

THE INSTITUTE FOR ADVANCED STUDY

M I N U T E S

Joint Meeting of the Finance and Budget Committees

October 23, 1987

Princeton, New Jersey

- Present:** Messrs. Hansmann (Chairman of Finance Committee and Acting Chairman of Budget Committee), Forrestal, Goldberger, Lee, Stewart, Straus, Taplin, Vaillaud, Wolfensohn; Mesdames Delmas and Kaplan; also Mesdames Labalme, Laesker, and Mr. Rowe. Present by invitation were Messrs. J. Murray Logan, William Asmundson, and Carl Shafer of Rockefeller & Co., Gary Schreyer of Rosenberg Capital Management, James Dragon of Hamilton, Johnston & Co., Linda Drace and Thomas Finnerty of Deloitte, Haskins + Sells.
- Absent:** Messrs. Brown and Byrom.
- Finance Committee:** Mr. Hansmann opened the meeting of the Finance Committee at 2:10 p.m.
- Minutes:** The minutes of the meeting on July 20, 1987, were approved as circulated.
- Douglas Land Property:** Mr. Hansmann informed the Committee that the exploratory drilling for water exploration carried out on the Douglas Land Property in Arizona had resulted in a very favorable report. It was established that there would be sufficient water to support a population of approximately 205,000 people. There should be an excellent return on the \$150,000 which the Institute has invested in this property over the long term.
- Bank of New York
Loan Program:** Mr. Hansmann reviewed the decision of the Committee to suspend the security loan agreement with the Bank of New York. Mr. Forrestal had been making inquiries on behalf of the Committee, but it was difficult to get

clear legal opinions on the obligation of the Bank in this matter. Mr. Forrestal discussed the complexities of the situation and said that the practical question was whether the Bank of New York was a strong enough institution to indemnify the Institute should there be a loss of securities. In his opinion, the answer was yes, and in view of this, Mr. Forrestal thought the Committee could prudently reinstate the agreement. Mrs. Kaplan suggested that the reinstitution be delayed until the market quieted down, and there was general agreement on this course of action. The lending of securities has, in the past, generated income of \$40-50,000 per year.

New Jersey Education-
al Facilities Bond:

Mr. Hansmann reported that a favorable market opportunity to pre-refund the Institute's Educational Facilities Bond debt had not yet presented itself, but if interest rates decline over the next several months, pre-refunding may once again become attractive. Allen Rowe was asked to be ready to move on this if an opportunity to save at least \$500,000 should materialize.

Auditor's Report:

Mr. Thomas Finnerty reported for Deloitte Haskins + Sells.

He informed the Committee that during their audit of the Institute's 1987 financial statements, no material weaknesses in internal accounting control were found.

Mr. Finnerty reviewed the auditor's recommendations with reference to the reporting by the money managers on limited partnership investments, the use of microcomputers for accounting applications, the Faculty housing program, and offsite storage of backup for EDP files.

The Committee accepted the Auditor's Report. Mr. Finnerty and Ms. Drace left the meeting.

Hamilton, Johnston &
Co., Inc.:

Mr. Dragon summarized the report of Hamilton, Johnston & Co, Inc. The combined assets as of June 30, 1987, totalled \$184,884,000 and as of September 30, 1987, \$185,834,000. Both Rockefeller & Co. and Rosenberg Capital Management had outperformed the Hamilton Johnston Composite yardstick in the past three years. The Rockefeller equity portfolio was slightly more stable than the average; the Rosenberg Fixed income portfolio was a little less stable than average.

In response to Mrs. Kaplan's question about the Institute's guidelines, Mr. Hansmann replied that Rockefeller may not go below a 50% equity position for the total portfolio (including the fixed income portion managed by Rosenberg Capital Management) without the consent of the Finance Committee.

Rockefeller & Co.:

Mr. Logan reported for Rockefeller & Co. The Portfolio under their management was structured to withstand the impact of the past week's stock market plunge. As of October 21, Rockefeller had \$122.7 million under its management, as compared with \$132.8 million on June 30, and \$136.2 million on September 30.

The figures for Rosenberg's portfolio during this same period were: \$49.6 million as of June 30, \$47.2 million as of September 30, \$47.7 as of October 21.

Mr. Logan reviewed the changes in asset allocation since December 31, 1986, pointing out that Rockefeller had reduced the Institute's holdings in large capital stocks and increased their reserves and US bond investments. While Rockefeller had not anticipated the magnitude of the market drop, they had considered equities very rich and had been growing more conservative. They expected the market to recover, but only gradually, with federal fiscal restraints slowing growth into 1988.

In response to questions at the previous meeting, Mr. Asmundson gave a slide presentation on the partnerships in which Institute funds are invested. The objectives of these "special investments" are to achieve higher rates of return while assuming above average risk, and to seek diversification within the higher risk environment.

Mr. Wolfensohn and Mr. Vaillaud questioned the fee structure on these partnerships as well as on the other funds under Rockefeller's management. The fee is 1% on the first \$10 million and .5% on the rest, except that for the special investments 1.5% is charged.

Mr. Logan gave Dr. Goldberger background material on the Rockefeller & Co. personnel.

Rosenberg Capital
Management:

Mr. Schreyer reported for Rosenberg Capital Management. Although economic growth will be slow during the next two quarters, his firm was bullish for the long-term, with interest rates declining into 1989.

Before the stock market activity of the past week, Rosenberg had been extending maturities, and after the market drop on October 19th, they had bought U.S. bonds on the Japanese market. At the present they were 80% in government or government guaranteed bonds. The average maturity was 7 years, 10 months, increased from an average of 5 years.

Rosenberg anticipated that long term interest rates would decline to 8.5 or 9% in the near future.

Mr. Schreyer considered that his firm had not done the best job in the first nine months of the year but were on the right track now and getting better.

Rosenberg managed, in all their accounts, a total of \$10 billion with \$4.5 billion in fixed income.

Mr. Schreyer asked for and received the Committee's permission to invest 20% or less of the portfolio in foreign bonds.

There being no further business, the meeting of the Finance Committee was adjourned. Messrs. Logan, Asmundson, Shafer, Schreyer, and Dragon left the meeting.

Budget Committee: Mr. Hansmann opened the meeting of the Budget Committee at 4:40 p.m.

Minutes: The minutes of the meeting of April 24, 1987, were approved as circulated.

School budget analysis: Mr. Wolfensohn informed the Committee that he had requested of the administration an analysis of Faculty-member costs similar to those provided for the Wolfensohn Committee. This analysis would be forthcoming. The question to ask of the data was: is the money being spent for the purposes of the institution? The previous analysis had encouraged the School of Historical Studies to reduce their overhead and increase member stipends.

Fiscal Year 1989 Budget: The proposed Fiscal Year 1989 budget was discussed. Mr. Rowe pointed out that no increase in Faculty salaries was being proposed at this time. This would be under discussion during the next few months. However, stipends for visiting faculty and visiting members (lines 3 and 4) required approval at this time. The Committee agreed to recommend the approval of these two items to the Board.

The drawdown (on p. 11 of the Budget) for FY '87 was at 6.2%, the lowest in twenty years, with the exception of 1981 when the inflow from the bond issue distorted the figure. The estimated drawdown for 1988, given the recently reduced endowment, is 7.5%.

Gifts to the
Endowment:

Mr. Wolfensohn pointed out that, according to the Schedule entitled "Analysis of Endowment Growth" that had just been distributed to the Committee, gifts to the endowment in the last five years, with the exception of one large gift of \$4 million, were distressingly inadequate. In the last 11 years, only \$13 million had been raised while capital gains accounted for an increase of \$118 million. There was a serious need to strengthen fund-raising in order to reduce the draw to the desired 5% figure. Mr. Wolfensohn urged the Trustees to support the new Director in his efforts to raise money.

Mr. Taplin pointed out that effective development work needs to be done among the Institute's different constituencies: the Board, the community, the alumni/ae.

Dr. Goldberger said that he would be giving fund-raising a high priority and that the Trustees are the key, both as givers and as contacts to those who could give.

Evaluation of
managers:

Dr. Goldberger raised the question of appointing the money managers for a specific term, in order to permit an evaluation from time to time. Mr. Hansmann considered that the managers were constantly being evaluated. They knew that the Board was continually reviewing the figures. What was needed was a manager consistently in the 75th percentile or higher. Rockefeller & Co. were not flashy, but they had succeeded in getting a good return on the Institute's investments.

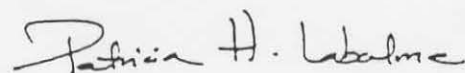
Mr. Wolfensohn agreed that they had given good and diligent service but suggested the Board might wish to look into getting a second equity manager. A possible candidate was Invesco Management Services, which performed in the top decile and had a philosophy similar to Rockefeller's. One could allot \$20-30 million to another manager. Mr. Taplin concurred, saying that he knew of no other institution, with a \$120 million equity portfolio, which has only one investment manager.

Mr. Forrestal asked that a comparison be prepared between the Institute's endowment and that of 50 other similar educational institutions.

Mr. Hansmann asked the Committee to supply ideas about other managers and submit their names to Allen Rowe. Several would then be interviewed, profiled by Hamilton, Johnston, and one selected next year.

There being no further business, the meeting was adjourned at 5:40 p.m.

Respectfully submitted,

A handwritten signature in dark ink, reading "Patricia H. Labalme". The signature is fluid and cursive, with the first name "Patricia" being more prominent and the last name "Labalme" following in a similar style.

Patricia H. Labalme
Secretary of the Corporation