

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON
INVESTMENT

MINUTES OF THE MEETING
OCTOBER 20, 2010

The meeting was called to order at 5:37 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
Hon. Cory Provost, student member

Ex-officio:

Hon. Philip A. Berry

University Staff:

Chancellor Matthew Goldstein
Executive Vice Chancellor and Chief Operating
Officer Allan H. Dobrin
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
Senior Vice Chancellor and General Counsel
Frederick Schaffer
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 JUNE 22, 2010.** The minutes were approved as submitted.

II. INFORMATION ITEMS:

A. A NEW GLOBAL EQUITY MANAGER.

As a preface to the presentation, Chief Investment Officer Janet Krone summarized some of the portfolio changes made since the Board adopted the new asset allocation targets in December 2008. She noted that the current asset allocation targets have three primary components: an equity component which is for capital appreciation and includes the regional mandates of U.S. equity, non-U.S. equity, and emerging markets; a diversified assets component to hedge against inflation which includes hedge funds, non-marketable investments and the real assets; and a fixed income component to reduce the volatility of the portfolio and to hedge against periods of prolonged economic declines. When the Board approved the targets a conscious decision was made to move in phases, based upon valuations, and to defer the investments in alternatives to a later date.

Beginning in early 2009 the University started to diversify the portfolio first by restructuring the domestic and the international equity portfolio to a core/satellite approach. Under this strategy the initial core diversification was achieved through a low cost passive approach, with value added

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through the addition of satellite managers such as Walter Scott. It was also decided that the University would augment the regional mandate with a global mandate, and that is one of the things to be addressed through the consideration of a global equity manager.

Returns have improved with these changes. By the end of 2009 the University was up 24 percent, in the top 25th percentile in terms of returns. Even in the challenging environment of 2010 the University has so far been able to generate positive returns. For the month of September the portfolio was up 6.2 percent, for the third quarter 10.1 percent, for the calendar year to date up 5.6 percent, and for the trailing twelve months it is up an estimated 13.5 percent. That would put the University above the median based on preliminary numbers.

Cambridge Associates will present the work that has been done on the global equity mandate and make a recommendation there, as well as address the non-marketable target allocation of 5 percent which remains unfilled.

***PRESENTATION ON THE CONSIDERATION OF A GLOBAL EQUITY MANAGER BY CAMBRIDGE ASSOCIATES MANAGING DIRECTORS MARK FOWLER AND THOMAS SMITT-JEPPESEN ***

In response to a question regarding International Value Advisers' country allocations in Japan, Mr. Jeppesen stated that the subject had been discussed with IVA. IVA, like Walter Scott and some other managers, likes Japan. They are unprecedentedly cheap if you look at the historical basis and even the relative basis, so the companies are a good value. There are some demographic problems and there are some economic problems that they are facing, but right now the growth projections for Japan are better than Europe and some of the other internationals. Because of this, managers find good value while recognizing the issues.

I. ACTION ITEMS (continued):

B. POLICY CALENDAR

1. Approval of the recommendation to hire International Value Advisers as a global equity manager. Following discussion, the item was unanimously approved.

II. INFORMATION ITEMS (continued):

B. NON-MARKETABLE INVESTMENTS.

***PRESENTATION ON THE PRIVATE EQUITY INVESTMENTS TARGET ALLOCATION BY CAMBRIDGE ASSOCIATES MANAGING DIRECTORS MARK FOWLER AND THOMAS SMITT-JEPPESEN ***

In response to a question, Mr. Fowler stated that it is safe to assume that the taxes are going up. Whether that will have an impact on the industry as a whole is uncertain. The industry is well-compensated, however, and they are not necessarily going to try and make up for it by charging higher fees. It is something to watch, it is part of the due diligence process. It is a good point about regulatory risk, and nobody has a clear crystal ball in terms of what regulations might impact these industries in a positive manner or a negative manner. One could be five years into this and all of a sudden something comes about that could be a negative factor that might have an impact on returns.

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MINUTES OF THE MEETING
OCTOBER 20, 2010

Mr. Jeppesen added that this increase or change in the tax laws is something that has been talked about for several years now. It has not come to fruition yet and certainly there are substantial means going into fighting anything like that. Also, once one invests a fund cannot change its fee structure—when re-upping it might be an issue, however.

In response to several questions, Mr. Fowler stated that if one were to play the game for under \$5 million one would not be able to get into a direct program. It would be fund to fund and one would be outsourcing a lot of the due diligence to the individual managers.

Trustee Pesile noted that a fund to fund approach would be costly.

Mr. Jeppesen agreed that with a fund to fund approach the added cost would be a factor. If one can do it without fund to funds, one would to avoid the extra layer of fees.

Mr. Fowler noted that, to invest directly, the University's investments would need to grow a lot. If you think about the number of managers you want in a portfolio to provide manager diversification, the University would probably have to commit \$100 to \$150 million to be able to do that.

CIO Krone stated that, in the challenging fiscal environment the University is in, the colleges might have to draw more from the fund than they normally do. The portfolio has a 5 percent spending rate. The average spending now is about 4 percent, but it is easy to envision that rate going up.

Chancellor Matthew Goldstein noted that there is virtually no liquidity once you get into a private equity investment. With the state facing severe stress there is going to be more and more propensity for the campuses to rely on monies that are invested through their foundations or the monies that they pull out of the investment pool.

In response to a question, both Chancellor Goldstein and Mr. Fowler suggested that this is not the time for the University to move into illiquid investments.

Committee Chair Lhota stated that the alternatives, if the University waited to invest in private equity, include putting the 5 percent into the equity market, natural resources, or direct real estate.

Mr. Fowler noted that with real estate or natural resources there are public and private options. Private has some of the same headache factors and lockups as private equity and venture capital. The University currently has a public diversified manager. It really depends on what the goals are. If it is returns, then reallocating to the global equity pool, including things like emerging markets, would be the way to go. If it is diversifying the Pool more one would look at things like increasing the real assets or increasing the hedge fund exposure. With hedge funds it is still in a wait and see mode to see whether or not the University is comfortable with the hedge fund managers it currently has and how that performance develops.

In response to a question, Chancellor Goldstein stated that the ability to go in and liquefy in response to a need to fill gaps that are created has always been a concern the administration has had, and it is going to be more and more compelling.

Trustee Pesile noted that the increased importance of liquidity is unlikely to be a short term concern; it is probably going to continue for a minimum of thirty-six months

BOARD OF TRUSTEES
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON
INVESTMENT

MINUTES OF THE MEETING
OCTOBER 20, 2010

Committee Chair Lhota suggested that ongoing liquidity concerns argued for putting the 5 percent in the equity market, the most liquid of markets.

Committee Member Martell noted that the University is already over its target allocations in the various equities classes.

In response to a question regarding automatic rebalancing, Mr. Jeppesen stated that the investment team looks at rebalancing every time there is a move in the portfolio, as spending occurs it is taken from the areas that are over target. The reason the University is above its targets in the various equity portions is because of distributing the unused 5 percent allocated for non-marketable.

Committee Chair Lhota added that as the distributions are within the allocation ranges, there would not be a triggering of automatic rebalancing and the associated costs that would be incurred.

CIO Krone stated that, while enhanced return and diversification are the key overall objectives, there seems to be agreement that getting into the non-marketable area is probably not the wisest thing right now. Realistically, that decision can always be made at a later date when the University's investments are of a greater size. The question then is, looking at the other classes of assets the University could put that 5 percent into, what asset class has the same kind of potential and also helps in terms of the diversification. This is a most uncertain environment for investing. One idea that was discussed was to add it to the satellites to get as much flexibility as possible, in other words look for additional managers that are clearly different. There are incredibly impressive investors that have the ability to take an approach that is unconstrained. IVA, for example, can go into fixed income, they can be in equity, they can be in gold and they have the ability to make those macro bets and they have done well.

In response to a question, Mr. Jeppesen stated that the global equity manager does have certain limits on how much they can change their asset exposure to debt. They do consider as part of the equity mandate, they could go into preferreds and some of those things that are more equity-like and those they would consider equity substitutes. They do have some ranges. One is not going to see them being 100 percent in fixed income for instance at any given point.

Chancellor Goldstein added that they would have to be extremely careful in terms of leaving their goals as stated in their prospectus.

Committee Member Martell stated that perhaps the way to reallocate would be to reallocate the 5 percent currently allocated to private equity to the emerging markets sector. The emerging markets sector is the area that would present potentially the longest and highest possibility for growth over a prolonged period. That would be the most consistent with the type of behavior expected from private equity investment.

In response to a question, Committee Member Martell stated that reallocating the entire 5 percent to the emerging markets sector would certainly be an option, given that the Committee is prepared to talk about the 5 percent non-marketable. The emerging market portfolio would have more liquidity than obviously the non-marketable alternative and expose the University to potentially some significant growth. It could also be allocated off a little more to hedge funds.

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In response to a question, Mr. Jeppesen stated that precious metals, gold, would fall under real assets. He noted that the University's managers are already doing some investing in that area. Wellington has commodity exposure including gold exposure. IVA will have that too.

Chancellor Goldstein noted that precious metals have had quite a run, and that the University would be buying at high points.

Trustee Pesile added that when metals fall they fall precipitously.

Committee Chair Lhota stated that there is no doubt that there are markets that might fall within equity. The University is up in both the US and non-US equities categories. The question is should that be left where it is or allocated out of those areas into emerging markets. If it were all moved into in emerging markets, emerging markets would go from 5 percent to 10 percent, meaning we would have to start drawing down equities. Alternatively, the University could split the difference, two and a half and two and a half.

In response to a question, Committee Member Martell stated that currency issues are a clear concern, but there are emerging market funds that hedge the currency risk.

Committee Chair Lhota suggested taking no action at this time and leaving things as they are, with the full understanding that the allocations are within the established ranges.

University Controller Kaufman noted that such an approach was in line with Option B from Cambridge Associates' presentation.

Committee Member Martell added that the current percentage is about the right percentage.

The meeting was adjourned at 6:25 p.m.