THE INSTITUTE FOR ADVANCED STUDY

Minutes

Joint Meeting of the Finance and Budget Committees

April 25, 1980

Present: Messrs. Hansmann (Chairman, Finance Committee), Taplin (Chairman, Budget Committee), Dilworth, Houghton, Petersen, Segal, Woolf; Mrs. Delmas. Also, Mrs. Whitehead. Also, Messrs. Hunt (Secretary), Rowe, James E. Fanning, J. Murray Logan, Lee Minton, Ms. Modzelewski.

Absent: Messrs. Kauffmann and Simon.

Presiding Officer: Mr Hansmann opened the meeting at 3:30 p.m.

Minutes: The Minutes of the joint meeting of the Finance and Budget Committees which was held at the Institute on October 26, 1979, were approved with the following clarification: Mr Segal, commenting on the reference to his views on page 5 of the Minutes, stated that he wanted the record to show that he was not against tax-exempt borrowing per se but rather against using the funds thus secured for special investments for the purpose of producing additional income.

Status of the proposed bond issue:

Mr Rowe summarized the current status of the proposed bond issue, including the proposal for the refinancing of past construction debts. After a general discussion of various aspects of the question, the following resolution was approved for presentation to the Board:

> The joint Budget and Finance Committee recommends to the Board of Trustees for its approval that, subject to prevailing legislation, the Director of the Institute be authorized to market up to $8.6 million in bonds on the understanding that up to $4.1 million of the funds borrowed to replace funds previously borrowed from the endowment to cover construction costs be invested in fixed income securities. The Committee recommends further that decisions relating to the amount to be borrowed and the interest rate be left to the discretion of the Director, it being understood that the Director will clear his decision with the Executive Committee just prior to the actual offer of the bonds.

Memorandum of Agreement with Rockefeller + Company:

Mr Hansmann stated that Rockefeller + Company had assumed management of the endowment portfolio and that the results to date had been quite satisfactory. After consideration of counsel's comments on the proposed agreement between the Institute and Rockefeller + Company, the Committee agreed to present the proposed agreement without modification to the Board for its approval. An examination of the fee schedule and its application to the equity portion of the endowment portfolio revealed that the fee for Rockefeller + Company would be in the $190,000 per annum range rather than the substantially larger figure shown in the proposed fiscal year 1981 budget. It was agreed therefore that the proposed budget should be altered accordingly.

The existing Investment Objectives and Portfolio Guidelines were then discussed, and certain changes were introduced by the Committee. These changes are incorporated in the attached revised version of the document.

It was agreed by the Committee that the portfolio would be divided into an equity account, a fixed income account and a third account for non-marketable securities.

General Portfolio Review: Messrs. Fanning and Logan of Rockefeller + Company reviewed the equity portion of the portfolio, and Mr Lee Minton of The Fidelity Bank reviewed the fixed income portion. Observations by the Committee on guidelines for the management of the portfolio are contained in the revised version of the document entitled Investment Objectives and Portfolio Guidelines.

Reallocation of Existing Restricted Fund Accounts: The Director reported on the creation of the Oswald Veblen Professorship and indicated that this had been achieved in part by the reallocation of existing fund accounts. He pointed out that this procedure made possible the utilization of funds that were otherwise segregated from the operating budget and provided matching opportunities for outside donors willing to contribute to the establishment of endowed professorships. The Director announced that the Faculty of the School of Mathematics had concurred in the arrangement described above and that additional funding would now be sought to bring the endowment of the Oswald Veblen Professorship from its present

$500,000 to $1 million. Additional arrangements involving the reallocation of existing restricted fund accounts will be brought to the Board for approval as they materialize.

Depreciation Account: Following a discussion of the advisability of creating a separate account for the depreciation fund, it was decided to table the matter for the time being.

Other business: The Director described the proposed gift to the Institute of a remainder interest in their Princeton residence by Mr and Mrs David Du Vivier. A detailed analysis of a proposed provision of an annuity to the Du Viviers in exchange for the gift of this remainder interest was presented to the Committee in the form of a letter from Institute counsel Barbara Paul Robinson. After discussion, the following resolution was approved for presentation to the Board:

> The joint Budget and Finance Committee recommends to the Board of Trustees for its approval that the Director of the Institute be authorized to acquire the property offered to the Institute by Mr and Mrs David Du Vivier. It is further recommended that the Director work out in detail the financial aspects of two alternative approaches--one based on a gift to the Institute and the other based on an annuity arrangement--and to clear his decision as regards these two options with the Chairman and the President of the Board.

Under the chairmanship of Mr Taplin, the joint Finance and Budget Committees then reviewed the proposed budget for 1980-81. After a detailed discussion of the overall budget and an analysis of the projected deficit, the Committee adopted a motion to present the budget to the Board for its approval.

There being no further business, the meeting was adjourned at 5:30 p.m.

John Hunt
Secretary of the Corporation

Revised as a result of actions
taken at the Board meeting of
April 26, 1980

INSTITUTE FOR ADVANCED STUDY

INVESTMENT OBJECTIVES AND PORTFOLIO GUIDELINES

The investment objective of the Fund shall be to maximize the total investment return from interest, dividends, and capital appreciation in the long run within a framework of policies which seek to maintain investment risk within acceptable limits. The methods chosen to maximize returns, conserve assets, and maintain proper diversification in order to achieve the investment objectives shall be governed by portfolio guidelines approved by the Finance Committee and executed with discretion by the investment adviser.

PORTFOLIO GUIDELINES

Percentage Distribution (based on market values)

The distribution of funds between fixed income securities and equities will take into consideration an assessment of the future outlook for inflation, interest rates, company earnings and dividend policies with the following limitations which will be reconsidered at least semi-annually by the Finance Committee:

75% maximum percentage in common stocks and/or convertible securities excluding investment in United Parcel Service of America Inc. from the total portfolio valuation for calculating this percentage. Depending on market level, the percentage in common stocks and/or convertible securities may be less than 75% but not less than 50% without consent of the Finance Committee.

25% minimum percentage in fixed income securities excluding convertibles and excluding the investment in United Parcel Service of America Inc. from the total portfolio valuation for calculating this percentage.

Diversification

Both equity and fixed income corporate investments will be limited primarily to large and medium sized companies whose securities have excellent to good marketability.

Equity investments shall be primarily in common stocks with low price/earnings ratios and attractive dividend yields with some representation in common stocks of companies with established records of growth of earnings and dividends and high price/earnings ratios and low dividend yields. However, up to 5% of the total portfolio at cost might be invested in equities of smaller and emerging companies with limited marketability.

Fixed income investments will have a substantial representation in government and government agency paper and additionally include variable rate demand notes; commercial paper; certificates of deposit;

intermediate corporate notes and bonds.

Size of Holding

Maximum size of individual equity commitments shall not exceed 5% at cost of the total portfolio including fixed income investments.

Investments in government and government guaranteed securities will not be restricted in terms of size or maturity. Other fixed income investments will range between $500,000 to $1,000,000 for any one issuer including all maturities. Approximately 75% of corporate bonds should have an "AA" or better rating from Moody's and/or Standard & Poor's with none lower rated than "A."