

## MINUTES OF THE MARCH 26, 2019, INVESTMENT COMMITTEE MEETING

The Investment Committee (“Committee”) of the Board of Regents (“Board”) of the Smithsonian Institution (“Smithsonian”) conducted a meeting on Tuesday, March 26, 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 Steve M. Case, Henry Ellenbogen,\* Alice Handy, J. Tomilson (“Tom”) Hill,\* David Rubenstein and Michael Tennenbaum.\*

Participating Smithsonian staff included Secretary Dr. David Skorton; Director of Investment Operations Genta Arovas; Chief of Staff to the Secretary Greg Bettwy; Chief Investment Officer Amy Chen; Investment Officer Ryan Dotson; Associate General Counsel Farleigh Earhart; 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 12:08 p.m. and welcomed everyone. Ms. Katie Hall introduced a few of the items on the Agenda to be focused on, including asset allocation and the budget for private investments.

### APPROVAL OF THE OCTOBER 17, 2018, COMMITTEE MEETING MINUTES

Upon motion duly made and seconded, the draft minutes of the October 17, 2018, Committee meeting were approved without modification.

### ANNUAL PORTFOLIO REVIEW

Chief Investment Officer Amy Chen started by thanking Katie for her leadership and welcoming Acting Under Secretary for Finance and Administration Mike McCarthy. Ms. Chen reported that the Endowment ended December 31, 2018, with assets of \$1.56 billion, returned 4.8% for the year, outperforming its policy benchmark of -4.0%. She noted that diversification kept the portfolio in good stead especially during a volatile period. Over the longer term, the total Endowment portfolio returned 9.0% versus the policy benchmark of 6.4%. The private portfolio has outperformed the public portfolio on a one-, five-, and ten-year basis. The Endowment ranked in the first decile against the Cambridge Associates (“CA”) peer universe of endowments and foundations for all periods on a net of fees basis. Ms. Chen also reviewed portfolio’s risk/return analysis, manager rankings, and performance contribution analysis. She highlighted the good performance from marketable alternatives managers and venture capital partnerships which were responsible for the top 10 return contributors in the portfolio. Last, she reviewed the liquidity of the portfolio, as well as, the stock distribution pipeline. Committee members suggested staff should be careful about holding Chinese early stage companies given the higher risks in governance and geopolitical issues.

*\* Participated by telephone*

## ASSET ALLOCATION REVIEW

Gino Reina, Portfolio Manager, and Scott Freemon, Head of Strategy and Risk, of SECOR Asset Management, LP, presented the annual asset allocation and risk review. The study evaluated the impact of a higher private equity allocation in consideration of long-term market returns and risks as well as under stressed scenarios. Investment Committee members discussed the model results and inputs used in such analysis. Mr. Freeman noted that conservative premiums from risk and illiquidity, which are more meaningful for the long-term, were assigned to private equity and concluded that its increased allocation would contribute to the total portfolio in a positive way. Committee members discussed tail risk management as a potential enhancement proposed by SECOR, but concluded it was not appropriate. Instead, members supported the increase to privates while being mindful of overcommitting.

## PORTFOLIO IMPLEMENTATION

Ms. Chen reviewed investment activities for the last year. During 2018, of the four terminated funds, two were regional emerging market equity managers who closed their funds due to macro reasons. Staff committed to one tactical allocation and two marketable alternative managers. Ms. Chen emphasized that staff considers flexibility very important and continues to act nimbly. Ms. Chen also provided a liquidity review. Committee member, Henry Ellenbogen, encouraged staff to revisit the “Break the Glass” scenarios and establish an implementation plan with a “shopping list”.

The Committee reviewed the actions recommended by staff and upon motion duly made and seconded, approved the following motions:

VOTED that the Investment Committee approves the long-term policy targets and allowable ranges, the adoption of private equity and private real asset commitment ranges for 2019, and the recommended changes to the Policy Benchmark.

The adopted long-term policy targets and allowable ranges, effective on March 26, 2019 are as follows:

<b>Asset Class</b>	<b>Policy Target</b>	<b>Allowable Ranges</b>
Global Developed Equity	20%	10 -30%
Emerging Market Equity	8%	5 -20%
Marketable Alternatives	18%	8 -28%
Fixed Income	7%	0 -15%
Private Equity	32%	20 -40%
Real Assets	15%	10 -25%

The revised Policy Benchmark effective January 1, 2019, is as follows:

<b>Asset Class</b>	<b>Current Policy Benchmark</b>	<b>Weights</b>	<b>Revised Policy Benchmark</b>	<b>Weights</b>
<b>Global Developed Equity</b>	MSCI World Index	28%	MSCI World Index	20%
<b>Emerging Markets Equity</b>	MSCI Emerging Markets Index	10%	MSCI Emerging Markets Index	8%
<b>Marketable Alternatives</b>	HFRI Fund Weighted Composite Index	20%	HFRI Fund Weighted Composite Index	18%
<b>Private Equity</b>				
<i>Buyouts</i>	Cambridge U.S. Private Equity Median	11%	Cambridge U.S. Private Equity Median	16%
<i>Venture</i>	Cambridge U.S. Venture Capital Median	11%	Cambridge U.S. Venture Capital Median	16%
<b>Real Assets</b>				
<i>Real Estate-Private</i>	Cambridge Private Real Estate Median	4%	Cambridge Private Real Estate Median	4%
<i>Real Estate-Public</i>	NAREIT Equity REIT Index	4%	NAREIT Equity REIT Index	4%
<i>Natural Resources</i>	Russell 2000 Energy Index	3.5%	Russell 2000 Energy Index	3.5%
	Cambridge Energy and Natural Resource Median	3.5%	Cambridge Energy and Natural Resource Median	3.5%
<b>Fixed Income</b>	Barclays Intermediate Gov't Index	5%	Barclays Intermediate Gov't Index	7%

## ADJOURNMENT

The meeting was adjourned at approximately 2:21 p.m., and an executive session was held.

## COMMITTEE DECISIONS MADE BETWEEN MEETINGS (OCTOBER 17, 2018 – MARCH 26, 2019)

The Committee approved four manager decisions by e-mail vote subsequent to the October 17, 2018, meeting.