MINUTES OF THE OCTOBER 14, 2009, INVESTMENT COMMITTEE MEETING

The Smithsonian Investment Committee (“the Committee”), a committee of the Smithsonian Board of Regents, met at 2:00 p.m. on Wednesday, October 14, 2009 at Committee Chair David Silfen’s office in New York City. Participating were Committee Chair David Silfen and Committee members L. Hardwick Caldwell III*, Afsaneh Beschloss*, J. Tomlinson Hill III*, Roger Sant*, and Alan Spoon*. Participating staff included Secretary G. Wayne Clough*, Treasurer Sudeep Anand*, Chief Investment Officer Amy Chen, Investment Analyst Ryan Dotson*, Associate General Counsel Farleigh Earhart*, Manager of Investment Operations Rika Feng*, Investment Officer Michael Giovenco, Chief of Staff to the Regents John K. Lapiana*, General Counsel Judith Leonard*, Chief Financial Officer Alice Maroni*, Under Secretary of Finance and Administration Alison McNally*, and Investment Officer Chris Weldon.

Call to Order

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 9, 2009, meeting were approved.

Annual Conflicts Statement

The Committee was presented Section A.6. of the Ethics Guidelines adopted in 2005 for the Investment Policy Subcommittee. Committee members were asked to sign and return to General Counsel Judith Leonard a statement confirming compliance with the policy, including their obligation to report to the General Counsel any conflicts, potential conflicts, or issues that may prevent them from complying with the guidelines.

Portfolio Review

The Endowment’s preliminary performance for the period ending September 30, 2009, was 3.2% versus the policy benchmark of 3.5%. Year-to-date performance was 14.3% compared to the policy benchmark of 18.6%. The Institution’s Endowment ended the quarter at $883.5 million.

The staff presented exhibits reviewing the Endowment’s risk/return profile over the trailing one, three, and five years; Cambridge Associates’ peer comparative asset allocations; and several liquidity exhibits. Based on Cambridge’s peer comparative analysis, the Institution has less private equity/venture capital, real estate, natural resources exposure; and a higher allocation to absolute return. These differences are expected to narrow somewhat over time as other endowments start to examine and possibly adjust their long-term allocations in response to the prevailing market conditions. Last year, the Institution’s cash allocation was a considered an outlier; now, most endowments are maintaining a 5% cash balance.

** participated by teleconference*

Tactical Asset Allocation

The Committee and staff discussed the Endowment's current tactical asset allocation and the desirability of continuing to implement the third tranche of the original plan. The discussion reviewed three options: 1) continue to implement the third tranche of the tactical asset allocation; 2) revert back to the long-term policy allocation; and 3) revise the long-term policy allocation.

The Committee agreed not to implement the third tranche of the tactical asset allocation due to the substantial credit recovery. The Committee held a wide-ranging discussion on individual market views and recommendations to reduce the cash allocation and increase exposures to a combination of real assets, hedge funds (credit, absolute return, long/short, macro, emerging markets, and commodities), and emerging markets. The Committee agreed that a fundamental shift in the current investment environment requires a reexamination of existing policy allocations. The Committee agreed not to revert back to the long-term policy allocation.

The final decision was to review the existing policy portfolio with the intention of adjusting the targets to reflect both current and anticipated market conditions. Staff was tasked with reviewing current allocations and convening an interim telephonic meeting to discuss the proposed policy targets prior to the next scheduled Committee meeting. Major points of consideration in the formulation of a revised long-term policy are to include the changing dynamic of growth drivers between developed and emerging markets, to accelerate exposure to real assets using a liquid diversified fund or index, to increase the emerging markets allocation to 10%, and to maintain a tactical cash position for the Institution's needs.

Operational Review

Staff reviewed progress related to the Office of Investments' staffing, technology, and new office plans.

Executive Session

Staff was dismissed at 3:25 p.m. and an executive session was held.