

ALA ENDOWMENT FUND

(Long-Term Investment Fund)

Governing Authority

- ALA Policy 8.5.1 (see Treasurer's page)

Fiduciary Structure

- ALA Executive Board – Final Authority
- ALA Endowment Trustees – Primary 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 have higher negotiated overhead/administrative fees.
- Bank Fees: Proportional % of fees incurred by the entire endowment portfolio. Currently .77 basis points or .0077%. Based on a portfolio of \$20.0 million a \$10,000 endowment would incur bank fees of approximately \$77.
- Fees that are incurred on behalf of a given fund for various activities ie support for speaker fees related the funds purpose.

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 Annual Conference in New Orleans – 2011, 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 rate is 4%.

As a result of the new spending/payout policy, funding will come primarily from the **appreciation from realized and unrealized gains and losses, and interest income and dividends** generated throughout the year. For budgeting purposes under the old formulation, ALA used a conservative 3% rate of return for interest and dividends. Actual results would 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 to cover the above referenced scholarship/award amounts. Under the new policy – with a proposed rate of 4% - funds of approximately \$31,000, \$93,000 and \$155,000 are needed. 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 .77% of 1% in bank fees.

Remember that interest rates have been low and the Federal Reserve has recently pledged (8/11) to keep interest rates low until mid 2013 in an effort to help stimulate the economy. 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%. As you are well, aware the market can be very unpredictable as evidenced by the last three years of losses. 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, unrestricted or temporarily restricted.
- 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 @ 3/31/15

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 STRATEGY	POLICY GUIDELINES @ 3-31-15			
	Min	Target	Actual	Max
Total Equity & Real Assets	30%	60%	70.8%	70%
Domestic Large/Medium Cap Stocks	12%	16%	49.9%	50%
Equity Growth & Income ETF			17.7%	
London Company - Core			17.9%	
IDP - Large Cap Value			1.8%	
Principal Mid Cap			2.5%	
Goldman SMID			4.9%	
Principal Mid Cap			5.1%	
Real Assets	0%	5%	10.3%	15%
Templeton Global Total Return				3.7%
Third Avenue Real Estate				3.4%
Deutsche Global Infrastructure				3.2%
International Equity	0%	10%	10.6%	20%
IDP – International Value			10.6%	
Real Assets	0%	5%	10.3%	15%
Templeton Global Total Return			3.7%	
Third Avenue Real Estate			3.4%	
Deutsche Global Infrastructure			3.2%	
Domestic Fixed Income	20%	32.5%	18.6%	45%
Loomis Sayles			9.8%	
Corporate Fixed Inc.			8.8%	

Other Fixed Income			7.4%	
Lord Abbett Convertible			3.1%	
Global Fixed Income	0%		4.3%	10%
Total Alternatives		7.5%	3.2%	15%
The Endowment Fund			3.2%	
Cash and Cash Equivalents	0%	0%	0%	5%
			100%	

Asset Class	Minimum	Target Avg.	Maximum
Domestic Large/Medium Capitalization Stocks	12%	36%	50%
Domestic Small/Medium Capitalization Stocks	0%	9%	10%
Real Assets	0%	5%	15%
International Equity	0%	10%	15%
Total Equity	30%	60%	70%
Convertibles	0%	3.5%	10%
Investment Grade Fixed Income	20%	25%	45%
Alternatives	0%	4%	15%
Total Bonds	25%	32.5%	65%
Total		100%	

Additionally, the Endowment Trustees employ the services of fifteen 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/governancecb/treasurerspage/alafinancialteam/revisionpolicy.htm>