current asset allocation and roadmap indicating that the portfolio continues to move towards at 15% in private equity. He said that Prime is not recommending any change to the current allocation. The Committee discussed the current asset allocation and reviewed modeling of policy, interim and actual allocations compared to the NTSE $500 million to $1 billion sized
endowments. In response to a question, he said Prime Buchholz does not market time but there is some judgement in decisions within the flexibility the target ranges provide.

E. Review NACUBO Endowment Survey

Mr. Croteau reviewed the USNH performance results with those of the NACUBO Endowment Association Survey $500 million to $1 billion cohort for the 1-, 3-, 5-, and 10-year periods ending June 30. He said that USNH is roughly in line with peers and explained factors that impacted returns over certain periods including higher allocation to cash, a lower allocation to private equity and a large infusion of cash invested over time in 2012.

REVIEW CASH FLOW PROJECTIONS

Vice Chancellor Provencher reviewed high level projected cash flow based on FY21 P2 update and projected cash flow for FY22 and FY23. She noted that the projected cash balances do not include the additional federal funds approved in March 2021 (American Rescue Plan Act $25M institutional share). She said while USNH continues to draw on cash it appears that liquidation of the quasi-endowment will not be required in the near future. She shared a graph which depicted the volatility in cash over the course of the year and it was noted that the low points and high points are lower than in prior years. The Committee requested that at the next meeting a chart depicting the paydown on debt for the next few years be presented with the cash flow materials.

III. CAPITAL ITEMS

A. Status of ongoing capital projects

Vice Chancellor Provencher said the report is provided for information and provides updates on ongoing projects that were previously approved by the Board. Background and updates on several of the projects were provided.

B. Review PSU’s Health and Human Performance Building Project

Vice Chancellor Provencher said this project is being brought to the Committee for a first look and no action is being requested at this time. PSU anticipates bringing the project back to the Committee in June for approval.

President Birx shared a video and provided information on PSU’s Health and Human Performance Building Project explaining the rationale for the project, describing the project element, budget, and funding sources. The importance of the project to PSU’s programs and growth was explained.

Committee members had a general discussion on the level of capital spending at 50% of depreciation and the limitations in place on campuses’ capital programs. How campuses might fund other priorities not included in the capital plan at 50% of depreciation was discussed including borrowing, liquidating the quasi-endowment, substituting a higher priority item for one currently in the plan and spending more in one year and less in a subsequent year. Several considerations were mentioned including:

- The importance of investing in projects that allow institutions to thrive balanced with the needs of the system.
- The relationship of operating margin generated by an institution to its capital spending.
• The changing landscape of higher education and the impact on physical plant
• The need to address deferred maintenance.

The Committee requested that PSU prepare additional information on its capital priorities for the next five years showing capital spending at depreciation levels of 50% for FY 22 and 23, 80% for FY 24 and 100% for FY 25 and 26 and pushing out projects that can be deferred to allow the Committee to quantify the shortfall. Vice Chancellor Provencher said that in June campuses would be presenting their five-year capital plans and capital budgets for FY22.

**Other Business**

A. Next meeting date is June 24, 2021.

B. The Committee adjourned at 2:00 p.m.