MINUTES OF THE MARCH 23, 2010, INVESTMENT COMMITTEE MEETING

The Smithsonian Investment Committee ("the Committee"), a Committee of the Smithsonian Board of Regents, met at 12:00 p.m. on Tuesday, March 23, 2010, in the Regents' Room of the Smithsonian Castle. Participating were Committee Chair David Silfen, Vice Chair Roger Sant*, and Committee members Afsaneh Beschloss*, Eli Broad*, L. Hardwick Caldwell III*, David Rubenstein*, and Alan Spoon*. Participating staff included Treasurer Sudeep Anand, Chief Investment Officer (CIO) Amy Chen, Investment Analyst Ryan Dotson, Manager of Investment Operations Rika Feng, Investment Officer Michael Giovenco, Chief of Staff to the Regents John K. Lapiana, Under Secretary of Finance and Administration Alison McNally, and Investment Officer Chris Weldon. Guests in attendance were Cambridge Associates Leslie Keifer* and Ann Spence.

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 February 2, 2010, meeting were approved.

Portfolio Review

The annual portfolio review was conducted by Cambridge Associates (CA) and presented by Leslie Kiefer. On a relative basis, the portfolio underperformed the policy benchmark due to the underweight to equities and overweight to cash. Compared to other endowments and foundations, the Endowment ranked in the 47th, 38th, and 78th percentiles for the one-year, three-year, and five-year periods, respectively. Questions were raised about whether the appropriate time period and benchmark of the tactical asset allocation were employed. CA recommended that the Institution use the custodian to calculate the performance since CA lacked sufficient data. Ms. Kiefer noted that best practice is to measure tactical divergences from the benchmark against the policy benchmark. The tactical asset allocation allowed the Endowment to avoid liquidity issues and, since it spanned multiple time periods, is probably best viewed over a period greater than one year.

In determining the success of the Investment Committee's decision-making for calendar year 2009, CA attributed a positive $1.7 million. It reviewed the Endowment's expected real return on the new investment policy adopted in December 2009 and found it had a slightly higher expected return than the previous policy and the policy of like-minded endowments. With relation to the asset allocation, it was noted that the Endowment's real asset portfolio is significantly underweight to the policy.

* *participated by teleconference*

CA also noted that a stable long-term benchmark is key to successful investing as it allows a consistent tracking of successful decision making and value-added measurement. CA believes that the current benchmarks are generally appropriate comparisons, though improvements to the private equity and real assets benchmark could be made. It suggested developing a custom private equity benchmark to begin in the vintage year that the program began. In addition, the real asset benchmark should reflect investment opportunities in the portfolio.

Governance Review

Anne Spence from CA reviewed the Endowment's governance practices, referring to a number of interrelated but conceptually distinct areas: oversight and management structure; formal policies and compliance; the process by which structure and policies are applied; and the relation of all of these to the changing needs and risks of the institution being governed. Overall, CA thought that the Institution was in good shape and Committee members were satisfied with the Endowment's governance. Ms. Spence offered suggestions to tweak the structure, policies, and process elements for improvement. Structurally, she was concerned that, with the addition of new members, the Committee may become too large. She indicated the ideal number of members is seven or less. Additionally, there has been no turnover on the Invesment Committee, which generally is not in accordance with best practices; however, she noted that the Institution is addressing these issues.

Operation Update

Ms. Chen reviewed the progress related to the Office of Investments' staffing, audit, and expense analysis. The exhibit comparing 2009 and 2008 expenses show a significant increase in costs correlated to the increase in assets under management and incentive fees paid on positive manager performance.

Executive Session

Staff was dismissed at 1:45pm and an executive session was held.