Report of the Finance Committee

The Finance Committee of the American Economic Association met at the Chicago Club, Chicago, IL, at 12:00 noon on December 17, 2001. Present were committee members: John Siegfried (Secretary-Treasurer of the Association), Robert Dederick, and Kathleen Hagerty; and Robert McNeill and Scott W. Vogg (representing Stein Roe, investment counsel for the Association).

In 1987, the Committee reviewed recommendations presented by the AEA Committee on indexing Association funds concerning the long-term allocation of the Association's investment assets. As a result of that recommendation, it was agreed that the Association's portfolio comprise a combination of a S&P 500 Index Fund, Stein Roe & Farnham's specialty equity mutual funds, and a bond portion managed by Stein Roe & Farnham. This restructuring took place at the end of June 1988. The current portfolio includes holdings in the Vanguard 500 Index Fund, as well as a special Growth Fund and an International Fund, under the supervision of Stein Roe. The Fixed Income portion of the portfolio is currently invested in Stein Roe's Intermediate Term Government and Corporate taxable bond fund.

With respect to the calendar-year 2001 performance of the Association's portfolio, the total return including bonds and equity holdings was approximately −6.0 percent. The benchmark, which consisted of 30 percent Lehman G/C Intermediate Bond Index, 55 percent S&P 500 index, 5 percent Russell 2000 (small cap), and 10 percent EAFE (international) index, returned −5.8 percent.

The Committee discussed whether or not to change the benchmark portfolio to reflect the longer-term outlook for returns in all asset classes. The Committee felt it was prudent to maintain the benchmark exposure to the S&P 500 and the Lehman G/C Intermediate Bond Index. However, in light of the outlook for international stocks and small-cap stocks, it was decided to increase the benchmark allocation to small-cap stocks from 5 percent to 10 percent, and to decrease the benchmark international exposure from 10 percent to 5 percent.

The Committee also decided to rebalance part of the actual portfolio to more closely match the benchmarks. The Treasurer was instructed to decrease the actual balance in the bond fund by 5 percent and to allocate those assets to a small-cap fund benchmarked to the Russell 2000. These changes move the portfolio to match more closely the benchmarks of 30 percent and 10 percent in these two categories, respectively. The Committee elected to leave the international component of the portfolio at its current value slightly below the 5-percent benchmark weighting, and to leave the actual balance in the S&P 500 Index Fund at about 57 percent, 2 percent above its benchmark. The Committee will continue to rely on Stein Roe Investment Counsel for further recommendations on changes to the actual asset allocation.

Members can obtain a list of assets in the portfolio by writing the Treasurer.

JOHN SIEGFRIED, *Chair*

This article has been cited by:

1. Benedict Udoye. 2015. Depositors' Priority Over Senior Unsecured Bondholders: A Clog in the Bank Resolution Process?. *SSRN Electronic Journal* **34**. . [Crossref]
2. Karlo Kauko. 2012. Why is Equity Capital Expensive for Opaque Banks?. *SSRN Electronic Journal* **41**. . [Crossref]