

MINUTES OF THE FEBRUARY 14, 2012, INVESTMENT COMMITTEE MEETING

The Investment Committee (“the Committee”), a committee of the Smithsonian Board of Regents, conducted a meeting on Tuesday, February 14, 2012, at 1:00 p.m. Participating were Committee Chair David Silfen, Vice Chair Stephen Case*, and Committee members Afsaneh Beschloss, Eli Broad*, J. Tomilson Hill III, Timothy O’Neill, David Rubenstein*, Roger Sant*, and Alan Spoon. Participating staff included Secretary Wayne Clough*, Chief Investment Officer Amy Chen, Investment Officer Ryan Dotson, Manager of Investment Operations Rika Feng*, Investment Officer Michael Giovenco, Under Secretary for Finance and Administration and Chief Financial Officer Albert Horvath, 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 November 23, 2011, Committee meeting were approved.

REPORT OF THE CHAIR

Chair Silfen began by welcoming Steve Case as a new member of the Committee. He also reported that while France Córdova had a conflict that did not permit her from being part of the meeting, the Committee was looking forward to her new appointment as Chair of the Board of Regents.

The Chair explained that this meeting was a post-mortem of 2011. In past years the meeting has been done with a review by consultants. This year the review was done by staff in conjunction with the solicitation of ideas from the Committee. Mr. Silfen congratulated and extended his thanks to the staff on the work it performed in its analysis and remarked that the effort and number-crunching they performed was significant.

ANNUAL PORTFOLIO REVIEW

Chief Investment Officer Amy Chen commented that this was the sixth annual portfolio review. She extended her gratitude to Committee members for their advice and input.

The objective of the annual portfolio review is to review the portfolio, macro risks, key drivers, and opportunities.

* *participated by telephone*

ASSET ALLOCATION AND RISK SURVEY ROUNDTABLE

Mr. Silfen began a discussion regarding the Investment Committee's survey on asset allocation and risk. He asked each member to discuss underweight and overweight allocations that they felt might be appropriate. Some attractive areas highlighted by Committee members included European credit/distressed, U.S. residential real estate, energy, and emerging markets.

Mr. Silfen discussed the Endowment's short-term investment pool. He recommended a systematic review to determine how much cash is needed for the treasury. Under Secretary for Finance and Administration and Chief Financial Officer Al Horvath stated that the Smithsonian is in the process of determining its cash needs and what could be done.

PORTFOLIO IMPLEMENTATION

Ms. Chen reviewed changes made from December 31, 2010, to December 31, 2011. The breakdown by asset class and individual fund flows were reviewed.

Policy Benchmark Review: Mr. Smith proposed a change to the Endowment's benchmark. The custom benchmarks were originally incorporated to reflect the Endowment's immature portfolio by equal weighting vintage years starting from the year of the Endowment's first private investment. As the portfolio has matured it was argued that the broader based standard benchmark was more appropriate. The proposed motion was approved.

VOTED that the Investment Committee approve the revised Policy Benchmark effective January 1, 2012.

Asset Class	Current Policy Benchmark	Weights	Revised Policy Benchmark	Weights
Global Dev Equity	MSCI World Index	25.00%	MSCI World Index	25.00%
Emerging Mkts Equity	MSCI Emerging Markets Index	10.00%	MSCI Emerging Markets Index	10.00%
Hedge Funds	HFR Fund Weighted Composite Index	35.00%	HFR Fund Weighted Composite Index	35.00%
<u>Private Equity</u>				
<i>Buyouts</i>	Cambridge Custom Private Equity	6.00%	Cambridge U.S. Private Equity	6.00%
<i>Venture</i>	Cambridge Custom Venture Capital	4.00%	Cambridge U.S. Venture Capital	4.00%
<u>Real Assets</u>				
<i>Real Estate-Private</i>	Cambridge Private Real Estate Index	2.50%	Cambridge Private Real Estate Index	2.50%
<i>Real Estate-Public</i>	NAREIT Equity REIT Index	2.50%	NAREIT Equity REIT Index	2.50%
<i>Energy/Commodities</i>	DJ-UBS Commodity Total Return	5.00%	DJ-UBS Commodity Total Return	5.00%
Fixed Income	Barclays Intermediate Gov't Index	10.00%	Barclays Intermediate Gov't Index	10.00%

Mr. Smith presented a recommendation to approve an additional commitment level to private equity and venture capital.

Mr. Smith also reviewed a recommendation by staff to approve new commitments to private natural resources in 2012. The proposed motion was approved.

VOTED that the Investment Committee approves the 2012 commitment levels for private equity and private natural resources, effective February 14, 2012.

OPERATIONS REVIEW

Performance Reporting of Private Investments: At the September 21, 2011, Investment Committee meeting, staff were asked to review how universities and endowments report private market returns at fiscal year-end (June 30 or December 31) in order to better understand “peer” returns. The Smithsonian records the most recently reported capital balances on a quarter lag basis as a “practical expedient,” due to the need to close ledger books after month-end.

Staff’s survey indicated that, in general, lagged returns were provided to peer universes on a quarterly basis, except for fiscal year-end. The majority of the survey respondents report actual performance at fiscal year-end. Staff will explore whether this would be a viable option to implement in the future.

Internship Program: Ms. Chen reported that staff has been meeting with the Office of Fellowships and Internships (OFI) to become involved in the Smithsonian’s student internship program. OFI is expected to begin placing interns by summer 2012.

Financial Audit: The 2011 financial audit has been largely completed, and the audited financial statement will be issued at the end of February 2012, slightly earlier than last year. The Office of Investments completed all requirements on time.

ADJOURNMENT

The Committee dispensed with an executive session as there were no topics to discuss. The meeting was adjourned at 3:15 p.m.