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 then asked them to review the agenda. No changes were made but he did note that Susan Hildreth would be leaving the meeting early to participate in an Executive Board conference call scheduled for 3:00 pm. He next moved to the approval of the minutes from the Midwinter Meeting.

After some additional discussion the following action was taken:

Motion: Brian Schottlaender, seconded by Susan Hildreth

Approval of the minutes of the Spring Meeting as written

Motion passed.
Future Meeting Dates – The Trustees were asked to review their calendars for a fall meeting date. After some discussion it was decided to have the meeting in Chicago\(^3\). After reviewing schedules Tuesday, September 18th was chosen as the meeting date.

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<th>Time allotted</th>
<th>Agenda topic</th>
<th>Presenter</th>
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<tbody>
<tr>
<td>11:00 AM</td>
<td>Merrill Lynch Quarterly Portfolio Review</td>
<td>R. Bhatia and Peter Marchese</td>
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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 with a notation of the Harvard University endowment performance compared to other endowments i.e. Carthage College in Kenosha, WI and ALA over a ten-year period. R. Bhatia noted two things hurt the Harvard performance:

- Key staff (leadership) turnover (3x) in the last ten years
- Too overweight in less liquid investments

He went on to say that sticking to the ALA investment policy has helped the portfolio’s performance. Additionally, returns in the portfolio are also a subset of how the economy is doing. R. Hersberger concluded is portion of the discussion by requesting that the first slide in his presentation at AC be a comparison of ALA’s returns vs Harvard, which compares favorably over the same period.

R. Bhatia then referred the Trustees to tab 1 of the RIC report (ET #6.2.1). It was pointed out that the RIC report is prepared by Mike Pouey, who reported to the Trustees in NYC, and his staff. Through the 1\(^{st}\) quarter Merrill Lynch continues to favor stocks over bonds as the fundamental backdrop remains supportive. However, volatility, which was under control in 2017 has become more active in 2018. Expectations for the rest of the year call for GDP growth of 2.9% and 2.4% in 2019. Corporate earnings and the direction of interest rates and inflation are helping. It was noted that the recent tax cut will have a 1x benefit or the next 1-3 quarters. Most of the savings/benefits are expected to be realized in the following:

- Capital expenditures
- Stock buybacks
- Dividend increases

Merrill’s US equity strategist Savita Subramanian is forecasting the S&P 500 to reach 3,000 by year-end and is overweighting technology, financials and materials. It was noted that equities in developed Europe have grown only half as much as in the US and are cheaper by comparison. The proposed US tariffs are not expected to have any meaningful impact on Chinese growth but that could change if tensions escalate. Emerging markets continue their strong growth, but they are being negatively impacted by a

\(^3\) The Washington Office had become the unofficial fall meeting place for the Trustees. However, the Trustees decided to move the meeting back to Chicago for this year.
stronger dollar and higher risk premiums (30% - 40%) despite good valuations. Fixed income continues to favor municipals and US investment grade bonds over high yield and government securities. Merrill also remains positive on European stocks, helped by a stronger US dollar and higher dividend yields. Japanese stocks are expected to weaken due to growing protectionism and a stronger currency.

While global economic activity is still strong, it is moderating. Well known “Bears” i.e. Mr. Nigel/David Rosenberger, believe that the market is positioned to turn negative. They point to inflation #’s picking up, two expected Fed rate hikes by year end and three more times in 2019, higher core CPI, tightening oil markets and higher compliance by OPEC. The Bears note that when the Fed creates money for the economy they generate inflation. In than inflation scenario, the areas most likely to be impacted are the general stock market and real estate. As pointed out on page 16 global liquidity will slowing begin to turn off as the Fed will begin unwinding its balance sheet, the Bank of England has ended its asset purchases and the European Central Bank plans to ease its quantitative easing during 2018.

Asset Allocation – The Trustees were referred to tab 2. As of 4-30-18 the portfolio was allocated as follows:

- Domestic Large/Mid Cap – 46.4% Equities (64.2%)
- International Equity – 12.9%
- Real Assets – 4.8%
- Domestic Fixed Income – 23.7% Fixed Income (23.7%)
- Alternatives – 12.1%

These allocations are well within the established policy ranges and not allocation changes are recommended at this time. There have been not portfolio changes since the September of 2017. The Trustees then reviewed the portfolio’s historical cash flows (pg. 6), which highlighted ALA’s investment of $13.1 million over the years and gains in interest/appreciation of $29.7 million for a total value of $45.04. Page 7 reflected the calendar year to date changes through 4-3-18, which highlighted interest & dividends $283,782, depreciation $298,738 and net withdrawals of $857,242.

Performance – Gross returns for the period were 0.14% and net returns were (-0.06%). This compares to the policy benchmark of (-0.66%). On an annualized basis the results were as follows:

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<th>4/30/2018</th>
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|                  | 1 yr.     | 3 yr. | 5 yr. | 10 yr.
| Gross Returns    | 10.5%     | 5.8%  | 7.4%  | 6.2%  |
| Benchmark I      | 10.2%     | 6.1%  | 7.7%  | 6.6%  |
| Benchmark II     | 6.1%      |       |       |       |

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<tr>
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<th>6/30/2017</th>
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|                  | 1 yr.     | 3 yr. | 5 yr. | 10 yr.
| ALA              | 11.6%     | 4.9%  | 8.4%  | 5.4%  |
| NACUBO6          | 11.7%     | 4.0%  | 7.7%  | 4.5%  |

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4 Started with an opening balance of $1.6 million.

5 Withdrawals were the result of the semi-annual settlement between ALA General Fund i.e. ALA covering the endowment expenses for the division/round table/office endowments, and the endowment.

6 Endowment returns for portfolios between $25 million and $50 million as of 6-30-17/
The portfolio’s returns were comparable to their respective benchmarks. P. Marchese went on to point out that as of 5-18-18 the portfolio was valued at $45.7 million with appreciation of $370,584 and a return of 1.5%. R. Bhatia went on to further explain that different asset classes have historically provided the following returns:

- Bonds – CPI + ½%
- Equities – CPI + 5%
- Private Equity – CPI + 9%
- Hedge Funds – CPI + 6%

**Portfolio Recommendation** – As the discussion continued the Trustees were referred to tab 3 for the portfolio recommendations. The recommendation is to sell Lazard at $1.9 million or 4% 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. I 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 ESG % 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. Wand noted that these were all good reasons to include in the portfolio.

P. Marchese noted that Lazard is doing well in the portfolio but is on the lower side of the risk spectrum – see pages 16, 17 & 18. 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 decided to wait until the fall meeting before a final decision is made. Additional presentations will be made.</td>
<td>Trustees</td>
<td>Fall Meeting</td>
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**Time allotted | 10:00 AM | Agenda topic Development Office Report | Presenter Sheila O’Donnell – Development Director**

S. O’Donnell reported to the Trustees on a few accomplishments, with support from the units across the Association, by the department through March of this year.

**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** – PLA and its contractor, Corcoran, confirmed $97,000 in sponsorships and in-kind support from 33 companies for the PLA conference. PLA also received $312,000 in supplemental funding from
IMLS to extend the inclusive Internship Initiative, which will support 50 paid internships for high school students in public libraries this summer. PLA initiated a new individual giving effort to expand PLA’s donor base of members and friends.

Organizational Excellence – The Development Office engaged a prospect research consultant to work on a 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.

Annual Fundraising Priorities – 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+.

Division Results (Scholarships/Fundraising/Donations) – The general results for the Divisions reflects a positive trend for the top funds in each division - a growing donor base and increasing dollars.

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 believes that results are paying off already 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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R. Hersberger led a discussion on the portfolio’s private equity (PE) position. It was noted that there were three PE positions – Blackstone ($2.0 million), KKR ($750,000) and JLL ($1.0 million). To date JLL is at its full commitment of $1.0 million, KKR is at $292,500 and Blackstone at $1.6 million. He noted that we are getting close to the point where the portfolio should begin to see some returns on the investment in these areas. Note that JLL is a publicly traded fund.

At this point P. Marchese shared with the Trustees an information sheet that highlighted the expected future cash flows from the BTAS 2015 investment. At the request of the Senior Trustee, Merrill Lynch was asked to provide an indication of the future cash flows from the Blackstone investment. The information shared highlighted that 2019 would be the first year of positive cash flows back to the portfolio. The estimates are as follows:

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<tr>
<td>Net Capital Activity</td>
<td>10.0%</td>
<td>20.0%</td>
<td>35.0%</td>
<td>30.0%</td>
<td>20.0%</td>
<td>10.0%</td>
<td>5.0%</td>
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<tr>
<td>Hypothetical $2.0 M</td>
<td>$200,000</td>
<td>$400,000</td>
<td>$700,000</td>
<td>$600,000</td>
<td>$400,000</td>
<td>$200,000</td>
<td>$100,000</td>
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Note that the initial outflows, beginning in 2015, were totaled $1.5 million. R. Hersberger went on to say that it would probably be in our best interest to stay fully funded and to rollover any incoming cash into a new investment. At this point P. Marchese mentioned that part of Merrill’s recommendation was to allocate an additional $1.0 million to the upcoming BTAS multi-strategy fund expected to become available later this summer.

After some additional discussion the Trustees felt strongly enough about the investment and the manager to recommend a higher allocation for the next investment commitment - $2.0 million.

**Motion: M. Gonzalez and seconded by R. Newlen**

*Recommends a commitment of $2.0 million to invest in the new Blackstone BTAS 2018 multi-strategy private equity fund when available for investment.*

Motion passed, one abstention

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**Time allotted | 11:15 AM | BARC Response to SRRT Council Resolution | Presenter Susan Hildreth**

S. Hildreth lead a brief discussion on the BARC response to the SRRT resolution on addressing three primary points:
• Increase the % of SRI funds every year in a practical manner
• Exclude from the portfolio any fossil fuel holdings regardless of any designation by company (Clearbridge) or organization/benchmark (KLD Domini 400)
• Report on any progress made on a regular basis

She noted that there was a good deal of consultation with the Trustees in general, the Senior Trustee, the Senior Trustee in waiting and the finance staff. Referring to document ET #9.0 she briefly summarized the BARC response. BARC felt that the response was fair, measured and adequately addressed the concerns. The plan now is to release the response to Council before the Annual Conference and include it as part of the BARC Chair’s report to Council.

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Time allotted | 12:45 PM | Agenda topic New Business Development Discussion | Presenter Rod Hersberger, Mary Ghikas and Mary MacKay

R. Hersberger provided a summary of the proceedings of the new business development group (NBD). To date the group has had two very productive meetings. It was noted that the basic purpose of the group was established and the general parameters that the group will be operating, particularly the process/procedures to be used in bringing ideas forward. As well as, the use of a template that staff would use to bring ideas forward. Finally, it was also noted the M. Ghikas – ALA Executive Director, was given the authority to approve any idea $25,000 or less.

M. MacKay joined the discussion and provided the Trustees with some general background on a few of the ideas that were in the process of being funded. She did note that these ideas should not be shared with the public just yet. She also noted that the idea was to capture a slice of the library communities’ budgets via patron facing materials. They were as follows:

• $78,000 for experimental formats/new markets—50% funded by Endowment loan
  - Development of patron facing pamphlet type materials that addresses the content of popular books. Projected revenue $90,000 in FY20 with $120,000 by FY23.
• Content licensing oversight for trade imprint. Funded internally.
  - Trade books by professional trade publishers currently review 30+ ALA books for general market applicable content. Want to co-brand a series of 5-6 titles per year with revenue to be split with authors.
• One-time investment in market research for simplified versions of core books for non-native speakers of English. Funded internally.
  - Want to bring 1-2 titles to market as an experiment by FY20. The goal is $10,000 in revenue per year.
• Booklist publications $25,000 for sponsored live events—50% funded by Endowment loan
- Booklist has begun producing sponsored live events and would like to expand to include all-day programs on specific collection development/readers’ advisory topics. Projected 5 events at $7,500 or $37,500 in FY20 with possible new revenue by FY23 of $70,000.

Conclusion – Work in progress with the newly reconstituted “New Business Advisory Group.”

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<td>Continue to update the Trustees as necessary.</td>
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**Time allotted | 1:15 PM | Agenda topic Nuveen Real Asset Presentation | Presenter Matthew Weyandt**

M. Weyandt began the discussion by noting that Nuveen is headquartered in Chicago and is the investment manager of TIAA with approximately $967.0 Billion in assets under management. The allocation is as follows:

- Fixed Income - $392 B
- Equity - $317 B
- Alternatives - $209 B (Real Assets = $10.6 B)
- Multi-Asset Solutions - $48 B

Our discussion focused on the real asset portion of the portfolio, which is viewed as the economic backbone for economic development. This includes transportation, energy/utilities, communications, social/government outsourcing, offices, retail, industrial, multi-family, healthcare etc. represents contracted cash flows. In this space Nuveen is investing around the world. The investment philosophy is to generate a high level of current income and lower overall portfolio volatility across different market cycles. Security selection is driven by yield and total return potential as characterized by the following:

- Operate mature businesses in defensible market positions
- Well positioned in markets/sectors that have clear regulatory oversight
- Maintain modest leverage and generate steady cash flow via contracts
- Can sustain or increase their distributions over time

Holdings in the Real Asset Income Fund are measured against a custom blend benchmark

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7 Trustees suggested that the firm eliminate any reference to prisons.

8 S&P Global Infrastructure index – 28%, FTSE EPRA NREIT – 21%, Wells Fargo Hybrid & Preferred Securities REIT – 18%, Bloomberg Barclays Global Capital Securities Index – 15% and Bloomberg Barclays US Corporate High Yield Index – 18%
S. Meehan – Portfolio Manager and J. Abrahamovich – Head of Intermediary Distribution presented to the Trustees on the performance of the JLL portfolio. The discussion began by noting that JLL is one of the largest and most recognized companies in the world. They have 80,000 + employees in 80 countries with $59 billion in assets under management. JLL represents combination of LaSalle Investment management and JLL whose primary global focus on core real estate. ALA’s portfolio is in the JLL Income Property Trust which is designed to preserve and protect invested capital, achieve NAV appreciation over time and provide some long-term stability to the portfolio. The general characteristics of the portfolio are:

- Assets Under management - $2.5 Billion
- Net Asset Value - $1.6 Billion
- Properties – 68
- Occupancy Rate – 94%
- Leverage Ratio – 38%

Performance – The performance of the JLL Income Property Trust has return has been in line with expectations. It was noted that private core real estate compares favorably to other asset classes with an average return over the last 15 years of 8.3%, a standard deviation of 7.4% and a Sharpe ratio of 0.96. The following represents the returns as of 3-31-18:

- 1 year – 7.9%
- 3 year – 7.6%
- 5 year – 7.4%
- Inception – 7.1%

It was noted that dividend growth has been relatively consistent at about 4% each year and makes up most of the return. Additionally, a dividend has been declared for 25 consecutive quarters with annualized dividend growth of 5.4%.
B. Yoke reported to the Trustees on the activities of the Margaret Edwards Trust over the last year and plans for the future. The discussion began by noting that the purpose of the Trust was to support the promotion of free reading for teens, especially in socio-economically challenged areas. Funds made available from the Trust will be used to build the capacity of libraries to connect teens to literature. During FY18 funds were used to fund a part-time position related to work on a number of projects designed to increase YALSA’s capacity throughout the year.

For FY19 funds from the Trust will be used to support a Communications Assistant and make a $1,000 MAE award. Funds will also support a “Teen Summit,” of 50 teens, who will gather in Washington, DC during the Annual Conference to discuss how libraries can better serve teens.