

BOARD OF TRUSTEES  
THE CITY UNIVERSITY OF NEW YORK

SUBCOMMITTEE ON  
INVESTMENT

MINUTES OF THE MEETING  
APRIL 2, 2012

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The meeting was called to order at 5:24 p.m.

There were present:

**Committee Members:**

Hon. Joseph J. Lhota, Chair  
Hon. Kathleen M. Pesile  
Hon. Valerie L. Beal  
Prof. Terrence Martell, faculty member  
Hon. Kafui K. Kouakou, student member

**Ex-officio:**

Hon. Benno Schmidt

**Trustee Observer:**

Hon. Sandi E. Cooper  
Hon. Peter S. Pantaleo

**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 Dobrin  
Senior Vice Chancellor Marc Shaw  
Associate Vice Chancellor Matthew Sapienza  
University Controller Barry Kaufman  
Chief Investment Officer Janet Krone  
University Deputy Executive Controller Miriam  
Katowitz

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<b>Cal. No.</b>	<b>DISPOSITION</b>
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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 FEBRUARY 23, 2012.** The minutes were approved as submitted.

**II. INFORMATION ITEMS:**

• **Review of Performance**

\*\*\*PRESENTATION BY CAMBRIDGE ASSOCIATES MANAGING DIRECTOR MARK FOWLER\*\*\*

In response to a question about the University's portfolio not following the market in general in the first quarter of 2012, Mark Fowler of Cambridge Associates stated that on the U.S. side it is in part due to a small mid cap (smidcap) manager that was recently hired, so it is too early to really draw any conclusions. He noted that they have a successful long term track record. On the international side it is in part due to the IVA Worldwide Fund, a global equity fund. Their strategy is all weather, so they will hold bonds or they will hold gold to have a lower volatility. The risk with

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them is if the markets really go up significantly, they are probably going to lag behind a little bit and that is what has happened over the period, but the reason to hold them is for periods like 2008, when the markets were down more than 40% and IVA was down only 14%. So it is going to be a smoother ride.

Thomas Smitt-Jepesen of Cambridge Associates added that IVA outperformed quite massively in the third quarter of last year where things went down. Such downside protection outweighs the slight lag in a stronger market, such as the first quarter of 2012.

In response to questions regarding underperformance of hedge funds and other alternative investment asset classes for major university endowments, Mark Fowler of Cambridge Associates stated that in general, returns are time sensitive. The past three years have been a challenging period for the hedge funds given the increased volatility. With private equity returns one needs to be mindful of such things as different vintage years and whether or not they are seasoned programs. Private equity funds that have been around for a long time have generated some good returns. But the key to both these areas is selecting good managers. If one is getting average results from either private equity venture capital or hedge funds, it is not worth doing it. You should only do it if you think you can get with the best managers. Some of the managers that the University has targeted for the direct hedge fund program are exceptional managers and can deliver a better risk adjusted return for the program.

Thomas Smitt-Jepesen of Cambridge Associates added that if one looks back to the 2001-2002 timeframe the hedge funds massively outperformed. They delivered strong positive returns in a strong negative return environment. Now the problem is that a lot of endowments came in to the hedge fund game pretty late in the process and if you started your hedge fund investment in 2005 or 2006, then it is true that the last three years have been probably overwhelming in terms of not producing good returns.

- **MALT Update**

\*\*\*PRESENTATION BY CAMBRIDGE ASSOCIATES MANAGING DIRECTOR MARK FOWLER\*\*\*

In response to a question regarding the University's move out of funds of funds, Mark Fowler of Cambridge Associates stated that the fund of fund managers have been notified and the paperwork is finished.

In response to a question regarding fees in funds of funds, Board Chair Benno Schmidt stated that whether the investor ends up paying double fees depends on how the fund of funds is set up. If the fund of funds can drive the ultimate fund to lower fees enough to take care of them, then the investor only pays one set of fees. But most of them don't.

Thomas Smitt-Jepesen of Cambridge Associates added that it is typically not a double up on the fees, but it is a double layer of fees. There is an extra layer of fees that you have to pay with the funds of funds. And so if you can avoid it, obviously that is the best path to getting diversification.

In response to a question regarding a new hedge fund manager for the University, Mark Fowler of Cambridge Associates stated that this manager will not take capital unless they have investment ideas to put to work. And so they have some investment ideas and so they have drawn down capital from the investors.

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Thomas Smitt-Jeppesen of Cambridge Associates added that here is a limit the University has committed will not be exceeded.

- **Spending Deliberation**

\*\*\*PRESENTATION BY CHIEF INFORMATION OFFICER JANET KRONE\*\*\*

\*\*\*PRESENTATION BY CAMBRIDGE ASSOCIATES MANAGING DIRECTOR THOMAS SMITT-JEPPESEN\*\*\*

In response to questions regarding spending from the University's endowment, Chief Investment Officer Janet Krone confirmed that the actual amount that the endowment has contributed to the operating budget in these past years has been less than the 5%. That is because the pool is not relied upon to any extent to help out with operating expenses. If the University gets to a critical mass in terms of assets under management, it might be much more realistic, but not at the current size.

Chancellor Matthew Goldstein added that there is another factor that is not insignificant. A number of the large foundations where most of the corpus of funds reside are not in the investment pool, they are in funds that are managed by outside managers or managed internally.

In response to a question regarding the impact of the lowering of the expenditure limit from 5% to 4.5%, Senior Vice Chancellor Frederick Schaffer noted that the highest spending percentage in the last three years was 4.1%.

Board Chair Benno Schmidt added that even if that were to occur the potential impact was in the realm of \$9 million in an annual budget of \$2.6 billion.

In response to a question regarding encouragement of the various campus foundations to comeingle their funds, Chief Investment Officer Janet Krone stated that central administration started marketing to the foundations after restructuring the investment pool and has gotten the bulk of the smaller schools. Before meeting with the foundations the administration usually requests information from the foundation on their managers, investments and fees. Upon reviewing the underlying related prospectuses, in general it has been found that they are paying fees in addition to the investment management fees, and in some cases these can add up to 3 to 5% in fees.

Committee Chair Joseph Lhota stated that the argument needs to be made that by co-investing the foundations can spend the money as they wish according to donor documents. Control is maintained by the foundation and it is a matter of getting a higher return to maximize the return for everyone at lower cost.

In response to a question Chief Investment Officer Janet Krone stated that there is a memorandum of understanding with any foundations that are invested with the pool such that they can take their money whenever they want, of course, subject to liquidity conditions in the general markets.

In response to a question regarding the major obstacles Associate Vice Chancellor Sapienza stated that a lot of campus foundation folks are mistrustful of central office and think that this is a central office pot of money or central office managed pool. The foundations maintain control of their own investments. This is simply an alternative fund in which they could invest.

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University Controller Barry Kaufman added that there is also a governance control issue which comes down to the structure of the committee. If the foundations are going to invest in the pool, what avenue do they have to talk about how the money is being invested. After all, the money has been invested by a number of their alumni who are active in the market.

Chief investment Janet Krone noted that at Penn State there is a non-voting advisory committee where a select group of people were members, and this was very successful.

In response to a question regarding potential changes to the nature of the funds the pool throws off, Senior Vice Chancellor Frederick Schaffer stated that the centralization of the pool would not cause any change. The college foundation funds are still funds that belong to the college foundation. Foundations are separately incorporated 501C3s and they have the same discretion as to spending, whether they invest in the CUNY pool or with some other investment manager.

**I. ACTION ITEMS continued:**

**B. POLICY CALENDAR**

1. **Investment Portfolio Expenditure Appropriation:** RESOLVED, That following discussion, and in accordance with University Investment Policy, Appendix B - Spending Policy, section 1. Spending Decisions, A. CUNY Funds, last paragraph, the Subcommittee on Investment approved a resolution authorizing funds for annual expenditure from the Portfolio at a rate at or below 4.5% of the Portfolio's average market value.

Following discussion the item was approved for submission to the Board.

The meeting was adjourned at 6:15 p.m.