

MINUTES OF THE MARCH 31, 2009, INVESTMENT COMMITTEE MEETING

The Smithsonian Investment Committee (“the Committee”), a committee of the Smithsonian Board of Regents, conducted a meeting at the office of Committee Chair David Silfen in New York City at 2:00 p.m. on Tuesday, March 31, 2009. In attendance were Mr. Silfen and members Afsaneh Beschloss*, Eli Broad*, L. Hardwick Caldwell III*, J. Tomlinson Hill III*, Alan Spoon*, and Roger Sant*. Also present were Secretary Dr. Wayne Clough*; Treasurer Sudeep Anand*; Chief Investment Officer Amy Chen; Investment Analyst Ryan Dotson*; Associate General Counsel Farleigh Earhart*; Manager of Investment Operations Rika Feng*; Investment Officer Michael Giovenco*; Chief Financial Officer Alice Maroni*; and Under Secretary of Finance and Administration Alison McNally*. Leslie Kiefer of Cambridge Associates was also present.

Call to Order

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 January 13, 2009, meeting were approved.

Portfolio Review

The meeting began with a review of the Endowment by Cambridge Associates, an outside consulting firm hired to perform the annual external review of the Endowment. Cambridge Associates’ Endowment Peer Universe of foundations and endowments (between \$750 million and \$1.5 billion) ranked the Endowment in the 61st percentile for the calendar year. The Committee noted that relative peer rankings are not necessarily a valid comparison due to the higher allocations of real estate, private equity, and absolute return held by many other endowments and foundations. Additional reasons for peer performance differences include differences in the initial period in which any given institution became broadly diversified, individual institutional risk tolerances, and the varying goals of any given institution. Given that private equity benchmarks for December 31, 2008, will not come out until May 2009, the Smithsonian may want to recalibrate its December 31, 2008, returns.

The overall performance attribution for 2008 was reviewed. For the year, the strategic and policy decisions added approximately \$11.5 million in value to the Endowment and the individual manager decisions added \$0.6 million for a total value-added of \$12.1 million. The current long-term policy portfolio has an expected median real return of 5.8% with a standard deviation of 11.6%. Cambridge Associates’ model utilizes long-term projections based upon historical risk and return assumptions. It was acknowledged that the usefulness of the model was limited since the current economic and future return environment may be dramatically

** participated by teleconference*

different from the historic norm. Other exhibits reviewed and discussed included the geographic exposure, the comparative asset allocation, and the probabilistic return scenario analysis. Cambridge was asked whether other institutions had changed their asset allocations. There was no data at this time on that issue.

Chief Investment Officer Amy Chen updated the Committee on the tactical portfolio implementation plan. The first phase of the implementation, including a 6% commitment to a senior bank loan portfolio to be managed by TCW, is complete. The staff is currently reviewing opportunities in the broad fixed income and credit opportunities markets and will continue to update the Committee on the progress of the implementation.

Operational Review

Staff reported on FAS 157, staffing update, technology, and the new office. Also discussed was the implementation of FAS 157 and whether a reserve of 10–15% should be considered to anticipate the potential changes in the values of the underlying investments in the private market portfolios. The Committee noted that considerable costs would be required for the Institution to develop its own valuations of the funds and concluded that a reserve is not necessary at this time. Staff will continue to review the implications of the regulation with the Committee regularly.

The Office of Investments has initiated a search in coordination with the Office of Human Relations to hire up to two full-time staff to build out the private and marketable alternative portfolio. The Committee was also informed of the implementation of PerTrac CMS, a data management system that is targeted for completion by 2009 calendar year-end.

Executive Session

Staff was dismissed at 3:50 p.m. and an executive session was held.