MINUTES OF THE JANUARY 18, 2011, INVESTMENT COMMITTEE MEETING

The Smithsonian Investment Committee (“the Committee”), a committee of the Smithsonian Board of Regents, met at 1:30 p.m. on Tuesday, January 18, 2010, in Committee Chair David Silfen’s office in New York City. Participating were Committee Chair David Silfen and Committee members Afsaneh Beschloss*, Eli Broad*, L. Hardwick Caldwell III*, J. Tomilson Hill III*, Timothy O’Neill*, David Rubenstein, and Alan Spoon; Committee Vice Chair Roger Sant was not able to participate. Participating staff included Secretary Wayne G. Clough, Treasurer Sudeep Anand, Chief of Staff to the Secretary Patricia Bartlett, Chief Investment Officer (CIO) Amy Chen, Director of Advancement and Philanthropic Giving Virginia Clark, Associate General Counsel Farleigh Earhart, Investment Officer Michael Giovenco, Under Secretary for Finance and Administration Alison McNally, and Investment Officer Jeff Smith.

Call to Order
Chair David Silfen called the meeting to order.

Approval of Minutes
After consideration and upon motion duly made, seconded, and unanimously approved, the minutes of the September 8, 2010, Committee meeting were approved.

Recognition of Service
Mr. L. Hardwick (Hacker) Caldwell’s term as a member of the Investment Committee concluded with the January 18, 2011 meeting. Chair David Silfen, members, and staff expressed a tremendous debt of gratitude for his service, which began with the founding of the Investment Committee in 2005.

National Campaign
Secretary Clough provided an update on the National Campaign. He reported that the National Campaign has created team spirit, and that directors and senior staff have worked extremely hard on the planning of the National Campaign. The Board of Regents still need to approve the overall budget and funding, though sources of funds have been identified to support the campaign expenses. The National Campaign, though not officially under way, has $260 million in pledge commitments. In December 2010, the Smithsonian had its best-ever fund-raising month, with $50.5 million in gifts received. Many of the gifts support the National Campaign. The Committee agreed that it is important for the Office of Advancement and the Office of Investments to communicate periodically regarding potential deviations from expected cash flows and presentations for donors.
Portfolio Review

The Endowment’s performance for the trailing 12 months is attributed to the strong rebound across all asset classes. The Endowment’s risk/return profile has consistently exceeded the Endowment’s benchmark over the past one-, three-, and five-year periods, exhibiting both a higher return and a lower standard deviation. It was noted that both the Sharpe and information ratios were both above 1.0 over the past year, reflecting 1.1 and 1.9, respectively. Overall portfolio beta to the benchmark was 0.87.

At year-end, rebalancing actions were undertaken to bring the Endowment back towards the target allocation. Reductions were made in emerging markets and U.S. TIPS, while additional funds were allocated to intermediate government bonds, global natural resource equities, commodities, REITS, and hedge funds.

The Committee expressed satisfaction with the general direction of the Endowment and engaged in an informal roundtable discussion reviewing several compelling areas to investigate. A fairly optimistic consensus was reached with regard to opportunities arising from increased merger and acquisition activities; continued growth in emerging markets, and especially Brazil; a stabilization in U.S. markets with high-quality, large-capitalization companies proving to be the biggest beneficiaries; a possible run-up in oil/energy prices due to higher inflation and economic growth; and opportunities in early stage venture capital. Cautious opinions were also expressed about the market’s recent rise and the impact of inflationary pressures.

Portfolio Implementation

Strategy remains focused on balancing long-term objectives of the policy portfolio with the desire to generate sufficient returns over the next five to 10 years, and to maintain spending without depleting the real value of assets. The CIO outlined the recommended asset class guidance for 2011 and explained the factors used to determine the implementation schedule: 1) projected redemption schedules of legacy managers; 2) prioritizing new managers who are nearing capacity constraints or at risk of closing in the near term; and 3) maintaining a balance of portfolio characteristics, including diversification by strategy, geography, and manager style.

Investment Officer Jeff Smith reviewed the recommendations requiring Committee approval: 1) commitment levels to private equity, real estate, and natural resources for 2011 and 2012; 2) substitute REITS for TIPS in the real asset sector targets; and 3) update 2011 policy benchmark to include REITs and 2010 vintage year in the customized private equity and venture capital benchmarks.

Committee unanimously approved the recommendations:

**VOTED** that the Investment Committee approves the annual commitment level for private equity, effective January 18, 2011.
VOTED that the Investment Committee approves the revised interim real asset sector targets and commitment level for private real estate and natural resource funds, effective January 18, 2011.

VOTED that the Investment Committee approves the revised Policy Benchmark effective January 1, 2011.

Operations Update

The update included information on staff changes, risk management, audit status, and the annual portfolio review.

Executive Session

Staff was dismissed at 3:00 p.m. and an executive session was held.