

THE INSTITUTE FOR ADVANCED STUDY

Minutes

Joint Meeting of the Budget and Finance Committees

October 23, 1981

Princeton, New Jersey

Present: Messrs. Taplin (Chairman, Budget Committee) and Hansmann (Chairman, Finance Committee), Dilworth, Woolf and Mrs Delmas. Also, Messrs. Hunt (Secretary), Fanning, Ferrera, Hamilton, Jenkins, Logan, Rowe, Stone, Wasserman and Mrs Grisham, Ms Modzelewki, Ms Scott.

Absent: Messrs. Brown, Houghton, Kauffmann, Opel.

Presiding officer: Mr Taplin opened the meeting at 10:00 a.m.

Minutes: The minutes of the meeting of April 24, 1981, were approved.

Review and approval of the post-closing budget for 1981-82: Mr Taplin reviewed the post-closing budget, noting in particular the surplus resulting from the fiscal year 1981 exercise. This surplus, in the amount of \$209,026, is the first such surplus in Institute operations since 1952. In his review of the budget,

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Mr Taplin explained both the overall decrease in the projected budget for fiscal 1982 and the several line item increases contained in the current post-closing budget.

In this connection, Dr Woolf described his plans for adding eight new apartments in the von Neumann Drive area.

After discussion, the Committee agreed to recommend Board approval for the post-closing budget for fiscal 1982 and for the construction of eight new apartments in the von Neumann Drive area.

Presiding officer:

Under the chairmanship of Mr Hansmann, the joint Budget and Finance Committee then turned to the agenda of the Finance Committee.

1980-81 audit:

Mr Hansmann asked the representatives of Deloitte Haskins + Sells for their comments on all matters covered by the audit. Speaking for the auditing firm, Martin Wasserman expressed his appreciation for the cooperative attitude of the Institute's administration and stated that the auditors were satisfied with the Institute's management and control systems. He indicated that a management letter would be sent to the Institute, and it was agreed that the letter would then be communicated to all members of the Budget and Finance Committees.

Performance of
the portfolio:

James Hamilton of Hamilton, Johnston & Co., Inc. presented the company's continuing analysis of the investment performance of the Institute's portfolio over the fourteen-year period beginning July 1, 1967, to June 30, 1981.

In his report, Mr Hamilton noted the following points, among others:

- In general, performance of the total fund, stocks and bonds together, has continued well above average over the whole period.

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- The equity portfolio has accumulated \$79 million more in value than Hamilton, Johnston's average yardstick fund, while fixed income has a \$5.5 million advantage. This implies that the Institute's management has accumulated nearly \$85 million more in value than the average investment adviser over the period.
- In fiscal 1981, the fund produced a 19.5% annual rate of return versus 14.3% on Hamilton, Johnston's comparative yardstick.
- Over the full fourteen-year period ended June 30, 1981, the fund increased in size from \$48.8 million to \$98.4 million despite net withdrawals of almost \$49 million (including the withdrawals of current income).
- Dividends and interest income of \$38.5 million and net realized gains of \$60.2 million combined for a total gain from investments of \$98.7 million, or 11.1% per year.
- For the seventh consecutive year, the fund's market value increased despite net withdrawals (\$211,000 in fiscal 1981).
- Over the past seven years, the annual rate of 22.4% exceeded all of Hamilton, Johnston's 60 equity yardsticks. Moreover, the equity portfolio accumulated \$49.3 million more than it would have in Hamilton, Johnston's median yardstick portfolio.
- Performance of the equity account during fiscal 1981 was good.
- In the fixed income account, the 8.1% rate of return surpassed 36 of the 40 Hamilton,

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Johnston yardsticks with which comparisons were made, and the portfolio accumulated \$2.9 million more in value than it would have in Hamilton, Johnston's median yardstick portfolio.

-Performance of the fixed income account during fiscal 1981 was above average.

General port-
folio review:

Linda Scott and Raymond Stone, representing the Fidelity Bank, reviewed the fixed income portion of the portfolio. Points covered included performance (absolute year-to-date return was 9.99% despite negative direction of the market during most of the first nine months of 1981), strategy review, current strategy, and list of holdings.

James Fanning and J. Murray Logan, representing Rockefeller & Co., Inc., then presented the equity portion of the portfolio. The presentation covered performance, transactions, outlook, strategy, and holdings.

Messrs. Fanning and Logan then described the 5500 Fund, a limited partnership for tax-exempt institutions which would be limited to seven to ten partners. After discussion, an investment of \$7.5 million of Institute funds in the 5500 Fund was approved for recommendation to the Board in the form of the following resolution:

Resolved, that the Finance Committee of the Institute be authorized to commit a total of \$7.5 million to the 5500 Fund in accordance with terms to be specified in an exchange of letters between either the Director of the Institute or the Chairman of the Finance Committee and the Manager of the 5500 Fund, and that the investment guidelines governing the portfolio be modified accordingly.

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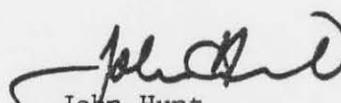
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Additionally, the following resolutions were approved for recommendation to the Board:

Resolved, that it is permissible to cover academic support costs up to the limit of the funds available in the School of Social Science Endowment Fund and that any excess may be covered from unrestricted gifts and grants to the Institute or from the quasi-endowment funds of the Institute.

Resolved, that it is permissible to cover administrative support costs up to the limit of the funds available in the Mary Marquand House Endowment Fund and that any excess may be covered from unrestricted gifts and grants to the Institute or from the quasi-endowment funds of the Institute.

There being no further business, the meeting was adjourned at 12:15 p.m.



John Hunt
Secretary of the Corporation