

## MINUTES OF THE MARCH 4, 2014, INVESTMENT COMMITTEE MEETING

The Investment Committee (“the Committee”), a Committee of the Smithsonian Board of Regents, conducted a meeting on Tuesday, March 4, 2014, at 1:00 p.m. in Committee Chair David Silfen’s office in New York City. Participating were Committee Chair David Silfen, Committee Vice Chair Steve Case\*, Committee members Afsaneh Beschloss\*, Eli Broad, Tim O’Neill, Roger Sant\*, Alan Spoon, and Michael Tennenbaum\*. Board and Executive Committee Chair John McCarter also participated. Committee member David Rubenstein was unable to participate.

Participating Smithsonian staff included Secretary Wayne Clough\*, Chief of Staff to the Secretary Patricia Bartlett\*, Chief Investment Officer Amy Chen, Investment Officer Ryan Dotson, Investment Analyst Yizhi Ge, Investment Officer Michael Giovenco\*, Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath, General Counsel Judith Leonard\*, Investment Officer Jeff Smith, and Chief of Staff to the Regents Porter Wilkinson\*.

### CALL TO ORDER

Chair David Silfen called the meeting to order.

### APPROVAL OF MINUTES

After consideration and upon motion duly made and seconded, the minutes of the November 12, 2013, Committee meeting were unanimously approved.

### REPORT OF THE CHAIR

Mr. Silfen welcomed the Committee members and introduced John McCarter as new chair of the Board of Regents. Mr. Silfen complimented the Office of Investments staff for the time and effort put forth in the analysis and production of the annual portfolio review materials.

### ANNUAL PORTFOLIO REVIEW

Chief Investment Officer Amy Chen introduced the Annual Portfolio Review which included a total portfolio review and a review of the asset classes.

For the period ending December 31, 2013, equity returns were very strong with the S&P up 32%, helping drive the Endowment’s return of 14.3% versus the policy benchmark of 9.9%. The Endowment continues to outperform the policy benchmark on a one-, three-, five-, and 10-year basis. The Endowment ended the year at \$1,221.8 million.

\* *participated by telephone*

## ASSET ALLOCATION AND RISK REVIEW

Mr. Silfen introduced this section and noted the relatively consistent views. Most members indicated that the current risk level is suitable to meet the Endowment's real return objective.

Investment Analyst Yizhi Ge reviewed the forecast risks and returns that are utilized to simulate the expected return of the Endowment. Estimates were presented of the longer-term risk of failing to achieve the real return target versus the shorter-term risk of a large drawdown. In conclusion, staff recommended a revised policy benchmark for 2014.

## REAL ESTATE REVIEW

Investment Officer Jeff Smith provided an assessment of the real estate program and strategy, as well as commitments for 2014. The objectives of the real estate strategy within the Endowment are to create strong equity-like returns with diversification benefits, and inflation hedging as a secondary goal. Though the real estate portfolio remains young, staff is pleased with the progress since inception.

## PORTFOLIO IMPLEMENTATION

Ms. Chen reviewed portfolio activities in 2013.

Ms. Chen sought the Committee's approval for the revised policy benchmark and the 2014 commitment levels. After consideration and upon motion duly made and seconded, the Committee approved the motion.

## OPERATIONS REVIEW

### ***Staffing***

Ms. Chen announced the engagement of an executive search firm to support the identification of candidates for the newly created position of Director of Investment Operations.

### ***Expense Analysis and Audit***

Staff compared fiscal year 2013 overall investment expenses to fiscal year 2012. Staff reviewed Cambridge Associates' *2013 Investment Oversight Costs Survey Report* (June fiscal year 2012 data) and found that the Smithsonian's total oversight costs are lower than the median for both all institutions and peer institutions.

Staff successfully complete the fiscal year 2013 audit. It was noted that auditor communicated no findings.

## EXECUTIVE SESSION

Staff was dismissed at 3:12 p.m. and an executive session was held.