The Trustees went into closed session to discuss two topics 1). A Senior Trustee Succession Plan and 2). New Business Development Support from the Endowment.

**Succession Plan** - R. Hersberger began the discussion by reminding the Trustees that at the 2017 Fall Meeting, the Executive Board extended his expiring second term by one-year to the end of the 2019 AC in Washington, DC. The primary purpose was to provide the Trustees with a degree of continuity. An offshoot of the decision was the Board’s concern over the fact that there was no succession plan for the Senior Trustee position after Rod’s term expires.

Using this as a backdrop the Trustees engaged in a discussion to determine the what a succession plan should resemble. It was noted that Pat Wand, Brian Schottlaender and Mario Gonzales were the most eligible for the position. B. Schottlaender nominated P. Wand and M. Gonzalez expressed his interest in the position. It was noted that a woman has never served in this capacity. P. Wand express her willingness to serve provided that she had a good understanding of the time and financial commitment. Further discussion addressed these concerns.

Finally, S. Hildreth proposed that in addition to a succession plan that there be a set term to serve as Senior Trustee to ensure that there will be both clarity and certainty regarding who will serve in the position. The idea of a two-year term seemed reasonable. After some additional discussion the following action was taken:

**Motion: By Consent**
That the Endowment Trustees recommends Executive Board approval of the following succession plan to serve as Senior Endowment Trustee:

- Rod Hersberger from June 27 to June 25, 2019 (End of Annual Conference 2019)
- Patricia Wand from June 26, 2019 – June 29, 2021 (End of Annual Conference 2021)
It should be noted that this is all subject to both Trustees being nominated and accepting second terms.

*New Business Development Proposal* – R. Hersberger began the discussion by noting that ALA has witnessed a long-protracted maturing of its primary revenue streams – Publishing, Conferences and Membership Dues. As a result, there is a renewed urgency for developing ideas that will result in new revenue for the Association. With some encouragement from President J. Neal he was asked to reconstitute the dormant New Business Development Advisory Group. This group is charged with finding and developing new revenue. This new group includes:

- ALA Treasurer
- ALA Executive Director
- ACRL Executive Director
- PLA Executive Director
- Publishing Director
- Center for the Future of America’s Libraries Director
- CFO
- Senior Financial Analyst
- Other Member Leaders (3)

As a member of the Trustees for the last five years Rod has seen the Endowment fund realize substantial gains. As a result, he suggested that it might be a good time to provide some additional support to the Association (General Fund) in its efforts to expand its revenue sources. As such he proposed that the Trustees provide a $500,000 ten-year 3% loan to fund the activities of the New Business Development group.

After some additional discussion M. Leon noted that other associations have taken similar actions – Osteopathic Association. S. Hildreth also noted that as this proposed action moves forward the needs and concerns of the Divisions also need to be taken into consideration. After some additional discussion the following action was taken:

**Motion: By B. Schottlaenader, seconded by P. Wand**

That the Endowment Trustees recommends Executive Board approval of a $500,000 loan from the ALA Endowment Fund (Future Fund) to cover the investments of the New Business Development Advisory Group.

**Conclusion:** The Trustees agreed to a succession plan with Pat Wand serving a two-year term through AC 2021 and Mario Gonzalez serving a two-year term through AC 2023. Note that the terms are subject to both Trustees receiving approval to serve a second term. Additionally, to provide the ALA with a loan of $500,000 to fund new revenue generating projects in the form of a ten-year loan at a rate of 3%.

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<tr>
<td>Action 1 – Forward Succession Plan action to F&amp;A</td>
<td>R. Hersberger</td>
<td>April 19, 2018</td>
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Market Review – First, after coming out of closed session R. Hersberger summarized for R. Bhatia and P. Marchese (Succession Plan and $500,000 loan). R. Bhatia noted that M. Pouey was the lead person of the firm’s 700 global analyst and strategist and responsible for putting together the Research Investment Committee (RIC) reports. M. Pouey began the discussion by noting that despite the mature nature of the current “Bull” market, equities are still constructive for portfolio’s when compared to fixed income. As the world’s global economies continue to synchronize from the 2016 recovery, equities should continue to prosper. This is particularly true in the rest of the world where growth is expected to be strong compared to the US. The Merrill team does expect equities to get an additional boost of 10% from the approved tax reform law. The only real concern is whether or not inflation becomes a concern and Central banks become more hawkish. Corporate earnings are also expected to be quite strong in 2018 at a projected 16%.

Economic growth in 2018 for the US has been revised up to 2.9% and 2.4% in 2019. Repatriated money from overseas was expected to come to the US quickly but that has not been the case. The Treasury is still trying to determine the impact on the scheduled tax cuts. Expected regulatory reform should eventually be a catalyst for the market, as well as, an expected boom in M&A activity. Despite the strong outlook it was noted that the markets will generally go through a 10% correction at least 1x per year and a 5% correction 3x per year. He concluded by discussing the things that will impact the market. These included:

- The rate (up or down) of expected earnings growth
- General market sentiment
- Valuation of equities

Conclusion – There were a number of takeaways from the discussion:

- Easy money is over
- Will be executing in a more normal market
- Overweight equities are still the best position for the portfolio
- Need to stay on top of things
- Equites can expect to grow 8% - 10% in 2018 and 5% - 6% going forward
- Fixed income can expect to return 2% - 3% in 2018
- Emerging markets returns could double in the next two years
- Historically value generally outperforms growth

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<td>Action 2 – Forward New Business Development Action to F&amp;A</td>
<td>R. Hersberger</td>
<td>April 19, 2018</td>
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| Time allotted | 10:00 AM | Agenda topic Economic Market Review | Presenter Mark Pouey, Equity and Quantitative Strategist for Merrill Lynch |

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Quarterly Portfolio Review – R. Bhatia and P. Marchese presented to the Trustees a review of the quarterly performance of the portfolio. The discussion began by reinforcing some of the views by M. Pouey regarding the market/economic conditions and an illustration of expected returns from the various asset categories:

- Equites – 5%
- Fixed Income – 2%-3% coupon
- High Yield – Cautious
- Real Estate – Cautious
- Developed Europe – Rising
- Emerging Markets – Rising with potential. Short-term Caution and long-term optimism

He listed the market expectation for a number of industry firms i.e. JP Morgan, Vanguard McKinsey etc., to average a return of about 5%. R. Bhatia then noted that for future benchmarking that the index of Inflation + 4% will be important. As of 12-31-17 the gross return for the portfolio was:

- Gross return - 17.6%
- Benchmark 1 – 14.1%
- Benchmark 2 – 6.1%

He went on to point out that there was a drop in the market of 12% in late January but that the market has gained that back and more. At 12-31-17 the value in the portfolio was $45.9 million and is currently $46.2 million. He noted that fixed income was up by 3.5% due to active management, which resulted in 175 basis points of outperformance vs the benchmark. The duration in the fixed income portfolio was 6.5 years. Duration has been coming down over the last two years. In the alternative space JLL delivered in 2017 with a return of 8.2% - 4% from dividends and 4% from appreciation. The total amount dedicated to alternatives was $5.5 million. R. Hersberger asked R. Bhatia if there might be other opportunities to expand the percentage to alternatives. The response was that ML is always on the lookout for opportunities that might be appropriate for the portfolio and will bring them forward as they are presented.

1 Policy benchmark – 505 Russell 3000, 10% MSCI EAFE, 32.5% ML Domestic FI & 7.5% 3 mo. T-bill
2 Consumer Price Index + 4%
**Time allotted | 1:00 PM | Agenda topic** Lord Abbett Short Duration Income Fund | **Presenter** Tim Paulson, Fixed Income Strategist and Brian Matteson

**Short Duration Income Fund** – The discussion began by noting that the firm has been around since 1929 and has $157.7 billion in assets under management. This includes $800.0 million from current and former partners, employees and their families. They are also active managers with 161 investment professionals with an average of 18 years of industry experience. The firm characterizes its active management via a dedicated process, teamwork and collaboration. Its research is rigorous and designed to challenge consensus and identify opportunities.

The short duration income fund has assets of $44.0 billion and emphasizes short maturity credit sectors that have historically outperformed government and related securities. The strategic design is what makes this portfolio work. The strategy has historically maintained an effective short duration and a short spread duration, limiting both interest rate and credit sensitivity. It was also noted that there is no true benchmark to measure performance for this portfolio but highlighted the fact that every year has been positive. To their way of thinking the closes benchmark to use would be the Bloomberg Barclays US Aggregate Board index.

In terms of future performance, the firm believes that corporate earnings should be good for the next two years. However, there is some question as to the effectiveness of the fiscal structure. When asked about ESG B. Matteson responded that the firm does not have a dedicated ESG product. However, the firm subscribes to sustainable analytics and strong governance practices. Generally, the firm uses a working group whose sole purpose is to craft an ESG mission statement.

**Conclusion Closing**

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B. Boil lead a discussion on the Blackstone BTAS 2015 portfolio and its performance to date. The discussion started by noting that Blackstone is one of the largest asset managers in the world. They maintain an almost equal balance in four key alternative investment categories – Private Equity, Real Estate, Hedge Fund Solutions and Credit. It was noted that this was a Blackstone Merrill Lynch produced product. He noted that BTAS 2015 concluded its investment period on 12-18-17 with 99% of its assets deployed and returned 15% of commitments as of year-end. The current portfolio covers 260 investment positions and 29 industry sectors. It was noted that BTAS is structured in such a way that assets can be deployed where opportunistic presents themselves the best – Private Equity, Real Assets, Credit and Opportunistic. It was stated that Blackstone is positioned to help change the opportunities that they invest in i.e. they make them better. From a performance perspective it was noted that Blackstone has done 600-700 basis points better than the S&P 500. The expectation is for mid-teens type returns. The current gross IRR is 32.25 and the net IRR is 16.8%. On specifics regarding the portfolio i.e. the four primary investment categories, it was pointed out that energy has been a strong sector.

The discussion shifted to other aspects of how Blackstone operates. It was highlighted that Governance and Sustainability are important aspects of how Blackstone does its business. These are conversations that take place constantly on the investment committee. The firm is in the process of generating greater transparency in their energy holdings.

M. Leon lead a brief discussion on the handling of the smaller endowments, particularly those at or below $50k. As a backdrop he noted that consistent with Endowment Management Best Practices, the ALA established a minimum endowment value of $50k in order to reduce the administrative complexity and costs associated with managing multiple small accounts. For the 8-10 ALA Endowments with a market value of less than $50k, ALA units that “owned” those specific endowments were advised to work with their donors to develop and implement a plan to raise additional funds so that the endowments would meet the minimum threshold. Endowments that did not meet minimum thresholds were given the option to be merged into a General Endowment Fund or combined with other endowments that were similar in purpose and or be “grandfathered in.” As such the Trustees are being asked to provide some policy guidance on how to proceed.

The Trustees were referred to document ET #6.6.1. Legal guidance under 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. It states that UPMIFA guidance prevents unauthorized expenditure of endowment corpus. As a result, there were three proposed options to consider:

- Suspend expenditures from individual endowment until market value returns to historical value and/or minimum $50k threshold
- Limit expenditures from individual endowment to TBD level
If market value declines to such an extent that return to historical value or $50k threshold unlikely, combine endowment with General Endowment or other endowment similar in purpose

After some additional discussion it was determined that a no spending policy should be used if an endowment falls below the $50,000 level. As such the following action was taken:

**Motion: By Consent**

Endowments that fall below the $50,000 threshold will have their spending rights suspended until the threshold is met at the next determined measuring period.

Final details will be determined by the finance staff with respect to the determination of the measurement date.

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**Time allotted | 3:30 PM | Agenda topic FY19 Spending/Payout Rate | Presenter Trustees**

K. Brown reminded the Trustees of the need to determine a spending/payout rate for the FY19 budget. The Trustees were referred to ET #6.2.1 which highlighted the expected payout for each endowment (73) at 3%, 4% and 5%. It was noted that the last four years have had a payout rate of 5%. Below is an illustration of recent payouts options:

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<th>3%</th>
<th>4%</th>
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<tr>
<td>2019</td>
<td>$1,141,183</td>
<td>$1,521,577</td>
<td>$1,901,972</td>
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<tr>
<td>2018</td>
<td>$1,086,514</td>
<td>$1,448,686</td>
<td>$1,810,857</td>
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After some discussion it was determined that the 5% payout should be maintained, and the following action was taken:

**Motion: By M. Gonzalez, seconded by P. Wand**

Trustees approve a spending/payout rate of 5% for FY19.

With no further business the meeting was adjourned.