

**TO:** ALA Executive Board

**RE:** ALA Endowment – Frequently Asked Questions (list)

**ACTION REQUESTED:** None

**FROM:** ALA Endowment Trustees

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**DRAFT OF MOTION:** NA

**DATE:** Tuesday, June 11, 2021

## **INTRODUCTION**

ALA Endowment Trustees frequently receive questions and participate in discussions about the endowment itself, its value to the Association, and what it costs to manage. Based on the recent in-depth study of the endowment cost structure, Trustees gathered endowment-related questions that members have asked over the years.

The attached list of Frequently Asked Questions (FAQ) pulls together into one document the data to help members answer questions like: How does the endowment benefit ALA, units, and members? In view of costs related to its operations, is the endowment maximizing investible dollars?

For more details about benefits of the endowment and costs of managing it, Trustees refer the Executive Board and members to two reports released in June 2021:

- *Endowment Management Cost Structure*
- *Endowment Benefits to ALA & Units*

The list of *Frequently Asked Questions* and these two reports, along with the recently published *Glossary of Investment Terms*, are outcomes of the Trustees' objective to educate itself and the association about the endowment operations, benefits, and costs. The education initiative was an outgrowth of the Trustees' strategic review in 2018.

The attached FAQ list is a work in progress. Trustees continue to welcome questions that might be added to the document.

attachment

## **ALA Endowment – Frequently Asked Questions**

Compiled by ALA Endowment Trustees

June 11, 2021

### **1. What Is the ALA Endowment?**

The ALA Endowment is a fund invested for the long-term with the intention of using investment income for designated purposes.

An endowment fund may originate with a donation of money or property to an organization, or it may refer to an organization's total investable assets and meant to be used for operations or programs that are consistent with the wishes of the organization or donor(s). Money invested in an endowment is known as the principal or *corpus*. Most endowments are designed to keep the principal intact while using investment income for operations and charitable efforts.

### **2. Is the ALA Endowment one big fund?**

The ALA Endowment is managed as one fund but is comprised of a group of accounts. The largest single fund is the Future Fund which is 38% of the endowment. The other restricted accounts (73 accounts in 2021) were created by individual donors and various units within the association. The principal of each account becomes part of the *corpus* or book value that is invested and managed in the aggregate by ALA Endowment Trustees.

### **3. What is the Future Fund?**

The Future Fund (formerly called Board-Designated Fund) is currently one of 74 individual funds within the ALA Endowment. This fund is under the sole authority of the ALA Executive Board. The annual payout from the Future Fund goes directly to the operating budget and supports general operations of the association.

### **4. What does the ALA Endowment pay for?**

The ALA Endowment is comprised of the Future Fund and restricted accounts created by various units within the association. A maximum annual payout is determined according to a formula specified in the *Investment Policy Statement* and is recommended by the Endowment Trustees to the ALA Executive Board for approval. Payouts from the Future Fund support the ALA general operating budget, while payouts from restricted accounts meet programmatic commitments to donors and fund creators.

### **5. How is the ALA Endowment managed?**

Oversight authority for the ALA Endowment rests with the ALA Executive Board. The Board appoints six Endowment Trustees who are joined by the elected ALA Treasurer. Together they

manage investments and employ professional investment advisers who research and recommend options for investing. Funds selected by Trustees for the ALA endowment are managed by the ALA investment advisor The Bhatia Group with Merrill Lynch. Considering the increasing complexities of financial markets and the range of investment possibilities, professional investment advisers bring a critical perspective to investment decisions of the Trustees. Trustees are assisted in day-to-day activities by ALA Finance Office staff.

Endowment activities are guided by the *Investment Policy Statement*, found in the ALA Endowment *Policy and Procedure Manual* (see [ALA Endowment Trustees](#)). The IPS, including the asset allocation, are reviewed each year.

## **6. What are the sources of funds in the Endowment?**

An endowment fund originates in one of several ways: money in excess of operational expenses in unit or association budgets, a bequest, or a donation of money or property. Endowed gifts may be designated as unrestricted or restricted and then become part of the endowed principal. Revenue from the principal or 'book value' comes in the form of realized/unrealized<sup>1</sup> gains and losses (also called 'market value'), interest, and dividends.

## **7. Does ALA use proceeds from the Endowment for day-to-day operations?**

The ALA general fund uses the annual payout from the Future Fund to support association general operating activities. Divisions, roundtables, offices, and other units with endowments use annual payouts for various programs, including scholarships and awards, speaker fees, student travel to conferences, educational support, and general operations.

Every year the total authorized payout from the Future Fund is needed for ALA operating costs. In years when unit managers of restricted accounts find the payout amount is greater than the expenses of the designated programs, the remainder of the payout stays in the endowed account to increase / decrease in value.

## **8. What are the sources of funds for the temporary Transfer with Terms?**

Funds for the Transfer with Terms come from interest and dividends earned in the Future Fund. 'Transfer with Terms' is an internal transfer between the ALA Endowment and the General Fund. The transfer will be repaid to the endowment by 2030 with 1% interest.

## **9. How are endowments usually managed by nonprofit organizations?**

Nonprofit organizations may manage endowments according to one of these models:

- A. Designated members oversee investments with advice from investment professionals hired by the organization (ALA uses this model)
- B. Organization employs staff who are investment professionals to manage the endowment

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<sup>1</sup> Realized when securities are sold for a gain or loss and unrealized when securities are still being held in the portfolio and rise and fall in value based on market performance.

- C. Organization outsources the entire endowment management and all decisions related to it to a professional investment firm
- D. Member(s) are authorized by the Board to manage the organization's endowment without paid investment advisors.

#### 10. Why are Trustees increasing investments in ESG funds?

Trustees seek more ESG (Environment, Social, Governance) funds<sup>2</sup> because they represent responsible investments and align with the mission and values of the association. This includes making program-related investments and refraining from investing in corporations with products or policies inconsistent with the association's values; e.g. tobacco, private prisons, etc.

ESG funds are considered in the context of maximizing returns while staying aligned with ALA values. The exploration and acquisition of ESG funds have been a priority for the trustees for over a decade with significant increased ESG investments since 2015, moving from .3% of the portfolio to 53% in 2021.

#### 11. Why is diversification such an important component of the investment process for the ALA Endowment?

Diversification is the process of owning investments across asset classifications. Investments in various asset classifications tend to perform well at different times. By spreading investments across various asset classes, Trustees reduce the effects of volatility in a portfolio and increase the potential for stronger returns.

For example, in 2021 the ALA endowment portfolio includes investments in domestic equities (stocks), international equities, real estate, domestic fixed income, and private equity. The portfolio is monitored and once a year the optimal percent allocated in each classification is reviewed. The portfolio is re-balanced within the minimum / maximum range when necessary.

#### 12. What does it cost to manage the ALA Endowment?

The 2021 Endowment Cost Structure Report, based on figures from FY19, show the following expenses:

Investment Advisor Fees	\$ 277,057
Work of the Trustees	<u>\$ 32,441</u>
Total endowment management expenses FY19	<b>\$ 309,498</b>

Total market value in FY19 - **\$46,736,916**

Percent of endowment management expenses FY19 - **.66%**

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<sup>2</sup> These funds were formerly known as Socially Responsible Investments (SRI) funds.

**13. To what extent did the Endowment support ALA general operations and programs of restricted accounts in FY19?**

General Fund Support (Future Fund)	\$ 603,295
Awards (and scholarships)	\$ 443,915
Transfers from Endowment	\$ 312,704
Support for programs defined by restricted accounts (Other)	<u>\$ 365,798</u>

Total support general operations and programs defined By restricted accounts support expenses FY19	<b>\$1,725,712</b>
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**14. What are examples of ALA or unit programs and activities funded by the endowment?**

These are examples of ALA or unit programs and activities funded by the endowment. The list is not comprehensive.

- Spectrum Family of Scholarships
- Sophy Brody Award
- Melcher Scholarships
- Robert Oakley Memorial Scholarship
- Margaret Edwards Award
- Theodore Seuss Geisel Award
- Coretta Scott King Book Awards
- Schneider Family Book Award
- Carnegie-Whitney Grants
- Loleta D. Fyan Grant