

# **ENDOWMENT FUND FACT SHEET**

(Long-Term Investment Fund)

## **Governing Authority**

- ALA Spending/Payout Policy 8.5.1 (see Treasurer's page)

## **Fiduciary Structure**

- ALA Executive Board – Final/Ultimate Authority
- ALA Endowment Trustees – Primary/Day to Day Authority
- ALA Investment Advisor – Merrill Lynch
- ALA Finance Staff

## **General Requirements**

- Minimum \$50,000
- Purpose of fund

## **Fees that Impact Individual Endowment Funds**

- Annually funded Awards/Scholarships: Administrative Fee - \$500 minimum or 20% up to a maximum of \$1,000.
- Grant/Matching Grant (projects) related endowments will likely have higher negotiated overhead/administrative fees.
- Bank Fees: Proportional % of fees incurred by the entire endowment portfolio. Currently .59 basis points or .0059%. Based on a portfolio of \$20.0 million a \$10,000 endowment would incur bank fees of approximately \$59.
- Fees that are incurred on behalf of a given fund for various activities i.e. support for speaker fees related the funds purpose, support to attend a conference etc.

## **Funding Expectations**

Funding for every scholarship and award i.e. \$1,000, \$3,000, \$5,000 etc. or any other activity related to an endowment is dependent on funds being available at the time each is granted. As of the 2011 Annual Conference in New Orleans, the spending formula in policy 8.5.1 – the governing authority for the Endowment Fund - was revised to the following:

*The annual spending formula in ALA policy 8.5.1 will be a range of “3% to 5% of the trailing five-year quarterly (20) rolling average of each funds calendar year end net asset balance.” The annual spending rate will be subject to an annual review and assessment by the ALA Endowment Trustees and the Finance and Audit committee with final approval by the ALA Executive Board. The current spending/payout rate for FY17 is 5%. Note that this rate is approximately one year in advance of the development of a particular budget i.e. the FY18 determined spending/payout rate will apply to the FY20 budget.*

As a result of the revised spending/payout policy, funding will come primarily from the accumulation of the average of the previous 20 quarter net asset balance resulting from the **appreciation from realized and unrealized gains and losses, and interest income and dividends** generated throughout those years. For budgeting purposes under the old formulation, ALA uses a conservative 3% rate of return for interest and dividends. Actual results may be higher or lower depending on the market. Note that the total return, which will include the growth (appreciation) in principal, is 7% i.e. interest @ 3% + principal @ 4%. Assuming a 3.0% return in interest, to generate enough interest/dividend income to cover the above stated scholarship/award amounts and cover expenses, funds of approximately \$45,000, \$135,000 and \$225,000 respectively would be needed to cover the above referenced scholarship/award amounts. Under the new policy – with a proposed rate of 5% - funds of approximately \$31,000, \$93,000 and \$155,000 are needed, as determined by the 20 quarter average. It is important to remember that general expenses and bank fees must be subtracted from the interest/dividend income before an award or scholarship is funded and the above information reflects that point. Currently ALA is charged approximately .59% of 1% in bank fees.

Remember that interest rates have been low and but the Federal Reserve has indicated a desire to increase interest rates to more historical/normalized levels. Historically the Endowment's overall total return, which is a combination of interest/dividends and capital appreciation or growth, has been in the range of 8% - 11%. Due to current and expected future demographics for the general population, the range for total market returns going forward have been lowered to 4% - 7%.

As you are well aware, the market can be very unpredictable as evidenced by the last three years of extreme volatility. As such, there may be times when there will not be enough funds available to fully fund a given scholarship or award. Based on the authority under policy 8.5.1 you can go into the principal to cover any shortfall. Remember, it is preferred that the principal remain untouched as long as possible unless it's absolutely necessary. Other options for covering any shortfalls in interest/dividends include fundraising and or transfers from associated operating net assets from a Division/Unit within ALA. See attached funding requirement/analysis sheet.

*Note: the projection of interest/dividend income based on market conditions is an inexact science at best. As such shortfalls in the level of expected income in this area will have to be covered from other sources. These sources are typically from unit operating funds, fundraising efforts, the donor and for scholarships and awards principal.*

### Other Endowment Facts

- The Endowment Fund is comprised of 73 separate Endowments, scholarships and awards.
- These funds may be restricted (36), unrestricted (34) or temporarily restricted (35).
- For the purposes of investment efficiency all funds are commingled with separate internal reporting for each fund.
- Protecting and maintaining the principle via growth is a high priority followed closely by the generation of interest/dividends.

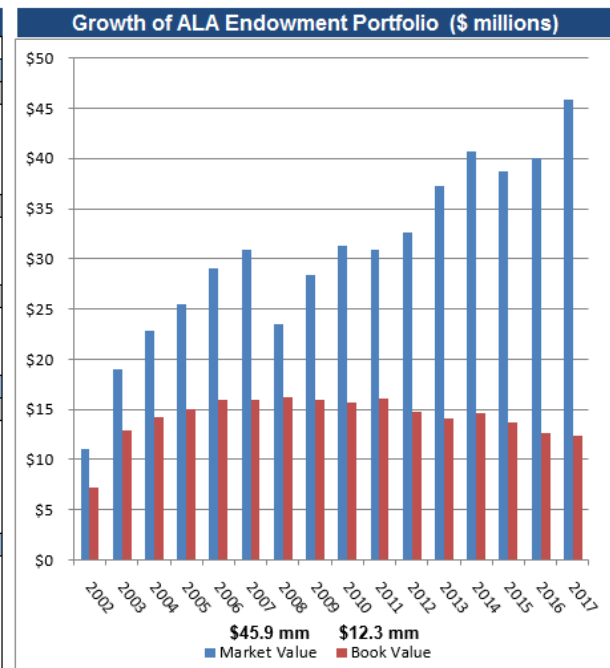
- The Endowment Trustees conduct conference calls as needed to review the portfolio's performance.

## Characteristics of Portfolio @ 12/13/17

Asset allocation between and among asset categories (stocks and bonds) has been identified as the key to achieving optimal performance or growth in a portfolio. As such the Endowment Trustees employ a strategy that provides for target ranges within each asset to adjust to market conditions.

Asset Allocation						
	Value	Min	Actual	Target	Max	+/-
<b>Total Equity &amp; Real Assets</b>	<b>29,305,544</b>	<b>30%</b>	<b>63.8%</b>	<b>60%</b>	<b>70%</b>	<b>4%</b>
<b>Domestic Large/Mid Cap</b>	<b>21,211,864</b>	<b>20%</b>	<b>46.2%</b>	<b>45%</b>	<b>50%</b>	<b>1%</b>
Equity Growth & Income ETF	8,481,124		18.5%			
Clearbridge Large Cap ESG	8,896,177		19.4%			
Principal Mid Cap	2,498,554		5.4%			
Schwab US Small Cap ETF	1,336,009		2.9%			
<b>International Equity</b>	<b>5,784,678</b>	<b>0%</b>	<b>12.6%</b>	<b>10%</b>	<b>20%</b>	<b>3%</b>
Capital Group International	2,130,574		4.6%			
Lazard International Strategy	1,820,634		4.0%			
Oakmark International	1,833,469		4.0%			
<b>Real Assets</b>	<b>2,309,002</b>	<b>0%</b>	<b>5.0%</b>	<b>5%</b>	<b>15%</b>	<b>0%</b>
Vanguard U.S. REIT ETF	1,113,592		2.4%			
Nuveen Real Asset Income	1,195,410		2.6%			
<b>Total Fixed Income</b>	<b>11,141,927</b>	<b>25%</b>	<b>24.3%</b>	<b>32.5%</b>	<b>65%</b>	<b>-8%</b>
<b>Domestic Fixed Income</b>	<b>11,141,927</b>	<b>20%</b>	<b>24.3%</b>	<b>32.5%</b>	<b>45%</b>	
PIMCO Income	2,161,578		4.7%			
Double Line Total Return	2,114,942		4.6%			
Calvert ESG Short Duration	2,191,186		4.8%			
Guggenheim Total Return	2,090,710		4.6%			
Lord Abb Short Duration + Cash	2,583,510		5.6%			
<b>Total Alternatives</b>	<b>5,453,194</b>	<b>0%</b>	<b>11.9%</b>	<b>7.5%</b>	<b>15%</b>	<b>4%</b>
AQR Long Short Equity Fund	1,790,360		3.9%			
JLL Income Property Trust	1,037,234		2.3%			
Blackstone 2015 Alts Trust	1,526,791		3.3%			
The Endowment Fund	808,406		1.8%			
KKR 2016 Custom Equity Opps	290,403		0.6%			
<b>Total</b>	<b>45,900,664</b>		<b>100%</b>	<b>100%</b>		

\*\* Blackstone commitment is \$2,000,000. KKR commitment is \$750,000



ALA Endowment Net Investment Earnings

\$33.6 million

Additionally, the Endowment Trustees employ the services of nineteen portfolio managers with different investing styles in order to minimize the risk.

Each of these managers is selected from a pool of candidates that meet minimum requirements for participation in the Merrill Lynch "Consults" program and for their given area of expertise. These managers represent a specific investing style that is designed to capture or take advantage of the investing style that the market typically rotates into on a continuing basis. Additionally, they must be able to work within the policies (investment policy) as established by the Endowment Trustees and approved by the ALA Executive Board and Council. For investment policy go to the treasurer's web page at

<http://www.ala.org/ala/ourassociation/governanceb/treasurerspage/alafinancialteam/revisionpolicy.htm>

