**Bartholomew & Company Responses**

**SMHG Board of Directors Meeting**

**September 17, 2020**

1. **Areas to address in your presentation**
   1. **Please reference all state laws applicable to opening and operating an account with you.**

In our experience, we are not aware of any state laws that specifically address or specifically restrict opening and operating an account with a firm such as Bartholomew & Company; an investment firm which is licensed and governed by the SEC and FINRA. The most applicable portion of a Massachusetts General Law that we have experience with is the second to last paragraph of M.G.L. Ch. 44, §54, which is restated below. *Cities and towns having such funds in the custody of the treasurer in an aggregate amount in excess of two hundred and fifty thousand dollars may also invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the commonwealth; provided, that not more than fifteen per cent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half per cent of such funds be invested in the stock of any one bank or insurance company.*

* 1. **Please describe how monies placed in a portfolio with you are protected. Are funds collateralized? Is there insurance? And are there earnings tradeoffs for any protection?**

Our Broker/Dealer, Commonwealth Financial Network and our clearing firm, National Financial Services (NFS), are members of the Securities Investor Protector Corp (SIPC). This association ensures that the securities in these brokerage accounts are protected up to $500,000.00. In addition to the standard SIPC coverage, NFS also carries excess SIPC coverage that protects every brokerage account.  This additional protection covers up to an aggregate loss limit of $1 billion for all customer claims of which $1.9 million may cover cash awaiting reinvestment at the individual account level.  Furthermore, brokerage accounts are not structured like bank accounts in terms of deposit collateralization. Since every security in a brokerage account is a direct ownership position, by both registration and municipal tax ID, account collateralization is not necessary. Direct ownership provides the same safety, if not to a greater degree, than deposit collateralization. (Please see attached SIPC White Paper & 2019-2020 Excess SIPC Certificate)

* 1. **Please discuss how you see the Investment Policy of the SMHG guiding portfolio decisions, and whether any aspect of the Policy might need to be adjusted.**

We at Bartholomew & Company see the investment policy as a critical element to properly setting the guidelines and restrictions that govern how an investment manager is to operate.

Regarding any aspect of the policy that might need to be adjusted, we believe that a crucial part of this feedback rests on the laws under which this Trust can operate.  We still would like to discuss with the Health Group whether the Health Insurance Purchase Trust should fall under M.G.L. Ch. 44, §54, *Investment of Trust Funds*, or not.  If this Trust does classify as Ch. 44, §54 money then it most likely would be subject to the investment restrictions of M.G.L Ch. 167, §15A-K, *Annual List of Legal Investments*.  If this Trust does not classify under Ch. 44, §54, then the investing guidelines would fall under M.G.L Ch. 203C, *Prudent Investment*, thereby allowing the Trust to consider a much wider universe of investments.

The reason we bring this distinction to your attention is because the policy does not mention the authority of any Massachusetts General Laws by which it is investing under, and there are some securities and asset classes included in the policy that would not be permitted under the List of Legal Investments.  A good example of this would be Commercial Paper.  We manage substantial experience managing portfolios under either law; we simply believe that it is good to understand what laws you are following, and why.

Any additional recommendations to the current policy will take into consideration the long-term investment objectives, portfolio size, and annual distribution needs.

* 1. I**f the SMHG opened a $10 million account with you, but voted to use $3 million of that for an April 2021 rate holiday, how that would affect your recommendations for the portfolio**

Based upon the stated risk profile from your current investment policy to have equity exposure no greater than 35% of the portfolio, we believe that there will be more than enough liquidity to generate a cash request of up to 30% of the assets.

However, there are many ways to accommodate the potential for this short-term liquidity need.  The simplest way would be to earmark at least $3 Million in cash, treasuries, and other maturities prior to April 2021 that could be used for this type of disbursement.  We would also under allocate the intended equity allocation in anticipation of 30% of value leaving the portfolio.  Upon distribution, the remaining assets would then be invested in the intended long-term risk profile.

Should you decide to reduce or eliminate the $3 Million rate holiday, we would then take those short maturities and reallocate where necessary to bring the portfolio in-line with current targets.  This will most likely be in equity exposure based upon the described process from above.

* 1. **Are there any other fees or charges beside the account fee you quoted in your SOI?**

There are no other fees or charges in addition to the annual management fee based off your total assets under management.  Our fee schedule is not laddered, it is a true break point fee schedule. This includes the Brokerage and Custodial fees.

**2. Please tell us one or two things that makes your firm stand out as to why the SMHG Board should choose you.**

We believe that two things that make Bartholomew & Company stand out from others are the quality of our service, both customer service and investment management, and our competitive pricing.  We are able to provide such quality of service because we utilize a team-based approach for both managing your relationship as well as managing the portfolio.