

THE INSTITUTE FOR ADVANCED STUDY

M I N U T E S

Joint Meeting of the Finance and Budget Committee

October 25, 1985

Princeton, New Jersey

Present: Messrs. Hansmann (Chairman), Byrom, Dilworth, Taplin, Woolf; Mrs. Delmas. Also Mesdames Labalme, Laesker, and Mr. Rowe. Present by invitation for part of the meeting were Messrs. Victor Albrecht and Thomas Finnerty and Ms. Linda D. Byland of Deloitte Haskins + Sells, James Hamilton and James Dragon of Hamilton Johnston & Co., J. Murray Logan of Rockefeller & Co., and Gary Schreyer of Rosenberg Capital Management.

Absent: Messrs. Brown and Wolfensohn.

Minutes: Mr. Hansmann opened the meeting at 9:00 a.m. with the approval of the minutes of the meeting of July 18, 1985.

Auditors' report: Mr. Albrecht, speaking for Deloitte Haskins + Sells, announced that his firm will be opening an office with full professional staffing in Forrestal Center. Among their new clients would be the John von Neumann Center of the Consortium for Scientific Computing. He also distributed copies of a booklet prepared for a Congressional Subcommittee on his firm's auditing methodology and standards, legal proceedings, and the maintenance of public confidence.

The Committee then examined the auditor's report which surveyed the scope of their services to the Institute in auditing and tax development review and management advisory services. The firm has reviewed the Electronic Data Processing system and would, in the next year, be reviewing the new EDP general ledger system which will be fully in place by next January. They reported that the EDP system was much improved since their last examination. They pointed out that their fees had increased only modestly over the past five years, due to the increased efficiency of the Institute's internal management. Their audit of the financial statements had gone very smoothly due to these improved practices.

Mr. Taplin inquired about the market value of the Institute's assets which was given as \$136,964,906 as of June 30, 1985. Mr. Hansmann asked where restricted endowment funds were shown. Mr. Rowe replied that these are no longer included in the auditor's report because that report has a fairly wide distribution. Mr. Dilworth shared with Committee members a schedule he had on these funds and Mr. Hansmann asked that this information be made available to members of the Committee. Dr. Woolf said that he added to these various funds certain small gifts with unrestricted use as they came in to supplement the Schools' funds. He added that he would be making a summary report on these funds soon. Mr. Byrom mentioned that it would be helpful to see how much each fund had increased from the amount of the original gift. Dr. Woolf said it would be possible to retrieve this information since all these special funds had originated during his time as Director. Mr. Taplin recommended that these restricted funds be examined to see whether certain ones could be increased by particular fund-raising efforts.

Mr. Albrecht continued his report by pointing out that the Financial Accounting Standards Board (FASB) now required disclosure of retiree health care and life insurance benefits which, for fiscal 1985, totalled \$33,000.

Mr. Hansmann inquired about the Placzek residuary estate. He asked that a list of its investments be made available to the Committee.

Mr. Hansmann asked the auditors to explain where their schedules showed how much we have drawn from endowment and whether we were running at a deficit. Mr. Albrecht directed the Committee's attention to exhibit B1 where it shows that \$1,108,584 had been drawn from unrestricted funds and that \$1,120,958 had been accumulated in restricted funds in the last fiscal year.

Dr. Woolf explained that the administration had set out to give some measure of responsible freedom to the Schools by creating for each of them some restricted funds with a 5% payout limit.

Mr. Albrecht said that the Institute should consider whether or not it would be appropriate to carry the subsidies on Faculty housing as an investment, and that we may want to restructure our policies in this regard. Mr. Dilworth felt that we will have to restructure because of the rapid escalation of real estate prices in this area. He said we may want to buy back the properties and rent them.

Mr. Albrecht reported that his firm's main recommendation as contained in their management letter of September 30, 1985, was for a better system of recording gift and grant cash receipts. He pointed out that in their review they did not become aware of any condition believed to be a material weakness in the internal accounting control. The auditors, having concluded their report, left the meeting.

Hamilton, Johnston
& Co.:

Mr. Hansmann asked Mr. Hamilton if Hamilton, Johnston & Co.'s figures had now been reconciled with Rockefeller & Co.'s figures, as they had previously been able to do with Rosenberg Capital Management. Mr. Hamilton reported that this had been almost entirely accomplished.

Mr. Hamilton reported that his firm had analyzed the investment performance for the Institute over the ten year period from July 1, 1975, to June 30, 1985. The total fund performance was 16.9% as compared with the Yardstick composite of 11.2%. Over the ten year period, superior performance was achieved in both the equity and fixed income segments of the total fund. The equities returned 19.6% annually and the fixed income portfolio 11.2% per year. Over the most recent five, three and one year fiscal periods, total fund results have been above the mean.

The performances of both Rockefeller & Co. and Rosenberg Capital Management were analyzed. Mr. Hansmann asked if the Rockefeller segment was, for these purposes of analysis, unfairly divided into equities and fixed income since their total performance was what counted, and it was pointed out that Rockefeller's total figures were also given in the report.

Mrs. Delmas inquired about gifts to the Institute over the last decade and Mr. Rowe replied that during this period about \$10 million had come in as gifts, not including government grants or grants from private foundations.

Also discussed were the equity/fixed income proportions: 53% was invested in equities, 35% in fixed income, with cash equivalent investments at 12%.

Rockefeller & Co.'s investments had shown less variability and an average rate of return. The average turnover for equities was 2 years. Rosenberg Capital Management's fixed income account had shown, in the one year this account had been under their management, a total return of 31.8% which put them in the 78th percentile.

Both accounts had shown more stability than other comparable accounts. In the recent quarter, the total fund was measured as .7% as compared with the Yardstick composite of -1.1%. Upon the conclusion of his report, Mr. Hamilton left the meeting.

Rockefeller & Co.:

Mr. Logan reviewed Rockefeller & Co.'s management, discussing the investment performance for the 12 months from July 1, 1984 to June 30, 1985. The total portfolio was up 26.0%. He expressed his belief that the Federal Reserve will follow an accommodative monetary policy and that this will provide some stability, with interest rates remaining relatively high and a projected 8-year annual compound return for common stocks at 13.7% and for long term bonds at 11.9%. He considered municipal bonds a good investment for capital gains because of their current high yields relative to taxable issues.

He referred to Rockefeller's proposal that the Institute participate in a new partnership by taking part of its funds from the 5500 Fund and adding to it to invest in a venture capital partnership. The Committee agreed to this proposal.

Rosenberg Capital
Management:

Mr. Schreyer explained to the Committee a number of charts on the bond yield ratio in recent months, the performance of the fixed income portfolio as measured against the Shearson Lehman Index and the Consumer Price Index, value-added return, the efficiency ratio as measured by the relative performance and relative duration, and the portfolio composition. His firm also held a sanguine outlook on future Federal Reserve activities. Upon the conclusion of his report, Messrs. Logan, Schreyer, and Dragon left the meeting.

Budget Committee:

Mr. Taplin opened the meeting of the Budget Committee with an approval of the minutes of the meeting of April 26, 1985. He explained that the "proposed budget" which was distributed to the Trustees was more a hypothetical budget and that the final figures would depend on further deliberations of the Committee as to Faculty salaries. He reminded the Committee that the Faculty salaries would remain at \$85,000 through 1986 and that any increase, such as that proposed, would obtain from January 1, 1987, through June 30, 1988. If the salaries were increased to \$100,000, this would represent an average of \$92,500 for the twelve months of 1987. The hypothetical budget had also assumed that all 6 School vacancies would be filled.

Dr. Woolf then indicated which of the School vacancies would, in all likelihood, be filled within the next months. The sums required to support a professor (including his assistant and secretary and based on a salary of \$85,000) came to \$155,000 annually. If only four positions were filled, this would make a substantial difference in the budget for fiscal '87. This budget incorporates an increase for the Faculty of 8½% and for the staff of 6%. It was a way of clarifying the Administration's intentions.

Mrs. Delmas questioned the large Faculty salary increase in light of the stable consumer price index. Mr. Dilworth cautioned against large Faculty salary increases when inflation is low because expectations could not be matched during periods of high inflation.

Dr. Woolf asked if the Board might want to discontinue the uniform Faculty salary policy. Mr. Dilworth recommended that this matter and any future budgetary deliberations be held with the forthcoming recommendations of the Wolfensohn Committee in mind. He hoped some of these might be available early in the new year.

Mr. Rowe said that since stipends had to be determined in the next few months, it was important to have that one item authorized by the Board.

The Committee agreed on the need for confidentiality concerning these matters.

Mr. Taplin indicated that the Budget Committee would meet before the spring meeting of the Board to consider these matters further.

There being no further business, the meeting was concluded at 11:45 a.m.

Respectfully submitted,



Patricia H. Labalme
Secretary of the Corporation