

IUPAC Finance Committee Meeting

Zürich, Switzerland, 6 February 2012

Minutes

Members Present: Dr. C. F. Buxtorf (Chair), Prof. J. Corish, Prof. Dr. W. Koch,
Dr. D. L. Schutt
Members Absent: Dr. N. Kawashima
Guests: Prof. Dr. R. Deplanque, Prof. K. Tatsumi
Secretary: Dr. T. A. Renner (participated remotely by telephone from USA)

1. INTRODUCTORY REMARKS & FINALIZATION OF AGENDA

Dr. Buxtorf welcomed the members to the meeting and thanked Reber Rechtsanwälte for the excellent arrangements and facilities. He welcomed newly installed IUPAC President Kazuyuki Tatsumi and IUPAC Secretary General René Deplanque as guests to the Finance Committee Meeting. He also commented that in this meeting the Committee would focus its discussions on improvement of the yields of the investment portfolios. There were no changes to the Agenda.

2. MINUTES OF 2011 MEETING

There were no comments on the minutes of the 2011 meeting. They were accepted as written and distributed.

3. FINANCE COMMITTEE MEMBERSHIP

Dr. Renner reported that the terms of service of the current members were as follows:

Dr. Christoph Buxtorf	2012-2015 (Second Term)
Prof. Dr. Wolfram Koch	2012-2015 (Second Term)
Dr. David Schutt	2010-2013 (Second Term)
Dr. Nobuyuki Kawashima	2012-2015 (First Term)

Dr. Buxtorf has begun his second term in 2012 as a member of the Finance Committee and continues to serve as its Chair.

Prof. Dr. Koch is serving his second term starting in 2012 and is eligible to continue on the Committee until the end of 2015. Dr. Schutt continues to serve his second term of four years on the Committee; this term expires at the end of 2013.

Dr. Iwan Thonus' second term on the Committee was completed at the end of 2011. He has been replaced on the Committee by Dr. Nobuyuki Kawashima, Executive Director and Secretary General of the Chemical Society of Japan. His first term will run from 2012 through 2015.

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4. ITEMS FROM MEETINGS OF EXECUTIVE COMMITTEE AND BUREAU

Dr. Buxtorf noted that the Minutes of the most recent Executive Committee and Bureau meetings were in the Agenda Book. Several items from these Minutes were of special interest to the Finance Committee.

IUPAC has withdrawn its direct support for the Malta Conferences. Previously IUPAC had accepted funds that were provided by outside sources to support these conferences, held them in reserve, and paid the costs on behalf of Malta Conferences as invoices were received. After the Malta IV Conference there was a surplus of USD 130,843 remaining in the Malta reserved fund. After the Malta Conferences became a free-standing legal entity in the US, the officers of the new organization requested that IUPAC return the excess funds directly to the new Malta Group. The transfer of surplus funds back to Malta Conferences was completed 26 September 2011.

The impact on IUPAC of costs incurred for the International Year of Chemistry 2011 was discussed under Item 8.2 of the Detailed Agenda for this meeting and additional supporting information was included in the Agenda Book.

The life of the IYC Global Water Experiment was extended to 31 March 2012 at an additional cost of EUR 7,658 (USD ~9,819).

The budget for the 2012-2013 biennium adopted by Council at the General Assembly held in San Juan, Puerto Rico, in August of 2012 was essentially a no-growth budget. That is, budgets for the Divisions and Standing Committees were fixed at the same levels as 2011. The need to constrain budget growth severely was necessitated by declining revenues from both journal subscriptions and from the investment portfolios. Although National Subscription rates were increased by 4%, this measure was only sufficient to balance the declining revenues from the other two sources. It was recommended that IUPAC seek out new sources of revenue to permit future real economic growth.

The Executive Committee agreed at its last meeting in October 2011 to permit a search for a Deputy Executive Director who would be resident at the Secretariat. One of the major responsibilities of this new position would be to seek out and secure new sources of operating revenue and to monetize current intellectual property of IUPAC. The expected budget impact of this position was estimated to be approximately USD 125,000 in 2012 and USD 150,000 in 2013. To date it has not been possible to fill the position of Deputy Executive Director.

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5. FINANCIAL REVIEW

5.1. AUDITED ACCOUNTS – 2010

There were no comments on the Financial Statement for 2010 and the Auditors report thereon.

5.2. ACCOUNTANT’S REPORTS – 2010 AND FIRST HALF 2011

There were no comments on the full accountant’s report for the year 2010 and the accountant’s report for the first half of 2011. As a means of cost savings, the accountant’s report frequency has been reduced from quarterly to semiannual at the request of the Executive Director.

5.3. REVIEW OF EXPENSE VS. BUDGET – 2010-11

There were no items of pressing concern in a review of expense versus budget; however, the need to generate additional cash from investments was discussed in detail. The rate of spending during 2011 increased due to the International Year of Chemistry (IYC). Much of this increased spending was covered by outside IYC sponsorship pledges, all of which have been successfully deposited into our operating accounts. IYC expenditures were generally as we had anticipated them to be and specific details were provided in Item 8.2 of the Detailed Agenda.

Net proceeds of sales from the investment portfolios in 2011 were USD 316,390, some of which were used to pay operating expenses for the Union. Generally, our cash flow position has been adequate for immediate operational needs.

5.4. REVIEW OF NATIONAL SUBSCRIPTIONS IN NATIONAL CURRENCIES

National Subscriptions for 2012, approved by the Council at the General Assembly in Puerto Rico, were billed in September of 2011. Depending on the timing of payment (earlier or later in 2012), some NAOs may have experienced either an increased or decreased burden relative to the original billing, based on the exchange rate to USD at the time of payment.

5.5. CHANGE IN CALCULATION OF NATIONAL SUBSCRIPTIONS IN NATIONAL CURRENCIES

At the 2010 meeting of the Finance Committee it was proposed and approved that an average of four quarters of currency exchange rate data be used for the calculation of National Subscriptions in national currencies. The effect of this longer-term average was to even out anomalously low exchange rates subject to rapid market fluctuations. The proposal was seconded and unanimously approved by the Finance Committee. For the first time, National Subscriptions for the new biennium 2012-2013 were calculated with this new averaging procedure and approved by Council at the General Assembly in

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Puerto Rico. An example of the effect of this new averaging process on the 2012-2013 National Subscription calculations was included in the Agenda Book, where a comparison with the previous calculations for 2011 was shown.

5.6. RESERVES AND SPECIAL FUNDS

Dr. Renner indicated that a table summarizing the Reserve Funds and Special Funds was included in the Agenda Book. The Committee was asked to set the interest rate to be used for Special Funds for 2012. To assist this decision, a table of annual income and yield by investment type was included in the Agenda Book. In 2011, the average income from bonds denominated in USD was 5.1%. Therefore, it was suggested that the interest rate for Special Funds be set at 5% for 2012 and the Finance Committee unanimously agreed to this recommendation. However, recent market conditions indicate that yields on bonds may decline solely in the next year or two and that we may need to set the interest rate for Special Funds lower, perhaps to about 4.5%, in 2013.

5.7. FINANCIAL RESULTS FOR SELF-PUBLISHING *PAC* AND *CI* IN 2011

Dr. Renner noted that the Agenda Book contained an updated financial summary for *PAC* and for *CI*. *PAC* continued to be a significant source of income for IUPAC despite the continued decrease of institutional subscribers, while very little income was generated from *CI*. While the number of E-only subscribers continued to increase, (they now comprise about 36% of the total subscribers compared with 28% the year before), in the near term, *PAC* was still expected to continue its significant contribution to the Union's finances. The longer-term outlook could not be projected with certainty.

Dr. Renner pointed out that if the current trend continued, the number of E-only subscribers would equal the number of Print subscribers by the end of 2012. In addition, some subscribers have canceled their subscriptions completely, citing economic conditions. After a lengthy debate, the Finance Committee recommended that the IUPAC Committee for Printed and Electronic Publications (CPEP), be advised to consider increasing the subscription rate for the E-only version of *PAC* in order to prevent subscription revenues from declining too rapidly. An option to produce *PAC* only in electronic format should also be considered, thus reducing production and distribution costs for the journal.

6. NATIONAL SUBSCRIPTIONS

6.1. 2011 NATIONAL SUBSCRIPTION PAYMENT STATUS

Dr. Renner reported that (as of the date of the Finance Committee meeting) two NAOs had not yet paid their National Subscriptions for 2011: Cuba and Saudi Arabia. Total unpaid National Subscriptions for 2011 amounted to USD 10,800. The Secretariat has been pursuing final payment.

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6.2. 2012 NATIONAL SUBSCRIPTION PAYMENT STATUS

Dr. Renner also reported that seven NAOs had already paid their 2012 National Subscriptions as of 6 February 2012: Chile (partial), Czech Republic, Ethiopia, Finland, Jamaica, Slovenia and Uruguay.

7. REVIEW OF BUDGET – 2012-2013

Prof. Corish and Dr. Renner discussed the new biennial budget for 2012-2013 that was approved by Council at the General Assembly in Puerto Rico without modification. An across-the-board increase in National Subscription fees of 4% was implemented. Allowances for reduced income from investments and from publication sales were also incorporated. In addition, there were no increases in the Divisional and Standing Committee project budgets for the next two years. Since the General Assembly, the Executive Committee has approved the hire of a Deputy Executive Director for the Secretariat. This new post would have direct budget impact, as was mentioned earlier in Minute 4. The Treasurer, Secretary General and the Executive Director have been working together to implement stricter internal budget controls to ensure that approved budget levels will not be exceeded. The need to find new sources of operating revenue has been identified. A detailed summary of the new budget was included in the Agenda Book.

Dr. Buxtorf commented that the true budgetary impact of the new position of Deputy Executive Director would probably not be fully realized until after actual hiring. The Finance Committee supports this hiring because it may create an opportunity for fundraising and cost-saving actions.

8. INTERNATIONAL YEAR OF CHEMISTRY 2011

8.1. IYC 2011 ACTIVITIES IMPACTING IUPAC BUDGET

As discussed at the Finance Committee Meeting in 2010, the Executive Committee agreed to provide up to USD 500,000 to support the International Year of Chemistry, but with the objective that as much as possible, preferably all, of this funding be recovered from sponsorships. These monies were to be used only to cover the costs of cornerstone events, as well as expenditures incurred centrally in the organization in support of the IUPAC IYC program. The IUPAC cornerstone events were the Launch Ceremony (Paris), the General Assembly/Congress/World Chemistry Leadership Meeting (San Juan, Puerto Rico), and the Closing Ceremony (Brussels). The Global Water Experiment was envisaged as a unifying event for IYC. Dr. Buxtorf expressed the Finance Committee's appreciation for efforts to minimize the financial impact of IYC on IUPAC's budget. The Committee agreed that the ultimate impact of the IYC on IUPAC finances should be carefully reviewed and evaluated. Was there a tangible and positive benefit for the investment made? How was IUPAC recognized externally around the world? Was the IYC dedicated website worthwhile? These issues were considered to be

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important by the Finance Committee as IUPAC moves forward toward its 100th anniversary in 2019.

8.2. INTERIM REPORT ON IYC 2011 EXPENDITURES

The anticipated overall cost of IYC 2011 was USD 1.3 million. A detailed interim report on IYC expenditures was presented by Prof. Corish.

Interim IYC 2011 Financial Report as of 23 January 2012

Cornerstone Events	Estimated Budget (USD)	Sponsorship Obtained (USD)
Launch Ceremony (Paris)	420,000	420,000
Congress (San Juan)	Local Committee Responsible for Finances	
General Assembly (San Juan)	250,000	250,000 (2011 Budget)
WCLM (San Juan)	100,000	Nil
Closing Ceremony (Brussels)	392,000	392,000
Global Water Experiment	150,000	55,000
Total	1,312,000	1,117,000

Central Costs Incurred	Actual Expenditures (USD)	
IYC Website	245,308	
IYC Management Committee	91,261	
Materials, Printing, etc.	32,385	
Pacificchem (exhibition)	21,841	
Brochure	9,127	(less 4,000 from UNESCO)
Total	395,922	

Central Sponsorship Obtained	Funds Received (USD)
Total (from 7 outside sponsors)	421,416

Special Sponsorship Obtained (Global Water Experiment)	Funds Received (USD)	Actual Expenditures (USD)
Source:		
ACC - Chlorine Chemistry Division	20,000	17,180
UNESCO	35,000	28,757
Total	55,000	45,937

Current Liabilities of IUPAC for IYC 2011	Actual Expenditures (USD)
WCLM	34,949
Global Water Experiment	100,000
Global Water Experiment - Secretariat	6,522
Other Contingencies	0
Total	141,471

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¹ Actual costs for WCLM are difficult to determine precisely because some of the expenditures were combined with the GA/World Chemistry Congress costs as part of a negotiated contract that included all of these activities in one agreement. The actual cost of the WCLM was less than USD 100,000.

In retrospect, IYC expenditures were well controlled. Due to successful solicitations for outside sponsorship, only USD 141,471 of IUPAC central funds were required, well below the maximum of USD 500,000 that had been committed for this purpose.

9. INVESTMENT PORTFOLIO

9.1. INVESTMENT TRANSACTION HIGHLIGHTS

Dr. Renner stated that the calendar year 2011 closing statements for our two investment accounts were included in the Agenda Book. As is our standard practice, dividends received from mutual funds were reinvested, while interest received on bonds was used for operations. Major investment transactions for 2011 are summarized in the table below:

<u>Date</u>	<u>Activity</u>	<u>Description</u>	<u>Net Amount</u>
2011-02-11	Redemption	Ford Motor Credit Co	USD 200,000.00
2011-07-04	Redemption	Siemens Financieringsmat	USD 144,951.00
Diverse	Purchases	Dividend Reinvestments	USD 28,561.15

9.2. PORTFOLIO PERFORMANCE 2011

Dr. Renner noted that the Agenda Book contained a table summarizing the changes in the portfolio as well as the distribution of the portfolio by asset class. The average yield for the combined portfolio in 2011 was -1.2%, the poor performance due principally to the mutual fund holdings. A chart showing the value of the combined portfolio with time since 1996 was also included in the Agenda Book.

9.3. REVIEW OF INVESTMENT PERFORMANCE AND STRATEGY

Prof. Corish and Dr. Renner discussed the performance of the investment portfolios during 2011. The ratio (based on USD value) of equities to bonds in the combined portfolio was about 37 to 63, compared with the 36 to 64 in 2010. In 2011 the ratio of US to non-US equities was 44 to 56 and the ratio of US to non-US fixed-rate investments was 62 to 38.

On 6 January 2012, Dr. Renner met at the Secretariat with our lead-portfolio investment advisor, Mr. Guy Guidry, Managing Director of Wells Fargo Advisors, LLC. He presented a very well organized summary of our portfolio performance at that time. Several related documents that were employed by

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Mr. Guidry during this discussion were included in the Agenda Book. He pointed out two aspects of our portfolio where he felt taht we could improve our yield:

The first aspect was the identification of several mutual funds that he had identified as underperforming. These were:

- Fidelity Europe Cap Apprec (FECAX)
- Fidelity Overseas Europe Fund (FIEUX)
- T Rowe Price Emerging Eur & Med (TREM).

Combined unrealized losses for these three funds to the date of the Finance Committee meeting were USD 195,636, or about 46% of the original total amount invested. Mr. Guidry suggested that we should consider divesting our portfolio of these three mutual funds and reinvesting the proceeds in corporate bonds. Many of our current bonds will mature in the next two or three years and this would provide the opportunity to rebuild the bond ladder outward in time again. Suitable bonds would have to be identified for this reinvestment strategy.

The second aspect concerned the performance of Growth Fund of America (AGTHX). Mr. Guidry recommended that we transfer the current balance of this mutual fund into the Income Fund of America (AMECX) to improve our yield. Since both funds are within the same family, there would be no cost associated with making this transfer.

Now that IYC 2011 has ended, the Executive Director recommended that Mr. Guidry's recommendations be considered formally and implemented rapidly, assuming that suitable corporate bonds could be identified for reinvestment after divesting the mutual funds. To that end two formal Motions were submitted to the vote of the Finance Committee.

Motion 1 approved the recommendation of the Executive Director to sell the mutual funds FECAS, FIEUX and TREMX and to reinvest the proceeds in highly-rated corporate bonds. This Motion was made by Dr. Buxtorf, seconded by Prof. Corish and passed unanimously by the Committee.

Motion 2 approved the recommendation of the Executive Director to transfer the proceeds of the Growth Fund of America (AGTHX) to the Income Fund of America (AMECX). This Motion was made by Dr. Buxtorf, seconded by Prof. Corish and passed unanimously by the Committee.

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9.4. UPDATE OF INVESTMENT AND FUND STRATEGIES

Two documents regarding IUPAC's investment strategy have been included in the Agenda Book. These are the Investment Policy Statement and the Fund Policy Statement adopted by the Committee in previous meetings. Due to recent world economic problems having direct impact on the worldwide markets, some aspects of these policies may have become outdated. It was suggested that the Finance Committee as a whole should reevaluate these policies and update them as required. To that end, Prof. Corish and Dr. Renner agreed to review the current policy documents and provide recommendations for the proposed update. Dr. Schutt suggested that perhaps a benchmark could be identified to assist this process. Adjusting the ratio of bonds to equities in the portfolio to a target of 70-30 was proposed as a reasonable goal of this exercise.

10. OTHER BUSINESS

There was no other business.

11. DATE AND LOCATION OF NEXT MEETING

The date of the next meeting was set at 4 February 2013 at the offices of Reber Rechtsanwälte in Zürich, Switzerland.

The meeting was adjourned by Chairman Buxtorf.