



Draft for Committee Review and Approval

REPORT OF THE INVESTMENTS AND CAPITAL PLANNING COMMITTEE
Meeting
March 3, 2022

The Finance Committee on Investments met at 12:45 p.m. on March 3, 2022, at the Young Student Center at Keene State College. Committee members participating at the meeting location: Mike Pilot, George Hansel, Todd Black, and Catherine Provencher; Committee members participating by teleconference: Morgan Rutman; Other trustees participating at the meeting location: Joe Morone, Frank Edelblut and President Donald Birx

Staff: present at meeting location, (PSU) Tracy Claybaugh;(KSC) Nathalie Houder and MaryBeth Lufkin; (USNH), Karen Benincasa,

Jeff Croteau, Ryan O'Quinn and Kate Dumas from Prime Buchholz and additional staff participated by video conference

I. Call to Order

Chairman Rutman called the meeting to order at 12:45 pm. and a quorum sufficient to conduct business was noted.

II. APPROVAL OF MINUTES (Moved and duly seconded)

VOTED, that the minutes of the October 22, 2021, meeting be approved.

{The Committee voted unanimously to approve this motion}

III. Update from Prime Buchholz

A. Market Environment and December 31, 2021, Executive Summary

Mr. Croteau commented on the market environment at the end of 2021 noting that equities closed the calendar year strong with the exception of the Chinese market. He said inflation increased in the last three quarters of the year and interest rates were expected to start rising. The dispersion between valuations and earnings grew steadily over the course of 2021. He said Bonds ended the year negative.

B. Review of market and Endowment and Operating Cash Portfolio Review and Performance for the period ending December 31, 2021

Mr. Croteau shared portfolio performance results as of December 31, 2021. The market value of the portfolio was \$642 million which is net of the transfer of \$50 million from the endowment to the short-term operating pool. He noted that the portfolio had a return of 4.6% for the quarter and 17% for the calendar year 2021. He said that the return of 17% put USNH in the top quartile of returns when compared with peers. He reviewed performance of the public equity holdings which make up 45% of the USNH portfolio.

Mr. O'Quinn discussed performance of the Flexible Capital holdings which make up 23.6% of the portfolio. He said return for the calendar year ending December 31, 2021, was 4.5%, a bit less than the benchmark because of the defensive positions held by USNH's managers. He pointed out two new managers, Matrix Capital Management Fund and Engle Capital Partners Offshore, and noted that the Adamas investment will be liquidated by year end.

Mr. O'Quinn reviewed the short-term operating portfolio which at the end of December totaled \$226 million. He said performance for the calendar year was a negative -.4 %. The Committee discussed the holdings in the Short-term portfolio and Chairman Rutman pointed out that the duration is a year or less and the expectation is that in future years the return will be positive.

C. January 2022 update

- D.** Mr. Croteau reported on market results for January noting that the S&P index was down 5.2% and that most asset classes declined. He said the USNH portfolio performance for the month was a negative 3.4% but that might improve when the private equity funds are updated for December as the statements current reflect a 1 quarter lag in performance for private equity. Mr. Croteau said that the transfer of the \$50 million from endowment to short-term pool ended up being a prudent decision based on equity performance and the current financial market volatility. He said private equity has been a strong contributor and USNH is close to its current target in that sector but will continue to make commitments as funds are returned. The market value of the endowment portfolio was \$621 million and \$312 million for the short-term operating portfolio. Mr. Croteau also noted how Prime Buchholz, now serving as OCIO, is able to quickly take advantage of market opportunities. Recent Actions Taken and Asset Allocation

Mr. O'Quinn discussed actions taken by Prime Buchholz on behalf of USNH and reported that \$50 million was withdrawn from the endowment portfolio and transferred into the short-term operating pool. He described the funds that were liquidated to achieve the withdrawal and said a new short term investment fund, Fidelity Inflation Protected Bond Index was funded with a portion of the liquidation. Liquidations from Sanderson International Value and Adage Capital Partners were reported and a new manager, MFS Instl International Equity added.

Mr. Croteau reviewed the current asset allocation and said Prime Buchholz continuously looks for prudent risk opportunities to increase return. He said the Committee may want to consider increasing the target in Private Equity over a 3–6-year period from 15% to 20% and reducing the allocation to Flexible Capital by 5%. He said the risks in increasing the allocation are volatility and liquidity.

In response to a question, Mr. Croteau said the exposure to Russian stocks is minimal in the USNH portfolio with a very small exposure through the investment with Wellington.

Because of the extensive agenda, the Committee opted to defer a review of Private Capital until the next Committee meeting.

Committee members expressed their appreciation for the excellent work and responsiveness of Prime Buchholz and particularly during these tumultuous times, the between meeting updates are very much appreciated.

IV. REVIEW CASH FLOW PROJECTIONS

Vice Chancellor Provencher reviewed high level projected cash flow for FY22 noting significant improvement projected based on newly anticipated COVID-related cost recoveries, improved operations, and the inflow of the \$50 million from prior Board action (transfer from the endowment fund). The projected ending cash balance for June 30, 2022, is estimated to be \$252 million.

Ms. Benincasa explained a timing issue with the \$18M in HEERF III Institutional recoveries which were unbudgeted but collected in FY22. She said the budgeted return for the short-term investment income for FY22 was reduced to zero in projections and the budget parameter for FY23 is 1% which was deemed appropriate by the committee.

V. CAPITAL ITEMS

A. Review proposed process for systemwide capital investment prioritization

Vice Chancellor Provencher said that at the October meeting, the Committee requested that she work with her team and the campus CFOs to develop a more formalized process, including criteria for prioritization, that the Board could use for evaluating capital project proposals.

Vice Chancellor Provencher reviewed the work that had been done and the guidance given to campuses to develop proposals for the Board. She reviewed the templates that were developed and explained the assumptions for cost of capital both internal and debt funded. She reviewed the timeline for the work indicating that today's meeting will establish the initial process for evaluation and criteria for prioritization. At the FAC meeting later in the day, campuses are expected to share their current thinking on potential strategic investments. At tomorrow's BOT meeting, Dumont and Janks, and Sightlines will discuss and/or present reports on facility planning and review facilities benchmarking. The difference between the two consultants in terms of the information they provide was clarified, with Sightlines being a firm that benchmarks the condition of USNH's buildings against peers and Dumont and Janks providing information on space utilization and will assist in planning for the future consistent systemwide master planning process. It was noted that the information provided by Sightlines does not include the cost to modernize buildings, only to correct deficiencies and that their report is just one input in the capital planning process.

The Committee discussed the process by which the Board of Trustees will be asked to evaluate proposals from the campuses. Compliments on the development of the templates and proposed structure and discipline were made, with an acknowledgement that IRR is only one variable. Not all projects will have a return on investment but will be considered based on mission and other factors important to USNH. It was noted that the list of systemwide strategic investment proposals will be larger than the available funds so having a consistent approach to evaluating all projects is important. After review of all projects, where deemed appropriate, USNH will seek support and partnership from

the State, and it was noted that the State may not be as willing to fund projects that are deferred maintenance. Other points made included:

- The need to have campuses develop business cases and recommend their plans with the Administrative Board presenting a slate of investments to the Board for the system
- The desirability of a long-term plan with outcomes that meet both the needs of the system and the State's needs
- Plans should be mission focused, based on student need, and result in new revenue or head off future market revenue losses anticipated
- The need for independent third parties, as appropriate, to advise the Board on certain significant investments such as a new residence facility investments
- Life Safety should continue to be prioritized and the Board notified if support for life safety investments are needed
- Creative funding and community partnerships need to be considered

B. Approve capital project for renovations to KSC Redfern Arts Gallery

VOTED, on recommendation of the Keene State College President, that the Board of Trustee Investments and Capital Planning Committee, approve a \$3.5 million project budget for Redfern Arts Center renovations, as proposed in the materials distributed, AND FURTHER, that the source of funds for the project be \$3.5 million from Keene State College unrestricted funds.

{The Committee voted unanimously in favor of this motion}

Vice President Houder provided background on the Redfern Art Center describing how it is used and its importance to the campus and community. She said the funding for the Deferred Maintenance/Life Safety improvements was included in the approved FY22 Capital Budget but because the project is over the \$2 million authority of the President, it needs Committee approval. She described the components of the project noting that the State Fire Marshall has identified life safety concerns and that Sightlines has identified the building as one of the highest need facilities for renovation. She reviewed the timeline indicating that if approved today the project would be able to start and take advantage of the summer months and be completed in August of 2023.

Chairman Rutman said, as a general policy, that life safety issues should continue to be a priority. Vice President Houder said the project, including the life safety component, was originally part of a larger renovation project that was delayed and that is why this smaller project is being brought forward so that the more critical project work can at least get started.

VI. Review and approve State Capital Appropriation Request for FY24-29.

VOTED, on recommendation of the Administrative Board that the following motion be approved by the Investments and Capital Planning Committee

MOVED, on recommendation of the Investments and Capital Planning

Committee, that the six-year capital projects plan for FY24-FY29 as described in the attached document be approved AND FURTHER, that the Chief Administrative Officer is authorized prepare the final document for submission to the State on April 5, 2022.

In addition to the \$17 million appropriated for FY24-FY25, Vice Chancellor Provencher said the Administrative Board is recommending a \$20 million request for the FY26-FY27 biennium and a \$25 million request for the FY28-29 biennium as part of the required submission to the Governor of a 6-year capital plan. The requests for FY26-FY29 reflect initial estimates for the future years but are subject to change in future budget processes. USNH is seeking to retain the previously approved \$17 million in state appropriation for FY24-25 authorized in 2019. The breakdown of the \$25 million ask is \$5 million to continue the PSU Hyde Hall renovation, \$5 million for KSC Morrison Hall and \$15 million for Nesmith Hall at UNH. She said that if approved by the IC, the request will be considered by the FAC and the BOT and submitted to the State by April 5, 2022. She noted that it would be possible to modify the out years (FY26-FY29) of the request in future submissions and it is also possible that there may be funds for one-time capital investments through the State operating budget request. Details on the projects and the narrative of the request are included in the Appendix.

VII. Informational Items (not discussed)

- A. Project status report on ongoing capital projects

VIII. Other Business

- A. Next meeting date is April 21, 2022, in joint session with the Financial Affairs Committee
- B. The Committee adjourned at 2:35 p.m.