

MINUTES OF THE JUNE 19, 2019, INVESTMENT COMMITTEE MEETING

The Investment Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) conducted a meeting on Wednesday, June 19, 2019, in the Regents Room at the Smithsonian Castle in Washington, D.C. Participating were Committee Chair Kathryn (“Katie”) Hall, Committee Vice-Chair Roger Ferguson, Committee members Henry Ellenbogen, Alice Handy, J. Tomilson (“Tom”) Hill*, and David Rubenstein. Committee members Stephen Case and Michael Tennenbaum were unable to participate.

Participating Smithsonian staff included Director of Investment Operations, Genta Arovas; Chief of Staff to the Secretary, Greg Bettwy; Chief Investment Officer, Amy Chen; Investment Officer, Ryan Dotson*; General Counsel, Judith Leonard; Deputy Chief of Staff to the Board of Regents, Kate Forester; Investment Officer, Michael Giovenco; Inspector General, Cathy Helm; Acting Under Secretary for Finance and Administration, Mike McCarthy, and Investment Officer, Jeff Smith.

CALL TO ORDER / REPORT OF THE CHAIR

Committee Chair Katie Hall called the meeting to order at 12:00 p.m. and welcomed everyone. Ms. Katie Hall introduced the Agenda.

APPROVAL OF THE March 26, 2019, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the March 26, 2019, Committee meeting were approved with corrections.

PORTFOLIO REVIEW

Chief Investment Officer Amy Chen reported that the Endowment ended March 31, 2019, with assets of \$1.65 billion, returning 8.0% for the year, outperforming the policy benchmark of 1.8%. She noted that the past quarter has been the best-performing quarter to start off a year in nearly two decades, with strong endowment performance resulting in an increase of \$81.7 million in the first quarter, compared to \$49.8 million for the entire year of 2018. Over three years, the Endowment returned 10.8% annually versus the policy benchmark of 6.7%.

The Endowment ranked in the first quartile against the Cambridge Associates (“CA”) peer universe of endowments and foundations for all periods (1, 3, 5, 10) on a net of fees basis. Ms. Chen highlighted the endowment’s largest private company holding, Bytedance, which was the largest return contributor to the portfolio.

In Spring 2019, the Regents had asked the Advancement Committee to conduct a review of the Smithsonian’s gift acceptance policy to determine if gifts from companies in specific industry sectors (i.e., alcohol, tobacco, firearms and gaming) should be precluded. Investment staff was

* Participated by telephone

asked to review the Endowment's exposure to these industries which Ms. Chen reported as 1.6%. Committee members suggested that staff should monitor the Advancement Committee's review upon completion.

PORTFOLIO IMPLEMENTATION

Ms. Chen started the discussion around the topic of a "Break the Glass" scenario and how staff can be better prepared to act strategically facing significant market dislocation. Staff proposed two triggers of market drawdowns of 10% and 15%, laying out different tactical decisions staff might take in the face of a market correction. Committee members emphasized the importance of discipline to allocate in a market downturn and discussed pre-emptive action to hedge equity exposures if volatility persists.

OPERATIONS REVIEW

Ms. Arovas updated the Committee on a staff promotion, the internship program, the machine learning initiative, and time-matched reports.

GOVERNANCE

The Committee was provided a brief review of the current governance model and alternative models of governance.

ADJOURNMENT

The meeting was adjourned at approximately 1:37 p.m., and an executive session was held.