MINUTES OF THE SEPTEMBER 8, 2010, INVESTMENT COMMITTEE MEETING

The Smithsonian Investment Committee ("the Committee"), a committee of the Smithsonian Board of Regents, met at 1:00 p.m. on Wednesday, September 8, 2010, in Committee Chair David Silfen’s office in New York City. Participating were Committee Chair David Silfen, Vice Chair Roger Sant, and Committee members Afshaneh Beschloss, Eli Broad*, David Rubenstein*, and Alan Spoon*; Board Chair Patricia Stonesifer also attended. Committee members J. Tomilson Hill III, Timothy O’Neill, and L. Hardwick Caldwell III were not able to participate. Participating staff included Secretary Wayne G. Clough, Chief Investment Officer (CIO) Amy Chen, Investment Analyst Ryan Dotson, Associate General Counsel Farleigh Earhart, Investment Officer Michael Giovenco, General Counsel Judith Leonard, Under Secretary for Finance and Administration Alison McNally, Investment Officer Chris Weldon and guest, 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 June 8, 2010, Committee meeting were approved.

Portfolio Review
The Portfolio Review section of the meeting materials was redesigned to include standardized reports that present performance, asset allocation, attribution, and risk. The Committee was asked to provide feedback so that the materials continue to improve.

Chief Investment Officer Amy Chen discussed performance attribution for the June 2010 fiscal year. The major driver of positive performance was manager selection, while the major detractor for the fiscal year was asset allocation, specifically the significant overweight to cash. Additionally, it was shown that the change in the benchmark had an impact on relative performance with a large negative attribution for the period of July 2009 to December 2009.

A more detailed analysis of the Endowment’s hedge fund allocation showed that the overweight exposure to credit and credit manager selection drove the outperformance over the year. The Endowment’s long/short managers significantly underperformed mainly due to a flat third quarter 2009, whereas global equity returns were in the mid-teens. It was also noted that the last year was difficult for the long/short strategy with the heightened increase in merger and acquisitions activity impeding the managers’ ability to short.

A new liquidity chart was provided to highlight current and future liquidity breakdowns. The Endowment’s liquidity within the next three months and one-year periods were shown at, respectively, 44 percent and 64 percent of the entire portfolio. Additionally, undrawn commitments represented 7 percent of the portfolio.

* participated by teleconference
The watch list was reviewed.

**Portfolio Implementation**

Two key issues were considered: asset allocation and real asset sector targets.

The pro forma asset allocation as of August 31, 2010, showed slight variances in allocations to hedge funds and real assets, 3 percent variance to private equity, and a large allocation to cash in the fixed income portfolio. The Endowment has maintained a strategic allocation to cash since mid-2007 and the Intermediate Government Bond Index has been underweight its target since early 2008. The Committee was asked to consider the options available, including the advisability of using cash as a placeholder for private equity and the short duration of the fixed-income portfolio. Committee members suggested staff look into relative value fixed-income managers and global macro managers for a portion of the allocation, and keep roughly 3 percent in cash and the rest in U.S. Government securities of intermediate duration. The possibility of adding emerging market debt was also raised.

During the June 2010 Investment Committee meeting, the proposed real asset structure and benchmarks were approved but staff were asked to revisit the target ranges of each sector. Due to the shift from public to private investments (natural resource equities to oil and gas partnerships, and TIPS to private real estate), it was proposed to substitute intermediate targets for the end of 2011 and 2012 rather than the broad sector ranges. The Committee was in favor of moving targets that would be reviewed annually. Other topics discussed included the classification of TIPS in real assets or fixed income, inflation versus deflation, currency exposure and emerging market debt. Staff was asked to provide an analysis of the currency exposure within the portfolio.

**Operations**

The Office of Investments is pleased to welcome two new full-time staff: Investment Officer for Private Markets Jeff Smith and Investment Operations Specialist Jay Anderson. The investment officer search realized significant savings for the office as it was concluded internally with the excellent support of executive staff recruiter Tom Lawrence. These hires accomplish a major milestone for the Office of Investments, which started in October 2006 with only two staff, Amy Chen and Michael Giovenco. Today, with an eight-person staff that includes the CIO, three investment officers, one investment analyst, one manager of investment operations, and two operations and support personnel, the Office of Investments is structured more appropriately to manage a complex investment portfolio and provide oversight of 42 managers and 59 funds in six different asset classes.

In accordance with Cambridge’s governance review recommendation to enhance remote participation, the Office of Investments has been investigating video conference capabilities and has found an equipped room at Smithsonian’s Office of the Chief Information Officer.

**Executive Session**

Staff was dismissed at 2:00 p.m. and an executive session was held.