

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON
INVESTMENT

MINUTES OF THE MEETING
June 22, 2010

The meeting was called to order at 5:07 p.m.

There were present:

Committee Members:

Hon. Joseph J. Lhota, Chair
Hon. Valerie L. Beal
Hon. Kathleen M. Pesile

Trustee Observer:

Hon. Manfred Philipp

University Staff:

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

Trustee Staff:

Senior Vice Chancellor and Secretary of the
Board Jay Hershenson
Deputy to the Secretary Hourig Messerlian
Mr. Steven Quinn

Cal. No.	DISPOSITION
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The agenda items were considered in the following order:

I. ACTION ITEMS:

- A. APPROVAL OF THE MINUTES OF THE MEETING OF MARCH 24, 2010.** The minutes were approved as submitted.

II. INFORMATION ITEMS:

A. DISCUSSION OF FIXED INCOME

Cambridge Associates (CA) Senior Consultant Thomas Smitt-Jeppesen referred to the quarter-to-date returns for selected indices and pointed out that May was a very negative month that brought the year-to-date equity numbers down to below zero, but stated that the trailing twelve months are still very positive, driven by the strong returns seen in 2009. He then referred to the government debt crisis and stated that the big news for this quarter has been the European debt crisis, which was something that was looming at the end of the first quarter, but has taken root and blossomed, calling the Euro construct into question. There is a big divergence between the richer countries in Europe--the core European countries of France and Germany and their fiscal and budgetary situation, and those in the periphery countries, and this divergence is creating some severe straights within Europe. This is not just a European problem, as the United Kingdom (UK) has similar problems, the United States (US) has high deficits, and Japan has a very high debt to GDP ratio. The difference between the European countries and the UK, U.S. and Japan is that the European countries have fewer tools to work with given that they can not freely devalue their currency, while the UK, U.S. and Japan can theoretically do so.

Mr. Thomas Smitt-Jeppesen stated that the crisis fostered stimulus programs, less so in Europe than in the U.S., China and Japan, but almost all countries have had to run much higher fiscal deficits, which in turn has generated the debt to GDP ratio that will be ultimately worrisome because the interest rates on those debts might, if growth does not return, might come home to

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roost. He concluded that there are not many compelling valuation opportunities out there in terms of deeply undervalued items. There is not a lot of room for tactical positioning in the current environment, unlike in 2009 when there were a lot of opportunities for active bond management that the portfolio benefited from.

B. REVIEW OF PERFORMANCE

Mr. Smitt-Jepesen referred to a listing of actual versus target asset allocations and pointed out that the hedge fund allocated at 10 percent of the portfolio had now been populated with the hiring of Archstone (5%) and Evanston Weatherflow, Ltd. (5%). He then stated that the lack of funding for the non-marketable alternatives makes the portfolio overweight in equities, but that there is a slight underweight currently to fixed income and that is something that should rebound to regain the 25% in fixed income by allocating some funds out of the US equity assets. The absence of compelling opportunities makes it wise to just stay close to the target allocation.

Mr. Smitt-Jepesen stated that the total portfolio has returned minus 2.5 percent calendar year-to-date through end of May. So far in June the portfolio has been in the positive, but June is not over yet and the second quarter could still turn either positive or negative, depending on where markets are heading from here. He added that equities have outperformed their indices, and that fixed income has underperformed, and that it brings the portfolio pretty close to the policy benchmark, which is basically the asset allocation with target weights.

Mr. Smitt-Jepesen stated that it is worth mentioning that the hedge funds, which were acquired at the beginning of May, generally protect in a down market, so when equity markets were down 6%, and the international equity market was down further than that, the hedge funds were down only 2 - 2.5 percent, and that is encouraging.

Mr. Smitt-Jepesen stated that in the fixed income area credit spreads have come down to the point where there is not much opportunity for active managers to add value. Oppenheimer Capital, one of two bond managers in the portfolio, self-terminated since the subcommittee's last meeting in March 2010. In conference with CUNY staff, the assets were quickly rolled into the State Street Government Credit Fund, a fixed income index fund. He stated that as first discussed in 2008, the recommendation is to terminate the remaining active fixed income manager, and roll the assets into index management of the bond portfolio as over the long term active core managers have a hard time outperforming the index without taking on excessive risk. He added that under this scenario, fees would be reduced to between \$15,000 and \$20,000, engendering \$80,000 in savings.

In response to a question from Prof. Manfred Philipp, Mr. Smitt-Jepesen stated that there is interest rate risk in any bond portfolio, both with the actively managed fund portfolios as well as the passively managed fund portfolios. In general, for every one percent rise in the interest rate a bond portfolio should decrease by one percent.

Subcommittee Chair Lhota put forward a motion that: The University approve the recommendation to terminate the remaining active bond manager, Neuberger Berman, at this point and index the proceeds with State Street along with the funds from Oppenheimer. Following discussion, the motion was unanimously adopted.

The meeting was adjourned at 5:31 p.m.