Endowment Trustee Midwinter | MINUTES (ET #6.1)

Meeting date | time September 18, 2018 | 8:30 AM – 4:30 PM | Meeting location Chicago

Meeting called by Rod Hersberger | Rod Hersberger (Called In)
Type of meeting Committee Fall Meeting | Mark Leon – Staff | Susan Hildreth (Called In)
Facilitator Rod Hersberger | Patricia Wand | Keith Brown - Staff
Note taker Keith Brown | Siobhan Reardon | Brian Schottlaender
Timekeeper Rod Hersberger | Mario Gonzalez | Robert Newlen
| Siobhan Reardon | Mary Ghikas – Ex. Director
| Raj Bhatia¹ | Peter Marchese²

AGENDA TOPICS

AGENDA review (ET #6.0), approval of minutes (ET #6.1) from Spring Meeting and future meeting dates | Presenter Rod Hersberger

Rod Hersberger opened the meeting by welcoming the Trustees and visitors. He expressed his regrets for not being able to attend in person due to a security issue at the Phoenix airport which impacted his travel plans. He went on to say that the meeting was in the capable hands of Pat Wand and thanked her for stepping in to chair the meeting. He also expressed his thanks for the attendance of Mary Ghikas and the importance of the information she would be sharing with the Trustees regarding the strategic direction of the Association. P. Wand assumed the Chair position and asked the committee to review the agenda. No changes were made. She next moved to the approve of the minutes from the Spring Meeting (5/22/18). B. Schottlaender noted that there were several editorial changes he thought should be made. Additionally, S. Reardon noted her preference for the use of the term excused absence vs. absent.

After some additional discussion the following action was taken:

Motion: Siobhan Reardon, seconded by Brian Schottlaender

Move to approve of the Trustee minutes of 5-22-18 as amended by Brain Schottlaender and Siobhan Reardon

Motion passed.

¹ Merrill Lynch
² Merrill Lynch
M. Ghikas began the discussion by welcoming the opportunity to speak with the Trustees and update them on several important projects currently underway across the Association. These are projects that will take place over the next 18-24 months. As a backdrop she noted that management has developed a three-year investment plan designed to correct the current revenue trajectory. Staff shared ten-year financial results with the Executive Board to emphasize the need to make a change.

She then referred the Trustees to an email that was recently sent to the leaders of the New Business Development Group. The emailed referred to what she called “Change Streams.” They included, but were not limited to, the following:

- Real Estate
- Communications & Membership Studies
- External IT Assessment
- Organizational Excellence/Governance Study
- National Network Development

**Real Estate** – It was noted that the ALA headquarter has been listed for sale. At this point in the process she does not expect to be able to report to the Board on any real progress i.e. offers until the Midwinter meeting in January. In the meantime, efforts are underway, led by M. Leon, to identify an architect who will guide us on what the workspace should look like in addressing our expected needs – now and in the future. The expectation is to receive a large enough offer to cover any potential move, with the remainder going into the endowment to generate more earnings to support operations.

**Membership Study** – The current membership structure is deemed to be insufficient for today’s members. As such, a membership study has been commissioned. The report is not yet finished but the preliminary results seems to indicate long-term revenue growth with some short-term pain. ALA should be getting a recommendation for a completely new, tiered membership model.

**External IT Assessment** – Major new IT investments, which are key to the proposed three-year investment plan, will be paused until the results of the new assessment. There have been several major internal shifts within the department over the last few months. ALA is heading down the path of a Salesforce implementation, which will have some probable revenue impact. Additionally, ALA will build on and utilize the IT consulting work that was done two years earlier. The time has come to pick a lane and go with it.

**Online CE Discussions Continue** – The discussions surrounding initial and ongoing professional education are intended to result in possible new revenue opportunities. Seed money from the New Business Development loan would likely prove helpful in bringing someone in to put a plan together. It is felt that the professional development and new membership model are not unrelated.

**National Network Development** – There have been several discussions related to ALA providing Association Management Services (cost + services) to chapters. As this is an idea that has bubbled up more than a few times recently, the time may be ripe to rethink the relationship between ALA and the states/chapters. It was also suggested that it might make some sense to tap into the New Business Development loan to put together a plan.
Organizational/Governance Study – This project may not yield anything directly to the New Business Development Group, but everything is on the table for consideration.

Time allotted | 9:45 AM | Agenda topic Merrill Lynch Quarterly Portfolio Review ET #6.2 | Presenter R. Bhatia and Peter Marchese

Quarterly Portfolio Review – R. Bhatia and P. Marchese presented to the Trustees a review of the quarterly performance of the portfolio. The discussion began with the Trustees being referred to page 6, tab 1 of ET #6.2. It was illustrated that the global growth has been negative for four consecutive months. A normal downturn averages 12 consecutive months of negative growth. Contributing factors included unemployment, capacity utilization and consumer confidence. Despite the negative growth worldwide, US GDP has been a bright spot with growth of 4.1% in the 2nd quarter. Prognosticators from Merrill Lynch feel that this growth could carry the economy forward for up to two more years. Current forecasts are for growth in 2018 and 2019 at 2.9% and 2.7% respectively.

The “bullish” argument is that US investments should continue to gain strength due to the increase in cap ex spending and general investment in the economy. The “bear” argument is that the tax cut windfall will be temporary (sugar high), along with a slowdown in stock buybacks. Questions regarding the trade war were raised. R. Bhatia noted that any trade war is bad for business, as the ability of the US to export will be hurt. The position of the US in this war is to isolate China. Merrill Lynch market strategist have taken the position that there is good news on the growth front due to continued investment. In terms of looking for keys on the direction of the market in the future, the following should be the focus:

- S&P earnings of 130 – 159 this year and 160 – 179 next year
- The direction of interest rates
- The direction of inflation

The portfolio’s growth is being driven by the equity portion of the portfolio. It was noted that growth of 3% or more should be able to handle any deficits that are being generated by the trade/budget deficits. On a market of $24.0 trillion, 3% growth will result in $700.0 billion in new wealth every year. P. Marchese noted that the Trustees needed to be focused on any economic decline resulting from an unforeseen event.

The Trustees were then referred to tab 2 – Performance and Asset Allocation. As of 8-31-18 the value in the portfolio was $47.4 million. As of 9-14-18 the value of $47.3 million. The current allocation is as follows:

- Equity – 65.6%
- Fixed Income – 22.9%
- Alternatives – 11.5%

As noted previously, growth has come from the equity portion of the portfolio. It was further noted that BTAS 2015 has stopped making calls and has started distributions. BTAS 2018 is now all signed and ready to go. There is every expectation that the first call will be in the December/January period. At this point R. Hersberger expressed the desire for Merrill Lynch to advance some strategies to move alternatives closer to the upper limit of 15%. Additionally, P. Wand thought that it would be helpful if a separate excel type sheet detailing the draws of the private equity managers. K. Brown noted that the desired information is shared with the Trustees as noted in the spring meeting ET #8.0.
The discussion shifted to the performance of the portfolio as of 8-31-18. The value was $47.4 million and $47.3 million as of 9-14-18. Gross returns were 5.52% and compares to the policy benchmark of 4.7%. The net return was 5.11%. On an annualized basis the portfolio returned 11.8% and compares to the policy benchmarks of 10.0% and 6.4% respectively. The Trustees were then directed to the results of the NACUBO peer comparison as of June 30, 2017. For endowments between $25 - $50 million returned 11.7% compared to the ALA portfolio 11.7%. The ALA portfolio outperformed the NACUBO benchmarks for 3, 5 and 10 years at 4.9%, 8.4% and 5.4% respectively. Look at historical cash flows for the portfolio it was highlighted that on an investment i.e. book value of $14.6 million the portfolio realized investment earnings of $32.1 million as of 8-31-18. The Trustees took the opportunity to emphasize again that donations to the endowment are too low.

In closing the discussion, it was noted that there were no recommendations to change the asset allocation in the portfolio.

**Portfolio Recommendation** – As the discussion continued the Trustees were referred to tab 3 for the portfolio recommendations. The recommendation is to replace Lazard at $1.9 million or 3.9% and replace with a new manager Domini. Domini Impact International equity is an ESG manager. It is one of the premier and original ESG managers. It was noted that Domini is benefiting from the financial heft of Wellington management because of a collaboration of the two organizations. Wellington is one of the top 3 money managers in the world. Domini was chosen because of the Trustees/membership desire to enhance the association’s % of ESG holdings whenever possible. Domini was founded by Amy Domini in 1997, a pioneer in ESG investing. It has 2.4 billion in assets, which includes the International Equity fund at $1.3 billion. The firm is exclusively focused in ESG investing. The firm is also led by women who also have an extensive ownership position.

P. Marchese noted that Lazard is doing well in the portfolio but is on the lower side of the risk spectrum. Merrill felt that it was prudent to replace managers below a specific return line without adding any additional risk. Domini outperforms on a risk and return basis for 3 year and 5 year basis.

### Action Items

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<td>On the recommendation to replace Lazard with Domini, the Trustees will take an action after their presentations during this meeting.</td>
<td>Trustees</td>
<td>9-18-18</td>
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**Time allotted | 2:00 PM | Agenda topic Development Office Report ET #6.3/6.3.1/6.3.2 | Presenter Sheila O’Donnell – Development Director**

S. O’Donnell reported to the Trustees on the progress throughout the Association and the department through June of this year. She noted that a good deal of the information was the same as reported to the committee at its Spring meeting in May.

**Strategic Priorities** – YALSA submitted a proposal to IMLS for a grant of $442,500 to support “Leveraging Computer Science to build Connected Teen Services: Best Practice, Knowledge & Skills.” The project will train 10,000+ library staff across all 50 states.

**Fund Raising** – YALSA, in partnership with the Chief Officers of State Library Agencies (COSLA), received an IMLS grant of $497,635 to implement a new project called **Transforming Teen Services: A**
**Train the Trainer Approach** from July 1, 2018 – June 30, 2021. Will bring together state library agency youth consultants and frontline library staff from each state/territory designed to develop a robust training program to help build connected learning, computer science and cultural competence to meet the needs of youth in the community. Additionally, ALA PPO received a grant of $397,255 from the NEH Community Conversation program to support three new rounds of Great Stories Club grants to libraries. Finally, the JPB Foundation awarded ALA PPO $242,000 for our service to new Americans research and planning project, to explore ways to expand public library program services for new Americans.

**Organizational Excellence** – The Development Office continues to engage a prospect research consultant to work on a pilot project to create donor profiles and prospects lists. This project is co-funded with AASL, ACRL, PLA and ALA. Development continues to work with ITTS to ensure the functionality of the online donations site. Development is also well represented in the upcoming Communications and Membership studies.

It was also noted that the seven-member, ad-hoc Development Task Force is following the recommendation outlined in the 2017 Development Audit and working on evolving into a long-term Philanthropy Advisory Committee. Results of their work is expected to put in front of the Executive board at their fall meeting.

**Annual Fundraising Priorities** – The Development Office launched a mini campaign in connection with National Library work week in April 2018. This effort lead to a 30% spike in the number of online gifts between April 5 – April 16. By April 30 the total number of individual donors who gave in 2017 was surpassed (2,929 to 2,610) eight months into the fiscal year. This has translated into raising approximately $150,000 more than in all of 2017.

The Association’s 20x20 campaign is well underway. To date there are $3.0 million in planned pledges. Approximately 64% or $2.2 million is coming from the Legacy Society as compared to the 1986 Club.

The second Association-Wide Annual Fund campaign was launched in the fall of 2017. Received a max of $100,000 in matching gift commitments, together with overall excitement for the program. A mail campaign to 54,000 members was initiated in November. Reminder postcards were sent to the strongest prospects in December. The result from the Annual Fund campaign was $152,166 received from individuals of $1,000 or less and $228,747 of $1,000+.

**FY19 Investment Budget** – S. O’Donnell briefly discussed the proposed FY19 – FY21 investment budget for the Development Office. She highlighted the importance of fundraising and the incremental revenue that could be generated with the appropriate level of well-placed investment. This investment includes the addition of staff from 3.5 to 6. It was noted that this would not represent an increase to total ALA staff but is a reallocation of ALA resources from other areas. The new staff includes a new prospect Research Associate, an upgrade of the Development Coordinator position and a new Assistant Director of Major Gifts. Additional investment in other areas of ALA, which will benefit the Development Office effort, includes investment in technology Constituent Relationship Management (CRM) software and a new reporting Dashboard.

Conclusion – S. O’Donnell continues to see that the results of her office are paying off due to the efforts to prioritize fundraising i.e. more dollars being collected, more individual donors – both library members and the public, and better technology related to donating on the ALA web site.
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M. Olson – Director (Chicago Office) and E. Abreu (NYC) reported to the committee on the management of the portfolio. The discussion began with a brief history of the firm which was founded in 1848, has 800+ employees worldwide, 340+ investment personnel and have $214.0 billion in assets under management. The firms’ primary two businesses are asset management and financial advisory. Note that approximately $153.6 billion of the firm’s total assets are in the form of international assets. They also view themselves as bottom up stock pickers. In reviewing the management of the firm the Senior Trustee noted that women did not seem to be very well represented. M. Olson noted that the firm has an in-house program designed to bring in more women, minorities and stated that gender diversity is a priority for the firm.

The discussion shifted to the investment process of the firm. The general philosophy is to focus on companies that are financially productive and inexpensively valued and to add value through stock selection and portfolio management. The investment objectives are to outperform relevant benchmarks of a full market cycle, participate in rising Markets and preserve capital in falling markets. It was pointed out that when low quality stocks led a market rally, Lazard’s performance will lag. The Lazard process hinges on idea sourcing, fundamental analysis and portfolio construction. This is an ongoing process and is non-sequential in its order.

The discussion shifted to the performance of the portfolio concentrating on the 2nd quarter of 2018. A few things were pointed out and included

- Positive developed equity market local returns were negative in US dollar terms
- Weakness in Brazilian and Turkish equity markets
- Energy led sector returns driving Australian and Canadian equities
- Growth continues its winning streak vs value
- MSCI EAFE index: -1.2% QTD (+3.5% local)
- MSCI ACW ex-US Index: -2.6% OTD (+1.9% local)

The general outlook is for forward earnings to be vulnerable to higher costs related to interest rates/oil/wages, continued strength in the US dollar, emerging market weakness and geopolitical risks. The firm remains cautiously optimist given the late cycle valuations and geopolitical risks. It was noted that UK holdings were being impacted more by what’s happening outside the UK than in it.

**Lazard ESG** – The Trustees were then referred to the firm’s ESG presentation. It was noted that they established an internal ESG group in 2008. While the firm’s efforts have been in place since 2008, the real work began in earnest in early 2016. ESG is now an integral part of evaluating all security holdings across their entire investment platform. They are also a member of or signatory of many ESG organizations and initiatives. As the discussion continued it was noted that Lazard does not have a dedicated ESG portfolio. However, they do have the ability to apply ESG criteria to their stock selection i.e. screening for specific stocks. When asked about the impact that ESG criteria would have on the performance of the portfolio was stated that the portfolio would capture only 95% of the market on the upside and only 85% on the downside. They went on to say that they address ESG as follows:
- Environment (21%)
- Social (17%)
- Governance (62%)

**Action items** | **Person responsible** | **Deadline**
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None | NA | NA

**Time allotted | 1:00 PM | Agenda topic Domini Impact Funds | Presenter Hillary Marshall, Michael McElroy, Carol Laibel, Christina Capricio and Elizabeth di Bonaventura**

The discussion began by noting that the firm has a connection to libraries via Steven Lydenburg of the NYPL where he purchased 1.0 million books, served as the ALA President 1932-33 and was named an honorary member in 1952. C. Laibel then proceeded to provide a high-level overview of the firm. Domini is an industry leading ESG research and shareholder engagement firm. Their motto is “Investing for Good,” The firm has a long history of SRI/ESG investing starting with Amy Domini’s publication called “Ethical Investing” in 1984. In 1990 the firm and its principals launched the Domini 400 ESG/SRI index, which is now the industry standard. The firm had $2.3 billion assets under management with $1.4 billion internationally. Approximately 50% of the firm’s employees are women. By way of 11 research analysts with an average of 15 years of experience, they cover just over 2,700 securities. Domini does its ESG research on a universe of stocks. This produces a list of approved securities, which is then forwarded by its compliance group to Wellington. There is an established relationship between Domini and Wellington which plays off of each firm’s strength - social and financial respectively. Wellington will perform the intense financial analysis of the approved list provided by Domini. Wellington will establish which securities meet the financial standard for inclusion in a portfolio.

At this point M. McElroy of Wellington discussed the role that the firm plays in the relationship with Domini. Wellington is an old-line asset manager dating back to 1928. It currently has $1.1 trillion in assets under management via 722 investment professionals with an average of 17 years of experience. As Domini forwards approved securities to go through the financial analysis provided by Wellington, each security will go through three proprietary models – quantitative equity model i.e. alpha forecast, risk model and a cost model for inclusion in a portfolio. Securities that make it through the screening of these three models reflect Wellington’s optimal expected risk and adjusted return after costs.

**Action items** | **Person responsible** | **Deadline**
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To be determined later in this meeting | Trustees | 9-18-18
P. Marchese led a discussion on the recommendation forwarded by Merrill Lynch to replace Lazard International Equity fund with Domini Impact International Equity fund. The Trustees were referred to tab 3 pages 12-14. The Trustees reviewed the 3 and 5 year risk vs return information for Domini, Lazard, Capital Group and Oakmark, with the last three currently in the portfolio. It was noted that all the managers are in the top quartile in terms of performance. A review of the information resulted in the Trustees reaffirming their desire to maintain Lazard international, as well as, the other managers listed in the risk return comparison based on their results. R. Bhatia noted that diversity is a good thing but 3-4 managers in this space is probably the upper limit. However, since one manager offers ESG it is a good thing. As such, the Trustees decided not to replace Lazard with Domini but offered an alternative. After some additional discussion the following action was taken:

Motion: B. Schottlaender, seconded by M. Gonzalez

To reduce the holdings of Lazard and Oakmark both by $500,000 for a total of $1.0 million and reallocated to Domini International Impact fund

Motion passed

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M. Leon began the discussion by referring the Trustee’s to ET #6.4. He noted that this has been a lingering issue for the Trustees and really needed to be settled. The Trustees agreed. Having heard from a number of internal units, specifically ACRL, it was clear that there needed to be a definitive declaration for the process that would be used if a particular endowment was classified as safe and then at some point in time slipped below the minimum due to market conditions. Staff believes that the process highlighted in ET #6.4 accomplishes that goal. M. Ghikas noted that the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as it was adopted under Illinois State law and stands today, addresses the treatment of such endowments and that Paula Goedart has reviewed the situation and is satisfied with the stance that ALA is taking in managing these small endowments.

As the discussion continued the Trustees reviewed two potential options. It was felt that the following procedures were the best fit and should be followed by the American Library Association aka ALA in relation to underwater endowments. As such, the following procedure will be followed by staff:

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**Time allotted | 1:15 PM | Agenda topic Portfolio Recommendation | Presenter Peter Marchese – Merrill Lynch**

**Time allotted | 2:30 PM | Agenda topic Final Policy/Process Review for Addressing Underwater (Small) Endowments (ET #6.4) | Presenter Mark Leon and Keith Brown**
• A annual review of endowment account values will be performed at the end of each fiscal year (8-31-xx). This review will be performed by the finance department
• Accounts identified as underwater\(^3\) will be highlighted in an “Underwater” report
• Accounts identified as underwater will be notified that spending will be suspended for the following fiscal year and each subsequent year until the minimal level is reached at the designated benchmarking period (8-31-xx)

As the discussion closed, M. Leon indicated that staff will be notified as early as possible regarding the new change.

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Time allotted | 4:00 PM | Agenda topic Strategic Review Discussion and Prep
Presenter Geoffrey Wilson, Mercer

R. Hersberger reminded the Trustees that G. Wilson of Mercer will be conducting the Trustee’s strategic review on November 8\(^{th}\) & 9\(^{th}\). Via conference call G. Wilson joined the Trustees to discuss the timeline of the work to be done over the two-day period. Using key themes to be developed from the peer survey to other associations, G. Wilson discussed the parameters by which the meeting session will be conducted. The survey will be sent to approximately 62 individual associations in the next few days.

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<td>Preparations will continue with respect to the logistics of the meeting. Trustee’s are asked to read as much of the of the pre-meeting work materials that Mercer will be providing before the meeting in order to be thoroughly engaged.</td>
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**Future Meeting Dates Reminder** – The Trustees were asked to review their calendars for future meeting dates. The Midwinter Meeting date will be Wednesday, February 20\(^{th}\) in NYC at the Bank of America building. After some additional discussion it was decided that the Spring meeting would be in Chicago on May 14\(^{th}\). The date of the Fall 2019 meeting will be decided at the February meeting.

With no further business the meeting was adjourned.

\(^3\) Less than $50,000