

THE INSTITUTE FOR ADVANCED STUDY

M I N U T E S

Joint Meeting of the Finance and Budget Committees

October 22, 1982

Princeton, New Jersey

Present: Messrs. Hansmann (Chairman, Finance Committee), Dilworth, Wolf, and Mesdames Delmas, Whitehead. Also Messrs. Rowe, Logan, Hamilton, and Jenkins, and Mesdames Labalme, Modzelewski, LaBrutte, Scott and McIntosh.

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

Presiding Officer: Mr. Hansmann opened the meeting at 10:00 a.m.

Minutes: The minutes of the meeting of April 23, 1982, were approved.

General Portfolio Review: Mr. James R. Hamilton, representing Hamilton, Johnston and Co., Inc. discussed their analysis of the investment performance of the Institute for Advanced Study over the fifteen year period beginning July 1, 1967 to June 30, 1982, with an in depth analysis of Fiscal 1982 as well as of the last eight years. Mr. Hamilton pointed out that the June 30 figures should be considered in connection with the last four months, and he showed that the record implies that the Institute's management has accumulated \$77 million more in value than the average investment advisor over a similar period (since 1967).

Mr. Hamilton discussed the equity and fixed income accounts, their timing, turnover, and stability, as well as the formulae for arriving at their variability.

Mr. Dilworth stated that the Institute is still inadequately capitalized, and Mr. Hansmann indicated that we have been requiring 8 - 8-1/2 % of our endowment at market to support operations.

It was agreed we should see an analysis of the total draw on the endowment and Mr. Rowe undertook to provide that information.

Mr. Hansmann asked about the compensation for Hamilton, Johnston and Co., Inc. It was agreed that the fee should be raised from \$15,000 to \$20,000 in earmarked commissions (softdollars) via Wertheim and Co.

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Rockefeller + Co.,
Inc. Report:

Mr. J. Murray Logan of Rockefeller and Co., Inc., characterized the 12-month period ending in June as a "poor period"; he mentioned the recovery since that date. He discussed the performance, transactions, outlook, strategy, and holdings of the portfolio. Mrs. Delmas asked about the Institute's increased holdings in Bank stocks, to which Mr. Logan replied that the stocks had become so depressed that they looked attractive on a risk-reward basis. He considered that over the long term they would prove a sound investment. He also considered certain railroad stocks attractive for investment, as reflected in recent purchases.

The possibility of adding to energy stocks was raised. It was pointed out that United Parcel Service is carried as an investment although it is in the process of being repurchased by the company at approximately \$4,400,000. Dr. Woolf said those funds would remain part of the special endowment for the School of Social Science.

In reply to a query about the investment in the 5500 Fund, Mr. Logan said it had had a poor year through June of 1982, the 7-1/2 million had a market value of 6.7 million as of October 18, but that it has recovered since that date. A list of holdings in this fund will be distributed to committee members quarterly.

Fidelity Bank
Report:

Linda Scott then discussed the Fixed Income account with Fidelity Bank. The recent performance of the bonds was not good. The Bank had not expected the industrial index to decline in the third quarter. The bond portfolio, heavily in short term treasuries, did not participate in the summer rally. They did extend maturities in September, purchasing ten-year Treasury notes and the bond portfolio has appreciated recently. Jean McIntosh then spoke about Lacey Hunt's forecast: the recovery is not yet sustainable but will be more stable in the first and second quarters of next year. Consumer confidence is building up, and real goods will become more attractive than savings as rates decline. It is thought that rates will move down until January, then will move back up to double-digit figures by the end of 1983.

Management Letter:

Mr. Hamilton, Ms. Scott and Ms. McIntosh left the meeting and the auditors, Martin Wasserman and Tom Finnerty, were invited in. Mr. Wasserman, reporting for Deloitte, Haskins + Sells reviewed the financial operations of the Institute and commented that the Electronic Data Processing was now in better shape. Some problems of internal control still exist but the situation is much improved from last year. Mr. Dilworth asked if we had bonding to cover any breach of security. Mr. Rowe said that we do but was uncertain of the amount. He was instructed to report

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on this at the next meeting. There was further discussion about the use of computers at the Institute for endowment accounting purposes. It would be useful to have a schedule of Restricted Endowment Funds; Mr. Rowe will provide such a schedule for each October meeting showing market values as of June 30 of that year.

Guidelines:

Mr. Hansmann raised the question of the guidelines with particular reference to the division between fixed income and equity investments; it was agreed they should not be changed. The auditors commented that we had occasionally exceeded the guidelines for investing in a single security.

Budget Committee:

The representatives of Deloitte, Haskins + Sells left, and the Trustees constituted themselves as a meeting of the Budget Committee. In Mr. Taplin's absence Mr. Dilworth chaired the meeting.

Mr. Rowe took the Committee through an analysis of the Budget. He circulated a Cash Requirements Report for Fiscal Year 1983. Mr. Dilworth expressed concern about this draw down from the endowment.

The meeting was adjourned at 12:30 p.m.

Patricia H. Labalme
Secretary of the Corporation