MINUTES OF THE JUNE 8, 2010, INVESTMENT COMMITTEE MEETING

The Smithsonian Investment Committee (“the Committee”), a Committee of the Smithsonian Board of Regents, met at 10:00 a.m. on Tuesday, June 8, 2010, in the Secretary’s Parlor of the Smithsonian Castle. Participating were Committee Chair David Silfen, Vice Chair Roger Sant, and Committee members Afsaneh Beschloss*, L. Hardwick Caldwell III*, J. Tomilson Hill III*, Timothy O’Neill*, David Rubenstein* and Alan Spoon*. Eli Broad was not able to participate. Participating staff included Secretary Wayne G. Clough, Treasurer Sudeep Anand, Chief Investment Officer Amy Chen, Director of External Affairs Ginny Clark, Investment Analyst Ryan Dotson, Associate General Counsel Farleigh Earhart, Investment Officer Michael Giovenco, Chief Financial Officer Alice Maroni, and Under Secretary for Finance and Administration Alison McNally.

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 March 23, 2010, Committee meeting were approved.

Subsequent Investment Committee Decisions (March 23–June 7, 2010)
Committee Chair David Silfen reported that in response to the Office of General Counsel’s recommendation that all decisions between meetings be recorded in committee minutes, he would note for the record the following actions the Committee approved by e-mail vote after its March 23, 2010, meeting.

April 2010
• Committed $25M to long/short directional emerging markets fund; with unanimous approval from the Committee.
• Terminated ~ $21M commitment with global long/short credit manager; without objection from the Committee.

National Campaign
Secretary Wayne Clough, Director of External Affairs Ginny Clark, and Under Secretary for Finance and Administration Alison McNally reviewed the status of the national campaign. The national campaign is the Smithsonian’s first-ever, multi-year, Institution-wide fundraising campaign. It will heighten the Institution’s visibility across the nation and build a dynamic and creative future, providing the resources to attract the next generation of Smithsonian leaders and scholars. The national campaign will unfold in three phases: planning, quiet and public. The Institution is in the final stages of the planning phase now, and ahead lies the quiet phase and the public phase.

* participated by teleconference
The quiet phase will begin with the adoption of the national campaign plan by the Regents. The Institution anticipates that the national campaign will be announced publicly once significant funds are raised towards a campaign goal.

It was stated that an estimate of 44 percent of funds raised are projected to go to the Endowment, mainly comprised of planned giving and endowed positions. Currently the Institution has not developed its planned giving program to its full potential although it plans to emphasize planned giving in the campaign. The Committee had questions regarding the 44 percent projection compared to the norm of what is thought to be successful at greater than 20 percent. While there was general agreement that the 44 percent goal is optimistic, it was noted that the Institution has just undergone a period of intensive capital needs (i.e. the National Museum of the American Indian, the Donald W. Reynolds Center for American Art and Portraiture, the National Air and Space Museum's Steven F. Udvar-Hazy Center, etc.) and the units will be more focused on raising general funds and endowments going forward.

The options for funding the campaign were then reviewed, including: indirect cost recovery on grants and contracts, adoption of an Endowment administrative fee, an Endowment assessment increasing the payout by 1 percent and a gift fee. Additionally, a collaborative funding model between the central administration and the units was discussed. Regent David Rubenstein noted that the recent downturn has affected endowment fund-raising efforts for endowments. To ensure the preservation of new endowment monies, he suggested that staff consider segregating the funds and investing in treasuries for the duration of the Campaign. Regent Roger Sant recommended that the Smithsonian focus on charitable remainder trusts instead of bequests. Investment Committee member Afsaneh Beschloss noted that other cultural organizations have been successful with small donors. Chair David Silfen noted the Committee’s appreciation for being consulted and that it looks forward to hearing more about the campaign as the plans become more developed.

**Portfolio Review**

Consistent with the Investment Committee decision to adopt a revised asset allocation on December 11, 2009, staff has moved ahead with the implementation of the approved increase in emerging markets to the 10 percent target allocation; attained the 10 percent target allocation to real assets using liquid investments and has continued to work towards the long-term policy target of 10 percent to private equity and venture capital.

The Endowment performed similarly to its peer group and benchmark over the past quarter and three-year periods ending March 31, 2010. The one-year and five-year periods were more mixed with the returns near the median return in Cambridge Associates Peer Universe and against the benchmark. It was noted that over the one-year, three-year, and five-year periods the Endowment has exhibited significantly lower volatility in comparison to the benchmark, as measured by standard deviation, and in the longer time periods, a higher return.
Real Assets

The main goal of the real asset portfolio is to provide inflation protection with a long-term goal of CPI plus 5 percent. The allocation will be a mix of approximately 50 percent public and 50 percent private investments. Staff provided potential targets and ranges for each underlying investment type, as well as, a potential manager structure. The desired placeholders for private real estate and natural resources were TIPS and public natural resources equities.

There was a motion to approve the real asset structure proposed by staff, which was unanimously approved, contingent on narrowing the target ranges.

Revised Long-Term Policy Benchmark

The draft long-term policy benchmark was circulated to the Investment Committee via e-mail distribution on May 21, 2010. Staff proposed that the Committee adopt the revised long-term policy benchmark based on the asset classes and targets delineated in the long-term policy portfolio adopted on December 11, 2009. A comparison of the current long-term policy benchmark versus the revised long-term policy benchmark, included below, highlights the changes in asset class benchmarks and policy weight. Of note is the proposed change in the real asset and private equity benchmarks. The real asset benchmark will be dynamically weighted to reflect the underlying allocation to real estate on a yearly basis. The private equity benchmark will be custom weighted to reflect the underlying managers’ vintage year (see appendix for the benchmark composition and construction). There was a motion to approve the benchmark, which was unanimously approved. The Committee noted a desire to have a discussion on future long-term expected returns for each asset class at a later meeting.

Uniform Prudent Management of Institutional Funds Act

Due to its Federal status, the Smithsonian is not subject to the District of Columbia’s version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). However, it is sensible for the Smithsonian to look to UPMIFA’s standards of prudence as a guide for the following reasons: there is no Federal statutory prudence standard that governs the Smithsonian’s investment and management practices; UPMIFA represents best practices for investing and spending charitable endowments (in Washington, D.C., and the 45 states that have adopted it); and, in practice, the Smithsonian already takes into account UPMIFA standards in investing and managing its Endowment. Implementing this resolution would require the Smithsonian to modify its current written policies to more closely track the criteria listed in UPMIFA. There was a motion to recommend that the Board of Regents adopt UPMIFA, which was approved unanimously.

VOTED that the Investment Committee recommends that the Board of Regents be guided by the standards in the Uniform Prudent Management of Institutional Funds Act in the management, investment, and expenditure of Smithsonian endowment funds. Unless otherwise instructed by donors, for accounting purposes, the
Smithsonian will classify as permanently restricted the historic dollar value of its funds.

Operations
The job search for the Investment Officer position is continuing. The Institution recently issued a Request for Proposal to four executive search firms and received one proposal. The feedback received from the firms was that the total compensation was too low for a viable candidate pool and too low to make the search economically viable for certain firms. The Committee noted that staff could look for someone with private market experience at a public pension background.

Executive Session
Staff was dismissed at 11:45 p.m. and an executive session was held.

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Subsequent Investment Committee Decisions (June 9–September 7, 2010)
The Committee approved the following actions by e-mail vote subsequent to its June 8, 2010, meeting:

August 2010
• Commitment of up to $10M to early stage venture capital fund; with unanimous approval from the Committee.

July 2010
• Hired commodity hedge fund manager: $10M; with unanimous approval from the Committee.
• Hired long directional commodities fund manager: $10M; with unanimous approval from the Committee.
• Redeemed commodity index fund ($19.3M) and cash to fund commodity hires; without objection from the Committee.
Appendix

Private Equity and Venture Capital Custom Benchmarking

At December 31, 2009, the custom indices represent an equal weighting of the 2006–2009 vintage years. Thereafter, at the end of every calendar year the most recent vintage year will be added to the series and will be equally weighted with the previous vintage years.

As the Institution’s investment program matures, staff will review the customization of the index annually with the intention of reverting to the standard Cambridge Associates benchmarks.

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Real Asset Dynamic Benchmarking

Staff is proposing a dynamic weighting between the Cambridge Private Real Estate index and Barclay’s Capital US TIPS index for the 5 percent allocated to real estate. While the real estate portfolio is being built out the intention is to utilize TIPS as a placeholder for uncalled capital. The 5 percent weight to commodity/energy will be benchmarked to the DJ-UBS Commodity Total Return index and will not be dynamically adjusted as the staff is planning on being fully invested in this area shortly.

Thus, beginning in December 2010 and at the end of every calendar year thereafter, staff will review the weights between the real estate index and the TIPS index and propose adjustments as necessary.

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<th>Proposed Real Assets Benchmarks 12/2009</th>
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<td>Cambridge Private Real Estate Index</td>
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<tr>
<td>Barclays Capital US TIPS Index</td>
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<tr>
<td>DJ-UBS Commodity Total Return Index</td>
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