

MINUTES OF THE OCTOBER 7, 2008, INVESTMENT COMMITTEE MEETING

The Investment Committee (“the Committee”), a committee of the Smithsonian Board of Regents, conducted a meeting at Committee Chair David Silfen’s Office in New York City on Tuesday, October 7, 2008, at 12:30 p.m. Attending were Committee Chair David Silfen and J. Tomlinson Hill III. Committee members Afsaneh Beschloss, Eli Broad, L. Hardwick Caldwell III, and Alan Spoon participated in the meeting via conference call, as also did ex officio member Roger Sant. Chief Investment Officer Amy Chen attended the meeting in person; staff participating via conference call included Secretary G. Wayne Clough; Acting Under Secretary for Finance and Administration Alison McNally; Investment Officer Michael Giovenco; Manager of Investment Operations Rika Feng; Investment Analyst Ryan Dotson; Administrative Specialist Ronald Bush; Treasurer Sudeep Anand; Chief Financial Officer Alice Maroni; Special Advisor to the Regents John K. Lapiana; Assistant General Counsel Farleigh Earhart; and Director of Human Resources Jim Douglas.

Call to Order

Committee 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 July 8, 2008, meeting were approved.

Portfolio Review

The Endowment’s performance continues to reflect the sharp market downturn. The Endowment’s asset allocations differed from long-term policy targets due to the October 2007 decision to overweight cash and provide funding for private equity and real asset portfolio from global equity.

Chief Investment Officer Amy Chen updated the Committee on the Endowment’s exposure to recent events, including AIG and Lehman Brothers. Three absolute return managers had some prime brokerage exposure to Lehman Brothers. Additionally, there was little to no counterparty exposure to either AIG or Lehman Brothers across all the Endowment’s investment managers. However, three investment managers had some equity exposure to either AIG or Lehman Brothers.

Portfolio Implementation

Given the recent market dislocation, discussions ensued regarding the Endowment’s actual and strategic policy allocations and real assets program. After debate over the appropriate percentage to maintain in tactical cash, a decision was made to raise approximately \$50–60 million from global equity managers, which would bring the tactical allocation of cash from 6% to 12%. The Committee also discussed redeploying some of the absolute return redemptions into other absolute return opportunities. The Committee decided to defer implementation of the real assets program in light of recent market events and the need to raise liquidity.

Given the unprecedented volatility in the market, the decision was made to convene a brief off-cycle telephonic meeting post-November elections. This meeting will discuss year-end portfolio actions.

Charter of the Investment Committee

As a result of the Board of Regent's May 2008 decision to restructure its committees, the Investment Committee's Charter was amended to bring it into conformance with the standard style for standing Regents' committee charters. Changes also were made to the Committee's term limits and voting procedures.

After consideration and upon motion duly made, seconded, and unanimously approved, the Committee agreed to recommend the September 29, 2007, Investment Committee Charter to the Board of Regents for its approval at the Board's next scheduled meeting.

Venture Capital Investments

Staff recommended continuing to build a broad private equity portfolio to ensure vintage year, sector, and geographic diversification while targeting commitments to top-tier funds to attain a 10% policy allocation to private equity over the next five to seven years. It is anticipated that there will be continued difficulty in accessing quality managers. The Committee recommended a flexible approach that will allow opportunistic and potentially smaller investments to get access to top-tier managers while continuing to diversify the portfolio by strategy and vintage year.

Executive Session

Staff was dismissed and an Executive Session was held.