THE INSTITUTE FOR ADVANCED STUDY

M I N U T E S

Joint Meeting of the Finance and Budget Committees

November 2, 1984

Princeton, New Jersey

Present: Messrs. Hansmann (Chairman of the Finance Committee), Taplin (Chairman of the Budget Committee), Byrom, Dilworth, Straus, Wolfensohn, Woolf; Mrs. Delmas. Also by invitation Messrs. Jenkins, Assistant Treasurer of the Corporation, Rowe, and Mesdames Labalme and Laesker. Representing Rockefeller & Co. were J. Murray Logan and William Asmundson. Representing Rosenberg Capital Management was Gary Schreyer.

Absent: Messrs. Brown, Kauffman.

Finance Committee: Mr. Hansmann opened the meeting of the Finance Committee at 2:00 p.m. by inviting the auditors, Victor Albrecht and Tom Finnerty of Deloitte Haskins + Sells, to present their findings.

Auditors: Mr. Albrecht introduced himself as the partner in charge of the Institute account. He briefly mentioned the possible merger of Deloitte Haskins + Sells with Price Waterhouse, assuring the Committee that if the merger should go through, the relationship between the Institute and Deloitte Haskins + Sells would not be affected and might even be facilitated were a Princeton site for the combined offices to be chosen. He then informed the Committee that his firm had made no significant adjustments to the financial statements, and had found no significant differences with management as to the accounting.

He described the fee structure in the past three years and indicated that there would be no increase for this year. The Institute's computerized record-keeping has helped in securing this saving.

He said that internal controls could be improved with regard to property holdings so that they could be reconciled to the general ledger. He recognized the difficulty of surveying and gathering this information which would cover furniture, equipment etc. This has been started, and that was the important step. He recommended that fringe benefits be reviewed. A tax specialist could be sent from the firm to consult with the Institute on this matter. Changes in the tax laws warranted such an inquiry. He stated the desirability of preserving two-year comparative financial statements in future reports which would yield more useful information.

Mr. Wolfensohn said that it would be useful to have a five-year study of fringe benefits in relation to individual professional salaries.

Tom Finnerty addressed the matter of Circular A-110 of the FASB, and the government's request for outside auditors. He said this should not be a problem to the Institute.

Hamilton, Johnston & Co: The auditors withdrew and Mr. James Dragon of Hamilton, Johnston & Co., Inc, was invited to join the Committee. He reminded the Committee that the report he was presenting for the last year concerned mostly Fidelity Bank's management for the fixed income portion, since Rosenberg Capital Management did not take over the Institute's bond portfolio until April 1. Over the ten-year period, the Institute endowment showed superior management. During this time, the fund had increased from $45.4 million to $115.6 million. Net withdrawals over the period totalled $38.0 million. Dividends and interest of $46.1 million plus net capital gains of $62.1 million combined to produce the annual investment rate of return of 16.2% on the total fund.

The 1984 fiscal year had less good results due to a difficult market. The total asset value of the fund dropped from $124 million to $115 million.

Comparative tables were also presented for the rates during the past five and three year periods.

The equity and fixed income portfolio performances were evaluated and the high turnover rate in both stocks and bonds was noted with no adverse implication intended.

Rockefeller & Co: J. Murray Logan, representing Rockefeller & Co, began by indicating certain discrepancies between some of their performance figures and those of Hamilton, Johnston. He asked Bill Asmundson to present their firm's investment outlook, economic benchmarks, and expected returns from financial assets. The current slowing-down was perceived to be a natural stage in the economic cycle which could be described as a "rolling readjustment". He anticipated, as we moved into 1985, growth to be around 4% and thought a recession would not develop until 1986 and perhaps not even then. The trade imbalance would continue. Inflation would stay low and long-term interest rates would not rise. The outlook was bullish.

Rosenberg Capital Management:

Mr. Gary Schreyer of Rosenberg Capital Management reported that he also had some figures at variance with those reported by Hamilton, Johnston and Mr. Hansmann suggested that better communication take place between both managers and Hamilton, Johnston before the next meeting. Mr. Schreyer discussed the fixed income portfolio and the current economic climate. It was his firm's perception that the dollar had reached its peak and that the maturity of the portfolio should be shortened in anticipation of higher interest rates. The slow-down in the economy is not so sharp as may have been anticipated. After some discussion, the meeting of the Finance Committee was concluded at 3:40 p.m.

Budget Committee:

Mr. Taplin opened the meeting of the Budget Committee. He commented on the revised budget for endowment income (up $400,000 from the approved budget) and explained this as an increase in estimated annual income. Mr. Wolfensohn suggested an alternative method of budgeting which would begin with the net requirements of the Institute and then work out how that sum could be arrived at. Mr. Rowe said that he would devise a new format.

Mr. Taplin pointed out that Faculty salaries reflected a 10% increase, and that reduced numbers of Faculty in several Schools accounted for some changes in the figures between the approved and post-closing budgets. The problem of filling the Mellon chair was mentioned. Mr. Dilworth stated that it was his understanding that the Historical Studies Faculty were dealing with Kenneth Setton's replacement first, and only then would candidates for the Mellon Chair be considered. The Committee expressed its concern over the fact that the Mellon money was not being used, the negative impression this caused, and the impediment it posed by preventing us from approaching the Mellon Foundation for further funding.

Mr. Hansmann requested a depreciation schedule which Mr. Rowe agreed to supply at the next meeting.

There being no further business, the meeting was concluded at 4:10 p.m.

Respectfully submitted,

Patricia H. Labalme

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Secretary of the Corporation