BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON INVESTMENT — MINUTES OF THE MEETING, March 24, 2010

The meeting was called to order at 5:32 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Valerie L. Beal
Hon. Kathleen M. Pesile
Prof. Terrence Martell, faculty member

Ex-officio:
Vice Chairperson Philip Alfonso Berry

Trustee Observer:
Hon. Manfred Philipp

Trustee Staff:
Senior Vice Chancellor and Secretary of the Board Jay Hershenson
Senior Vice Chancellor and General Counsel Frederick Schaffer
Deputy to the Secretary Hourig Messerlian
Mr. Steven Quinn

University Staff:
Chancellor Matthew Goldstein
Executive Vice Chancellor and Chief Operating Officer Allan H. Dobrin
Interim Senior Vice Chancellor Marc V. Shaw
Associate Vice Chancellor Matthew Sapienza
University Controller Barry Kaufman
Chief Investment Officer Janet Krone

Cal. No. **DISPOSITION**

The agenda items were considered in the following order:

I. ACTION ITEMS:

A. APPROVAL OF THE MINUTES OF THE MEETING OF JANUARY 22, 2009. The minutes were approved as submitted.

II. INFORMATION ITEMS:

A. REVIEW OF THE ASSET ALLOCATION STRATEGY

Chief Investment Officer Krone stated that the current asset allocation was approved in December of 2008 but, given the economic climate at the time, the Subcommittee decided it was not the right time to make any moves in the alternative investment area. Since that time the University has moved ahead with the new asset allocation in the traditional asset classes, and the objective today is to revisit the decision with regard to alternative investments--not only in terms of the size of the allocation but also in terms implementation.

Cambridge Associates (CA) Senior Consultant Thomas Smitt-Jeppesen stated that the portfolio is currently overweight in convertible bonds, and that this area would provide the funds to be allocated to alternative investments. The University held on to its convertible bonds so far partly because the valuation was quite attractive back in the beginning of 2009, but this is not seen as a permanent component of the University's investment portfolio. The portfolio is also overweight in the areas of fixed income, U.S. equity, and non-U.S. equity and will probably remain so for the foreseeable future even if the hedge fund allocation is implemented, as there is still a non-marketable allocation that will eventually be implemented, but over time.

In response to a question from Committee Chair Lhota, Mr. Smitt-Jeppesen explained that, in terms of valuation, the convertible bonds were very attractive in the beginning of 2009, but on both the bond side and the equity side valuations are now much closer to fair value.

B. DISCUSSION ON ALTERNATIVE INVESTMENTS

CA Managing Director Mark Fowler referred to a listing of asset allocations of 151 colleges and universities in their client database, and pointed out that CUNY was one of two institutions not utilizing hedge funds currently, and has striking differences in asset allocations. He noted that CUNY's primary objective is to return 5% after inflation in order to maintain purchasing power. To achieve this goal the University needs to have an equity dominant portfolio. Since equities are volatile, equity exposure needs to be diversified to try and mitigate some of that volatility. The Subcommittee's caution about hedge funds and alternative assets in general has played out well. But as traditional asset classes are approaching fair value and in some cases becoming overvalued, implementing a hedge fund portfolio is a way to take some of that risk off the table. Hedge funds can be thought of as more a risk reducer than a return enhancer. A couple of managers that are being considered for CUNY's particular portfolio have returned 7 to 9 percent over the past decade when the equity market was flat to slightly negative.

In response to a question from Trustee Pesile, Mr. Fowler noted that CA recommends hiring a fund of funds or more than one fund of funds, to get manager diversification. Decisions are outsourced to a fund of funds manager who is looking at this on a daily basis and, if an issue crops up with an underlying manager, it will be dealt with without having to go to the subcommittee.

Prof. Martell noted that a portfolio with some hedge funds in it would be a more conservative portfolio because of its risk reducing characteristics. Such a portfolio might not achieve outstanding returns in a strong bull market, but it will achieve more consistent performance.

Chancellor Goldstein stated that introducing hedge funds to the portfolio would be a sensible strategy. The portfolio is not big enough to play in the private equity space, and that is a function of liquidity. Because a lot of this money is used for financial aid, the University must be able to access capital when needed. It would be good to have a mixture of hedge funds in the portfolio, but this creates the issue of higher fees. He suggested that around a 10 percent position is right for the size of the University's portfolio, handled by the kind of managers that CA has confidence in and has worked with. Liquidity is a driving force here so it would be advisable to stay away from private equity at this particular point.

In response to Trustee Pesile's expressed concern that 10 percent is too much of a lockup involvement, Mr. Fowler stated that hedge funds represent a lower risk than the equity markets, but are more risky than fixed income. A good manager should be able to produce an attractive return profile. These are investments that are going to have lower correlations than anything else currently in the portfolio.

Mr. Smitt Jeppesen stated that one of the benefits of the 10 percent versus the 5 percent position, given the size of CUNY's portfolio, is that the 10 percent level is large enough to allow the University to pick two different firms.

Vice Chairperson Berry stated that going to 10 percent seems to be a reasonable way to go, and is a position where the portfolio would have some protection. It was right for the University to be conservative previously, but now the market is changing.

Subcommittee Chair Lhota suggested that there be more meetings of the subcommittee going forward, noting that the Subcommittee can meet as part of Fiscal Affairs Committee meetings. He recommended that one way or another the Subcommittee should meet at least quarterly as it is the right thing to do to maintain diligence and fiduciary responsibility.

Chancellor Goldstein concurred.

I. ACTION ITEMS (continued):

B. TABLE ITEM: Revision and Implementation of Target Asset Allocations.

Subcommittee Chair Lhota put forward a motion that: The University revise its target asset allocation for Marketable Alternatives (Hedge Funds) from 5% to 10%, and move forward with the allocation of funds to this asset class in line with the target allocation; and that: The University revise its target asset allocation for Private Equity / Venture Capital from 10% to 5%, but hold off on funding this asset until such time as the subcommittee determines. Following discussion, the motion was unanimously adopted.

The public meeting of the Subcommittee on Investment was adjourned at 6:00 p.m. to go into Executive Session.

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON INVESTMENT — MINUTES OF THE MEETING, March 24, 2010

The Executive Session of the Subcommittee on Investment was called to order at 6:00 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Valerie L. Beal
Hon. Kathleen M. Pesile
Prof. Terrence Martell, faculty member

Ex-officio:
Vice Chairperson Philip Alfonso Berry

Trustee Observer:
Hon. Manfred Philipp

Trustee Staff:
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Chancellor Matthew Goldstein
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Interim Senior Vice Chancellor Marc V. Shaw
Associate Vice Chancellor Matthew Sapienza
University Controller Barry Kaufman
Chief Investment Officer Janet Krone

Cal. No.	**DISPOSITION**

The agenda items were considered in the following order:

II. INFORMATION ITEMS:

C. IMPLEMENTATION STEPS

(THOMAS SMITT-JEPPESEN AND MARK FOWLER OF CAMBRIDGE ASSOCIATES MADE A RECOMMENDATION FOR HEDGE FUND MANAGERS)

Following discussion, the Executive Session of the Committee on Fiscal Affairs' Subcommittee on Investment was adjourned at 6:17 p.m.

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON INVESTMENT

MINUTES OF THE MEETING
March 24, 2010

The Public Session of the Committee on Fiscal Affairs was reconvened at 6:17 p.m.

There were present:

Committee Members:
Hon. Joseph J. Lhota, Chair
Hon. Valerie L. Beal
Hon. Kathleen M. Pesile
Prof. Terrence Martell, faculty member

Ex-officio:
Vice Chairperson Philip Alfonso Berry

Trustee Observer:
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University Controller Barry Kaufman
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Cal. No.	DISPOSITION

The agenda items were considered in the following order:

I. ACTION ITEMS (continued):

C. TABLE ITEM: Appointment of The Archstone Partnerships and Evanston Capital Management as Hedge Fund Managers.

Subcommittee member Terrence Martell put forward a motion that: The University adopt The Archstone Partnerships and Evanston Capital Management as managers for the Marketable Alternatives (Hedge Funds) asset class, and allocate the Marketable Alternatives allocation equally between these two managers. The motion was duly seconded. Following discussion, the motion was unanimously adopted.

Subcommittee Chair Lhota stated for the record that the Subcommittee will meet more frequently and assess the results.

The meeting was adjourned at 6:18 p.m.