

THE INSTITUTE FOR ADVANCED STUDY

Minutes

Joint Meeting of the Finance and Budget Committees

October 26, 1979

- Present: Messrs. Dilworth (Acting Chairman) and Woolf; Mrs. Delmas. Also, Mrs. Whitehead and Messrs Straus and Linder (emeritus). Also, Ms. Modzelewski and Messrs. Hunt (Secretary), Jenkins, Rowe, Robert Elko, James Hamilton, Lee Minton, John Ferrera, and Martin Wasserman.
- Absent: Messrs. Hansmann, Houghton, Kauffmann, Petersen, Segal, Simon, and Taplin.
- Presiding Officer: Mr Dilworth opened the meeting at 1:30 p.m.
- Minutes: The Minutes of the joint meeting of the Finance and Budget Committees which was held at the Institute on April 27, 1979, were approved.
- Post-closing budget: Mr Rowe presented the post-closing budget with a schedule showing actual expenditures and income for fiscal years 1978 and 1979 and comparing the April budget to the post-closing budget for fiscal year 1980. The 1980 post-closing budget showed an increase in budgeted expenditures of \$506,000, most of which resulted from the inclusion of a depreciation factor in the budget.

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It was agreed that although the present budget format was an improvement over the format used in previous years, a revised format should be established for future use in presentations to the Finance and Budget Committees and the Board.

Comparison of expenditures
to date with the fiscal
1980 budget:

Mr Rowe stated that his office had not been able to prepare the required analysis because of the press of other business and the limitations of the present small staff in producing timely analyses of Institute transactions. It was noted that Mr Rowe is presently investigating the possibility of adding a modest computer capability to the business office in the interests of refining and speeding up the desired reporting.

1978-79 audit:

Mr Wasserman of Deloitte Haskins + Sells described the changes in the format of the audit report, which is now designed to show the net annual result of operations as requested by the Board and to include depreciation. The resulting accounting procedure is that used by not-for-profit organizations.

Mr Wasserman reported that existing controls were satisfactory.

Mr Dilworth asked that the auditors' letter containing recommendations be sent in future to the Finance Committee.

Performance of
the portfolio:

Mr Hamilton of Hamilton, Johnston + Co., Inc., presented the company's continuing analysis

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of the investment performance of the Institute over the twelve-year period beginning July 1, 1967, to June 30, 1979.

Mr Hamilton stated that the record was as fine as any he had ever seen for the period under review, and then noted the following points:

- The equity portfolio has far outperformed Hamilton, Johnston's Total Equity Yardstick Index (10.2% annually versus 1.9%), while results in the fixed income segment were excellent.

- In fiscal 1979, the fund produced a 25.9% annual rate of return versus 10.6% on the Hamilton, Johnston comparative Yardstick, a superior result.

-Over the full twelve-year period ended June 30, 1979, the fund increased in size from \$48.8 million to \$68.4 million despite net withdrawals of almost \$43 million (including the withdrawals of current income). For the fifth consecutive year, the fund's market value increased despite net withdrawals of over \$3 million last year.

- The ability to select stocks which performed better than stocks in general was superior over the past six years. The annual rate of return of 11.8% exceeded 59 of 60 of the equity Yardsticks, aggregating \$13 billion.

Mr Dilworth then reported that Mr Hansmann does not wish to continue to manage the fund

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and stated that he would so inform the Board. It was agreed that Messrs. Dilworth, Hansmann, Houghton, Linder and Petersen would meet with various candidates to choose a successor.

Portfolio review:

Mr Jenkins reviewed the summary of purchases and sales for the period April 17, 1979, through October 17, 1979.

Mr Dilworth then asked if there was any disposition on the part of the Committee to assume a more conservative position with regard to equity/fixed income proportions. After discussion, it was agreed that the present position should be maintained.

Mr Minton then reviewed the fixed income portion of the portfolio and made the following points by way of an economic and investment summary:

- Recession expected if Federal Reserve tightens money.
- Interest rate peak expected in first quarter of 1980.
- Most attractive sector is seven- to ten-year Treasury-Single A Industrial and AAA/AA Finance if spreads widen.
- Next trough in rates will be above previous peak due to built-in inflation levels.

Proposal for long-term
tax-exempt borrowing:

Mr Dilworth noted that the draft proposal circulated to the Committee addressed itself to two questions in particular: the amount of money required for capital expenditure, and the method of financing such

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expenditure. He then referred to Mr Segal's letter of October 15, 1979, in reference to the proposal and noted that Mr Segal had raised a number of questions and had indicated his opposition to the concept. Mr Dilworth stated that the issue of long-term tax-exempt borrowing was a fundamental one, and that all Trustees who had spoken to him or to the Director on this question had favored going ahead. He stated his view that Mr Segal was wrong in his concern that the Institute could be subject to serious criticism for engaging in what Mr Segal had termed in his letter an arbitrage arrangement. Mr Dilworth then asked the Director to comment on the various projects included in the proposal.

Dr Woolf reviewed the need for structural repairs to Members' housing and described the need to replace the four boilers which were no longer serviceable. He pointed out that the expansion of Members' housing was tied to the proposed Space Telescope project and that additional apartments would not be built unless the contract for the project was awarded to the Institute and Princeton University or unless other factors should eventually make such construction desirable.

In response to questions about the housing and other buildings which had formerly belonged to the Eno and Pope families and which have now been purchased by the Institute, the Director reported that he was negotiating the rental of the former Eno property to the Carnegie Endowment for the Advancement of Teaching or some equally appropriate tenant.

The Director then described the need for recreational facilities for the Members

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in particular and reported on the way in which the addition of tennis courts would improve the overall character of the Members' period of residence at the Institute. He then described the utility of extending the air-conditioning of the Institute by finding suitable ways to bring air conditioning to Members' apartments.

Mr Dilworth reported that the Faculty Liaison Committee did not feel that air-conditioning of Members' apartments was necessary.

After some discussion, it was agreed that the Director should examine various alternative methods of providing a cooling system to the Members' apartments.

Dr Woolf then referred to continuing efforts to secure foundation grants for at least a portion of the required expenditure.

Mr Dilworth pointed out that the proposal should not be open-ended with regard to the amount being borrowed and that this amount should remain in the \$4 million to \$4.5 million area.

It was agreed that the borrowing envisaged would be worked out in tranches, as requirements become specific and exact dollar amounts known.

There being no further questions, it was agreed that the proposal for long-term tax-exempt borrowing would be favorably recommended to the Trustees on the following day.

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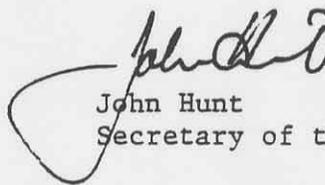
Changes in retire-
ment benefits

Mr Dilworth stated that there was general agreement on the desirability of postpoing discussion on this point until Mr Segal has had an opportunity to make his views known to the Trustees.

Annual Report for
fiscal 1979:

After a general discussion of the proposed Annual Report, it was agreed that extensive use of graphic illustrations would not be desirable.

There being no further business, the meeting was adjourned at 3:00 p.m.



John Hunt
Secretary of the Corporation