

THE INSTITUTE FOR ADVANCED STUDY

Minutes

Joint Meeting of the Budget and Finance Committees

October 24, 1980

Princeton, New Jersey

Present: Messrs. Hansmann (Chairman, Finance Committee), Dilworth, Kauffmann, Petersen, Woolf; Mrs. Delmas. Also, Messrs. Linder and Straus. Also, Mr. Hunt (Secretary), Mr. Fanning, Mr. Ferrera, Mrs. Grisham, Mr. Jenkins, Mr. Logan, Mr. Minton, Ms. Modzelewski, Mr. Rowe, Mr. Wasserman, Ms. Whittlesey.

Absent: Messrs. Houghton, Segal, Taplin.

Presiding officer: In the absence of Mr. Taplin, Chairman of the Budget Committee, Dr. Woolf opened the meeting at 2:00 pm.

Minutes: The Minutes of the joint meeting of the Finance and Budget Committees which was held at the Institute on April 25, 1980, were approved.

Post-closing budget for 1980-81: At Dr. Woolf's request, Mr. Rowe presented the post-closing budget. Mr. Rowe pointed out that the current budget showed a decreased deficit projection as a result of cuts in budgeted expenditures and more positive estimates of endowment

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income. In this connection, he noted that the final total of the previous year's budgeted deficit was sharply lower than anticipated because of reduced expenses and increased endowment income.

Mrs. Delmas requested that future budgets show in footnote form an explanation of the charges included in the category of benefits.

Mr. Dilworth suggested that a line be added to the breakdown on capital authorizations which would show how repair costs were being allocated between funds derived from the bond issue on the one hand and budgeted depreciation on the other.

The post-closing budget was then unanimously approved.

Appointment to the
Budget Committee:

Mr. Petersen announced that Mr. Opel was being added to the Budget Committee to replace Mr. Segal.

Presiding officer:

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

1979-80 audit:

Mr. Hansmann asked the representatives of Deloitte Haskins + Sells for their comments on all matters covered by the audit. Speaking for the auditors, Martin Wasserman said that there were no problems of any kind to report. He stated that the final report on internal accounting controls had not yet been completed and that the review to date showed that while there had been some improvement, certain responsibilities should be reallocated.

Mr. Rowe noted that the computerization of various elements of business office transactions would be completed by December 31, 1980, which will help with the desired reallocations.

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Mr. Wasserman indicated that a management letter would be available by early November. It was recalled that, by previous agreement, the management letter should be sent to all members of the Budget and Finance Committees.

Performance of
the portfolio:

Elizabeth Whittlesey of Hamilton, Johnston & Co., Inc. presented the company's continuing analysis of the investment performance of the Institute's portfolio over the thirteen-year period beginning July 1, 1967, to June 30, 1980.

Ms. Whittlesey stated that the performance record continued to be excellent and that the results achieved with the equity portion of the portfolio were the highest of any monitored by the firm.

Ms. Whittlesey then noted the following points:

- In general, performance of the total fund, stocks and bonds together, has continued well above average over the entire period under review. The equity portfolio has again far out-performed the Hamilton, Johnston Total Equity Yardstick Index (11.4% annually versus 3.8%).
- In fiscal 1980, the fund produced a 30.6% annual rate of return versus 18.6% on the Hamilton, Johnston comparative yardstick, a superior result.
- Over the full thirteen-year period ended June 30, 1980, the fund increased in size from \$48.8 million to \$82.7 million despite net withdrawals of almost \$49 million (including the withdrawals of current income). Dividends and interest income of \$32.5 million

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and net realized gains of \$50.3 million combined for a total gain from investments of \$82.8 million, or 10.7% per year.

For the sixth consecutive year, the fund's market value increased despite net withdrawals (over \$3 million in fiscal 1980).

- For the equity portion of the portfolio, the ability to select stocks which performed better than stocks in general was superior over the past six years. The annual rate of 21.7% return exceeded all of the 60 equity yardsticks. The 41.2% rate of return during fiscal 1980 surpassed the Hamilton, Johnston composite yardstick index by over fifteen percentage points and was again the top performing fund.
- The turnover rate of the equity portfolio increased to 54%, the highest level since 1977.
- For the fixed income portion of the portfolio, the total rate of return over six years averaged 9.5% per year, including an interest yield of 7.4%. The 9.5% rate of return surpassed 38 of the 40 yardsticks with which comparisons were made.
- Performance over the last year was above average, the 10.8% rate exceeding 37 of the 40 yardsticks.
- Fixed income turnover increased to 196%, the highest level in thirteen years.
- The bond portfolio now represents 23% of total assets.

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In conclusion, Ms. Whittlesey pointed out that the transition to new management for the portfolio had worked out very well.

General portfolio
review:

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

Mr. Hansmann then reviewed the Summary of Purchases and Sales for the period April 17, 1980, through October 14, 1980.

Mr. Petersen asked if there was any disposition on the part of the Committee to change the present guidelines with regard to the equity/fixed income balance in the portfolio. It was agreed that the present flexible guidelines should be followed until the joint meeting in January of the Budget and Finance Committees.

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

- Fidelity Bank's most recent econometric forecast shows that the economic recession is ending.
- Because monetary policy has again turned more restrictive, a secondary trough in long-term interest rates is expected to occur in early 1981.
- As these interest rate declines occur, the fixed income portfolio will gradually be converted to cash equivalents, shifting the emphasis to preservation of capital.

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Bond issue:

At Mr. Hansmann's request, Mr. Rowe provided a status report on the bond issue. Proceeds from the bond issue brought the Institute revenues of \$8.6 million. Of this sum, \$4.1 million was transferred to the fixed income portfolio in accordance with the Board's instructions: \$3.3 million went to the construction fund which is held on deposit by the trustee (First National State Bank of New Jersey), and \$1.2 million was used to cover expenditures and advances for repairs and capital acquisitions.

Financial Review and Development Report:

In his summary presentation of the Financial Review and Development Report, Dr. Woolf noted that the Report provides detailed information on both the Institute's fund-raising results over the past four years and the Institute's history over the past decade. Among the various points noted were these:

- Between July 1, 1976, and June 30, 1980, the market value of the Institute's endowment has increased by some \$27 million.
- During the same four-year period, income from the endowment has increased from \$2.9 million to \$4.7 million.
- Gifts, grants and contracts in all categories for the four-year period from July 1, 1976, through June 30, 1980, totaled \$14.5 million.
- A particular effort will be made during 1980-83 to increase the Institute's endowment through the solicitation of endowment gifts to the Fiftieth Anniversary Fund,

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the purpose of which is to provide stipend support for fifty visiting members annually.

- The operating deficit showed a decrease from \$1.6 million in fiscal 1979 to \$637,000 in fiscal 1980. The 1980 deficit is the lowest since 1967.

Review of
pension policy:

In accordance with the Minutes of the September 27, 1975, meeting of the Board of Trustees, the question of faculty pensions was placed before the Budget and Finance Committee for review. After discussion, it was agreed that Dr. Woolf would present a pension policy proposal to the Committee at its next meeting.

Policy concerning
gifts and grants
from foreign
sources:

At the regular meeting of the Board of Trustees on October 28, 1978, the Board took the position that general policy was required to guide the Director's Office in its search for outside support for members' stipends from foreign sources.

Dr. Woolf stated his intention of seeking financial support from abroad and asked that the required policy be clarified.

After discussion, the Committee took a position that was generally favorable to the idea of foreign support for foreign nationals, provided that there was no corresponding influence on the selection policy or pressure by the foreign grantor on the awardee.

It was agreed that the question should be discussed by the full Board of Trustees.

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Appointment to the

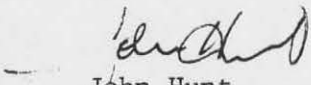
Finance Committee: Mr. Petersen appointed Mr. Brown to the Finance Committee.

Other business:

For purposes of the bond issue, an amendment was proposed to the Minutes of the April 26, 1980, meeting of the Board of Trustees. The Committee agreed unanimously to recommend this amendment to the full Board.

Mr. Hansmann reported that the Institute had received partial payment in the amount of \$93,462 on the Equity Funding Corporation investment. He estimated that another payment of some \$23,000 could be expected, plus a bill of undetermined amount for legal services. Mr. Rowe was asked to prepare a summary of this transaction for distribution to the Budget and Finance Committees.

There being no further business, the meeting was adjourned at 3:30 pm.


John Hunt
Secretary of the Corporation