

# Endowment Trustees Report

*(Long-Term Investment / Endowment Fund)*

Rod Hersberger – Senior Trustee  
Saturday – February 10, 2018



# Environmental, Social and Governance (ESG) - Impact Investing

The membership has indicated over the years that socially responsible investing is an important issue. The Trustees also believe that it's an important issue. The Trustees also believe that companies with positive ESG attributes can perform comparably to their peers over the long term.

- Trustees have a strong belief in the power of active management vs screening
- Active management with active advocacy (ownership) via direct engagement
- ESG\* now makes up 24.3% of the Endowment, up from 1% just two years ago
- The ESG managers in the portfolio fit within the overall asset allocation strategy of the portfolio

# Salient Market Points - 2017

- The markets produced surprising upside results for the year after most market analysts expected only modest gains or a “sideways market” for 2017
- The Dow rose for nine consecutive months, its longest streak since 1959
- Corporate earnings and revenues grew at a faster clip than expected
- Volatility in the markets reached historic lows
- While US markets posted record gains, the international markets did even better for the first time since 2012
- Globally there was an uncommon expansion and synchronicity among all 45 countries tracked by the Organization for Economic Cooperation and Development

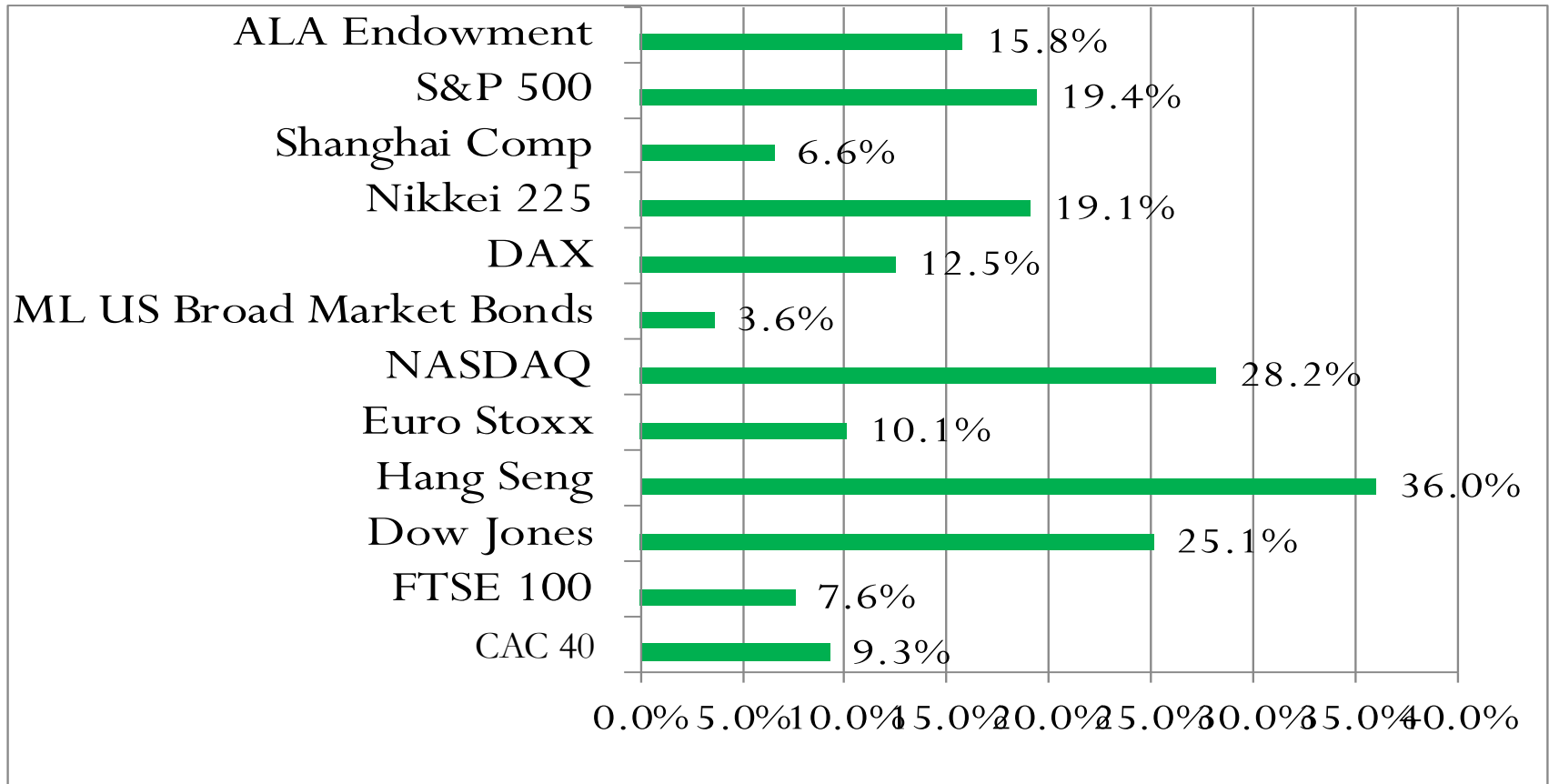
# Market Expectations - 2018

- Most market analysts are going into 2018 on a cautionary tone
- Volatility is expected to return during the year
- The current flattening yield curve between 2 year and 10 year treasuries notes has historically signaled an economy that will enter into a recession (5 out of the last 6 times)
- Recently legislated corporate tax cuts could boost earnings growth, stock prices and dividend increases
- European companies are poised to continue their newly started earnings growth
- Asian markets are still positioned for more growth with price to earnings of just 13X forward earnings

# World Market Performance

Exhibit #4

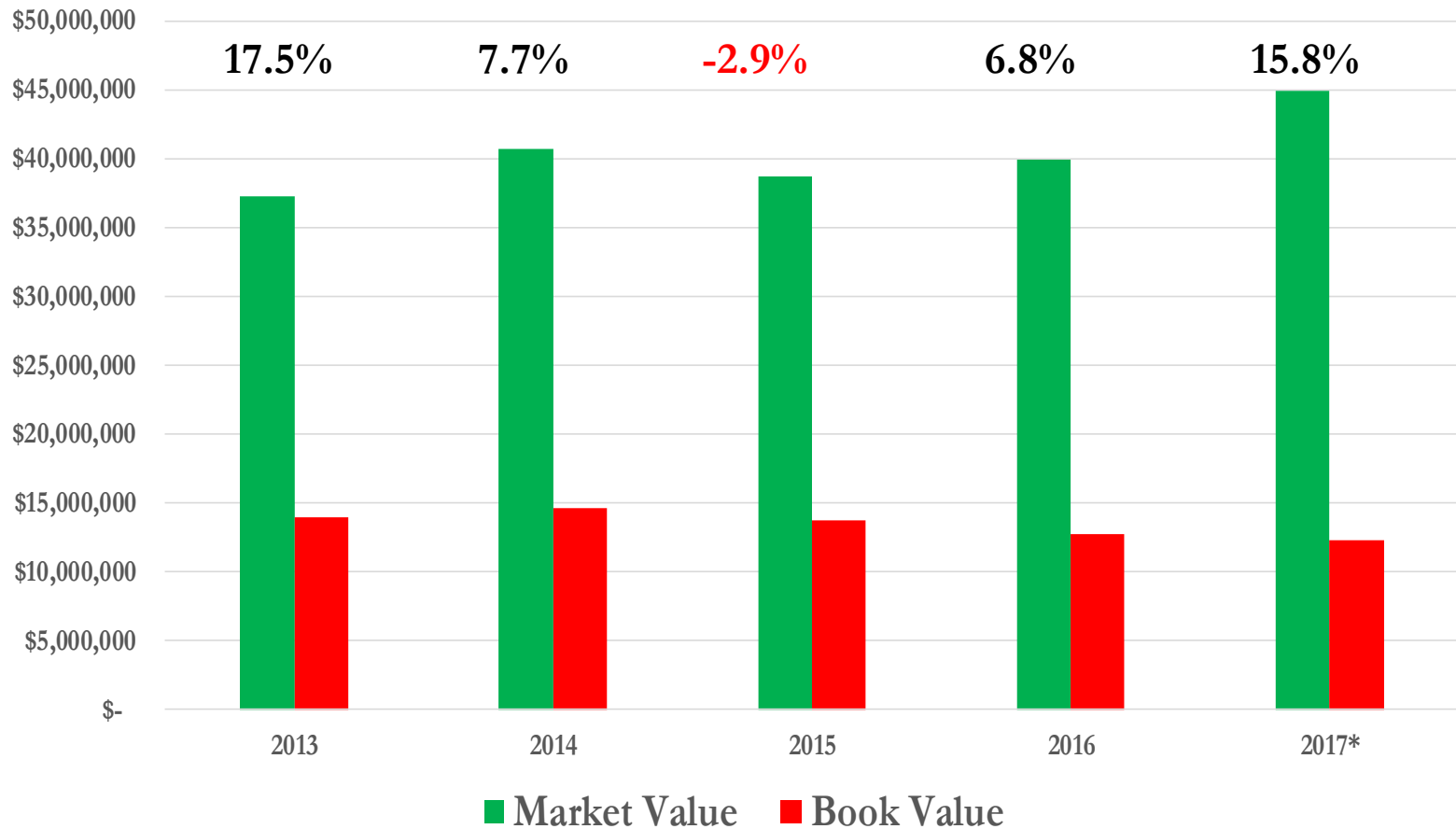
- Calendar Year Market Returns @ 12-31-17



# Market Value and Return @ 12-31-17

Exhibit #5

\$45,009,664



\*Calendar year to date through 12-31-17

# Manager Allocation and Style

<u>Manager</u>	<u>Value</u>	<u>%</u>
Clearbridge ESG - Large Cap Core	\$ 8,896,177	19.4%
Merrill Lynch Personal Advisor (MLPA*)	\$ 22,703,595	49.5%
The Endowment Fund/KKR/Blackstone - Alternatives	\$ 3,689,193	8.0%
Capital Group - International	\$ 2,130,574	4.6%
Equity Income & Growth - ETF	<u>\$ 8,481,124</u>	<u>18.5%</u>
Total	<u>\$ 45,900,664</u>	<u>100.0%</u>

\*MLPA is a platform under which ALA can access different managers in the form of mutual funds and ETF's. There are 12 different managers.

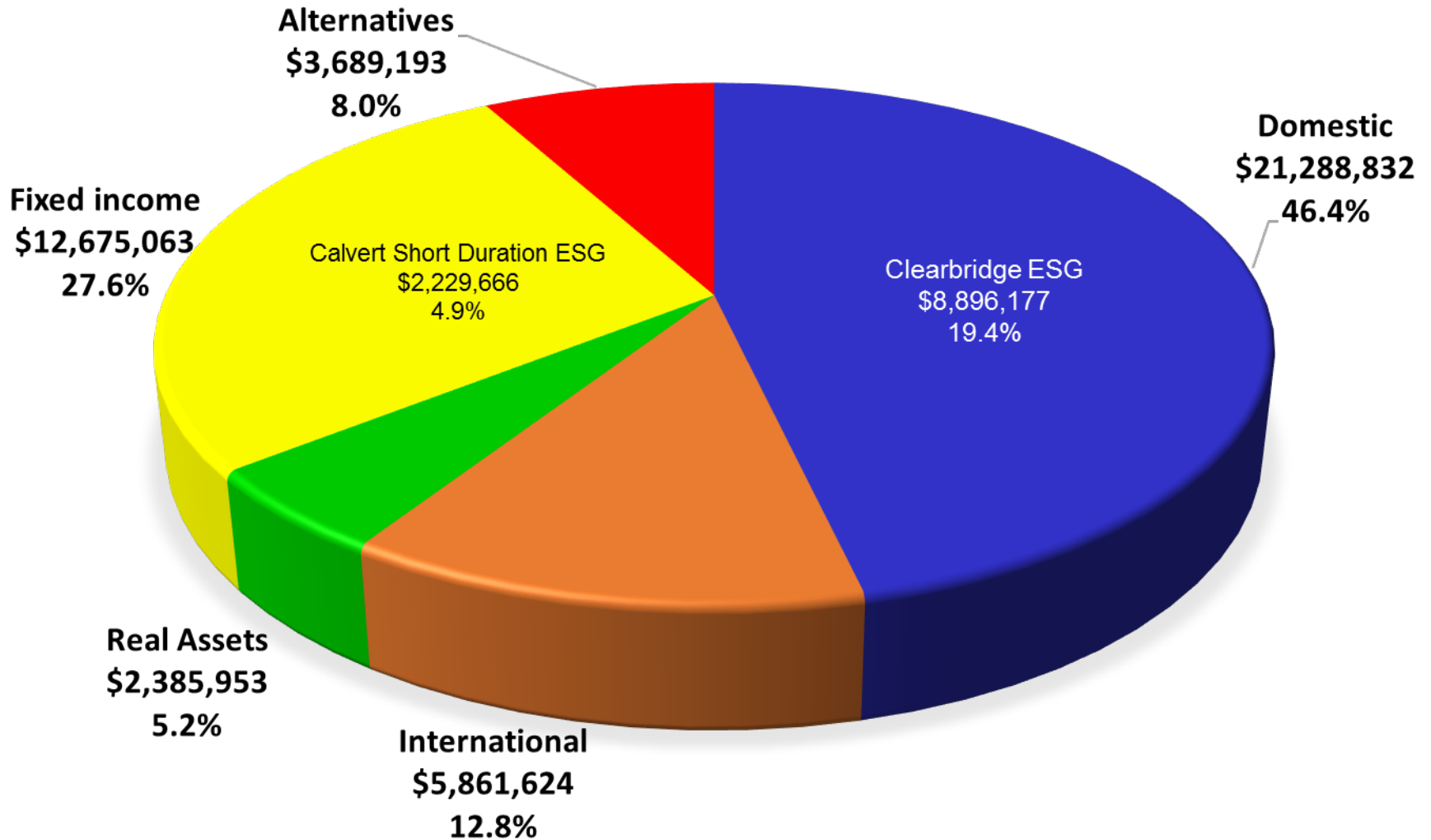
# MLPA Manager Allocation and Style

<u>Manager</u>		<u>Value</u>	<u>%</u>
AQR Long Short Equity	\$	1,828,841	8.1%
Calvert Short duration	\$	2,229,666	9.8%
Doubleline Total Return	\$	2,153,421	9.5%
Guggenheim Total Return	\$	2,129,173	9.4%
Lazard International Strategic	\$	1,859,106	8.2%
Vanguard REIT	\$	1,152,078	5.1%
Lord Abbett Short	\$	2,133,902	9.4%
Nuveen Real Estate Income	\$	1,233,875	5.4%
Principal Midcap Fund	\$	2,537,034	11.2%
Schwab US Small Cap EFT	\$	1,374,496	6.1%
The Oakmark International Fund	\$	1,871,944	8.2%
Pimco Income Fund	\$	<u>2,200,060</u>	<u>9.7%</u>
	\$	<u>22,703,595</u>	<u>100.0%</u>



# Asset Class Allocation

Exhibit #8



# Time Weighted Rate of Return

	<b>Opening Balance</b>	<b>Contributions (Withdrawals)</b>	<b>Interest Dividends</b>	<b>Appreciation (Depreciation)</b>	<b>Closing Balance</b>	<b>ROR* Period</b>	<b>ROR* Cumulative</b>
December – 2017	\$ 45,471,720	\$ 10,293	\$ 475,851	\$ (57,200)	\$ 45,009,644	0.92%	15.82%
November – 2017	\$ 44,641,494	\$ 0	\$ 50,442	\$ 779,784	\$ 45,471,720	1.86%	14.76%
October – 2017	\$ 44,120,383	\$ 0	\$ 62,953	\$ 458,158	\$ 44,641,494	1.18%	12.66%
September – 2017	\$ 43,536,279	\$ 0	\$ 103,172	\$ 480,932	\$ 44,120,383	1.37%	11.35%
August – 2017	\$ 43,277,340	\$ 0	\$ 61,065	\$ 197,874	\$ 43,536,279	0.60%	9.85%
July – 2017	\$ 42,554,548	\$ 0	\$ 66,054	\$ 656,738	\$ 43,277,340	1.70%	9.19%
June – 2017	\$ 42,306,812	\$ 0	\$ 105,493	\$ 142,243	\$ 42,554,548	0.59%	7.37%
May – 2017	\$ 41,865,026	\$ 0	\$ 66,766	\$ 375,019	\$ 42,306,812	1.06%	6.74%
April – 2017	\$ 41,279,087	\$ 0	\$ 54,594	\$ 531,345	\$ 41,865,026	1.42%	5.63%
March – 2017	\$ 41,153,883	\$ 0	\$ 97,058	\$ 28,146	\$ 41,279,087	0.31%	4.15%
February – 2017	\$ 40,347,834	\$ 0	\$ 46,492	\$ 759,556	\$ 41,153,883	2.02%	3.83%
January – 2017	\$ 40,016,349	\$ (379,787)**	\$ 24,100	\$ 687,173	\$ 40,347,834	1.78%	1.78%
<b>Total</b>	<b>\$ 40,016,349</b>	<b>\$ (369,494)</b>	<b>\$ 1,214,040</b>	<b>\$ 5,039,768</b>	<b>\$ 45,009,664</b>		<b>15.82%</b>

\*Rate of Return

\*\*Periodic settlement between the General Fund, the units of ALA and the portfolio i.e. scholarships, awards etc.

# Endowment Fund Management

Fiscal 2017

Exhibit #10

As a result of the fund's growth over the previous 20 quarters, a spending/payout rate of 5% was approved for the fiscal year 2017. This resulted in approximately \$1.7 million being made available during the year in support of awards, scholarships, unit initiatives, general operations and the Association's "Strategic Directions."



# The Work of the Endowment Trustees

Exhibit #11

## *Recent Trustee Actions*

- Conducted the Trustees fall meeting in the ALA Washington Office
  - Met with Executive Director Kathi Kromer
  - Highlighted the importance of endowment performance and funding to their work
- Continued to explore the merits of “Smart Beta” and its use in the portfolio to enhance returns
- Met with State Street Global Advisors to discuss the merits of using ESG Electronic Funds Transfer (ETF) funds
- Met with the Common Fund to discuss benchmarking, “Best Practices” and strategic planning
- Started preliminary discussions for a strategic planning session(s) for the future of the endowment fund
- Reduced the equity portion of the portfolio from 68% to 63% and reallocated to fixed income
- Increased the alternative allocation by Selling Lord Abbett Floating Rate fund (4.4%) and hiring AQR Long/Short equity fund (4.4%), a liquid mutual fund
- Hired Calvert Investments to manage the Calvert Short Duration ESG Fixed Income fund



# Calvert Short Duration Income ESG\* bond fund.

Exhibit #12

Calvert Investments was established in 1976 with the primary focus to deliver on what it calls the four pillars of responsible investing - financial performance, superior research, shareholder engagement\*\* and inclusive prosperity and impact. Their experience has found that companies with positive environmental, social and governance attributes are more likely to outperform their peers over the long term. As a result of their approach to investing their returns are very comparable to non ESG (SRI) portfolios.

- Impacting investing
- Approximately \$10.2 billion under management
- A legacy of specialized ESG expertise starting in 1976
- Employs a dedicated proprietary ESG integration program ratings system
- Combines active management with active advocacy (ownership) via direct engagement and proxy voting

\*\*Shareholder engagement speaks to Calvert's commitment to actively engage with companies on behalf of their investors with a focus on ESG.

\*Environmental, Social and Governance.

# Endowment Strategic Planning

The Endowment Trustees, along with the membership, recognize that the ALA Endowment fund is an important and valuable asset to be utilized in the efforts of the Association to carry out its mission

- At the Trustee's fall meeting in September (9/21/17) a decision was made to conduct a strategic planning session for the Endowment
- The session will be designed to:
  - review the strength of current operating policies
  - review industry best practices
  - strengthen fundraising efforts i.e. coordinating with Development Office
- The Senior Trustee, Treasurer, another Trustee and the CFO held a number of conference calls to identify potential consultants and develop an informal RFI (12/17)
- The Senior Trustee and the finance staff conducted interviews with several consultants to direct the session (1/26/18)

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Thank you