

**American Library Association  
Endowment Trustees**

**Endowment Management Cost Structure  
Information Report**

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**OVERVIEW**

The ALA Endowment comprises the Future Fund (38.2% of endowment) and a group of 73 restricted accounts created by various units within the association. Trustees are entrusted to invest the entire corpus and recommend what percentage of annual earnings is available for payout each fiscal year. Payouts from the Future Fund support the ALA operating budget, while payouts from restricted accounts meet programmatic commitments to donors and fund creators.

This report is an in-depth review of all expenses related to the ALA Endowment, including costs of investing, managing, and growing the endowment across all 74 accounts. Expenses are paid from endowment earnings and increased market value.

This report begins with internal accounting reports of endowment expenses, and continues with sections about costs of managing the endowment, expenses tracked over five years, an explanation of fund expense ratios, and fees associated with alternative investments. A brief summary closes the report. Attachments offer exhibits with details.

**1. INTERNAL REPORTS OF ENDOWMENT EXPENSES**

On a daily basis, the ALA Finance Department and authorized staff can monitor activities of the endowment through ALA's internal financial reporting system Prophix. The system covers all aspects of the endowment's activities – revenues & expenses.

Since this report is specifically about *expenses*, rather than revenue, it focuses on expense categories *below* the total revenue line on the Prophix spreadsheet (Exhibit #1).

(NOTE: For this discussion FY19 is used as the last available full year of information. This sample report represents *unaudited* FY19 information as of August 31, 2020; that is, data may change.)

Revenues include:

- Donations – individual/member gifts, organizations/sponsorships, transfers, etc.
- Interest & Dividends – income from portfolio investments
- Increase/decrease in market value of endowment

Expenses as line items in Prophix (Exhibit #1) include:

1. Payroll & Related Expenses
2. Outside Services
3. Travel & Related Expenses
4. Meetings & Conferences

5. Publication-Related Expenses
6. Operating Expenses
7. Indirect Expenses
8. Overhead/Taxes

Expenses related to the management of the endowment are primarily tracked in two of the eight accounting categories:

2. Outside Services – investment advisors (‘Bank S/C’) and other
3. Travel & Related Expenses – travel and lodging for Trustee meetings and activities

## **2. COSTS OF MANAGING AND INVESTING THE ENDOWMENT**

Drilling deeper, a critical review of these two expense categories reveals endowment-related management and investment expenses falling into two general categories:

1. Fees paid to financial advisors, labelled “Bank S/C (Service Charge)” in the “Outside Services” category in Exhibit #1 (and “Bank Fees” in Exhibit #2). These fees are paid from the endowment, with expenses allocated to each of the 74 funds based on their proportional net asset balance (NAB) at the end of each quarter.

“Bank Fees” is the term used by ALA accounting to track investment advisor fees. To manage the portfolio, the Bhatia Group of Merrill Lynch charges a quarterly rate of .57% (or 57 “basis points”) of the value of the portfolio. This fee is well below the 1.02% average charged by investment advisors and is consistent with industry standards for endowments of ALA’s size.

2. Expenses related to Trustee meeting costs, transportation, meals, and lodging, labelled “Trustee Activities” in Exhibit #2. These expenses are directly attributed to the Trustees and support their deliberations over responsible investment choices for the entire ALA Endowment.

A third category of expenses associated with investments, including the ALA Endowment, is known as “expense ratios.”<sup>1</sup> These expenses are the operating and administrative costs incurred by the managers of exchange traded funds (ETFs) and mutual funds, and are deducted from the gross market value of those funds. In this report, expense ratios are not listed as a direct expense because they are not deducted from the net market value of ALA’s endowment funds.

## **3. TRACKING EXPENSES OVER FIVE YEARS**

The chart below summarizes endowment-related expenses for the period FY15–FY19. As noted above, Bank Fees are paid to the Bhatia Group of Merrill Lynch, financial advisors to the ALA Endowment Trustees.

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<sup>1</sup> <https://www.investopedia.com/terms/e/expenseratio.asp>

<b>Endowment Management Expenses</b>					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<b>Bank Fees (Investment Advisor)</b>	\$ 224,323	\$ 241,125	\$ 254,580	\$ 276,418	\$ 277,057
<b>Trustee Activities</b>	\$ 18,856	\$ 21,554	\$ 16,156	\$ 28,851	\$ 32,441
<b>Total Cost</b>	\$ 243,179	\$ 262,679	\$ 270,736	\$ 305,269	\$ 309,498
<b>Endowment Value*</b>	\$ 38,680,372	\$ 40,016,169	\$ 43,536,279	\$ 47,357,522	\$ 46,736,916
<b>% of Endowment Value</b>	0.63%	0.66%	0.62%	0.64%	0.66%

\*Per Merrill Lynch records @ 8-31-xx

<b>Endowment Trustee Expenses</b>					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
<b>Transportation</b>	\$ 8,186	\$ 11,212	\$ 8,663	\$ 13,737	\$ 14,076
<b>Lodging &amp; Meals</b>	\$ 10,051	\$ 10,062	\$ 7,379	\$ 14,862	\$ 10,512
<b>Business Meeting</b>	\$ 199	\$ 270	\$ 11	\$ 220	\$ 7,239
<b>Miscellaneous</b>	\$ 421	\$ 10	\$ 103	\$ 32	\$ 615
<b>Total Expenses</b>	\$ 18,856	\$ 21,554	\$ 16,156	\$ 28,851	\$ 32,441

#### 4. EXPENSES ASSOCIATED WITH EXCHANGE TRADED FUNDS, MUTUAL FUNDS, AND ALTERNATIVE INVESTMENTS

##### 4.a. Expense Ratio Fees of Exchange-Traded and Mutual Funds

Exchange traded fund (ETF) and mutual fund managers charge **expense ratio fees** to cover operating and administrative costs associated with managing those funds. Expense ratio fees are deducted by fund managers from the gross market value of the fund; that is, before the market value is passed to ALA as an owner of the fund.

An ETF or mutual fund expense ratio is the total percentage of fund assets used by fund managers to cover administrative, management, advertising, and other expenses. Expense ratio fees are subtracted from the gross market value of funds by fund managers before the earnings reach the owner. These expenses are charged to all the owners of a particular ETF or mutual fund: i.e., individuals and institutions who invest in those funds. They come off the top of gross fund revenue. For example, an expense ratio of 1% per annum means that each year 1% of the fund's total assets will be used by fund managers to cover expenses.

Factors influencing the expense ratio include the size of the fund (small funds often have higher ratios as expenses are spread among a smaller number of investors), sales charges, and the management style of the fund. A typical annual expense ratio for a US domestic

stock fund is, in fact, about 1%, although some passively managed funds (aka “index funds”) have significantly lower ratios.

As expense ratios are the “cost of doing business” for owning ETFs or mutual funds, the Trustees consider these ratios carefully before deciding to invest in such a fund, with an emphasis on selecting funds that meet the Trustees’ investment guidelines while promising favorable returns. (See Exhibit #4 below.) The thirteen ETF and mutual funds in the ALA portfolio in FY19 had a combined annual average expense ratio of .64% which is less than the typical 1%. For FY19, the expense ratio total for the ETF and mutual funds ALA owned was \$169,549, or .64% of the total reported market value of \$32,659,357 for the 13 funds owned.

*Expense ratio fees are not recorded as an expense against revenue. The discussion above is offered as a point of information only in this report.*

#### **4.b Alternative investment fees**

Alternative investments (private equity funds) have no expense ratio fees. Fees associated with alternative investment commitments are one-time expenses that occur when ALA receives the first call for capital it has previously committed and makes its first payment to the investment.

There were no first-time draw-down calls for alternative investments in FY19.

### **5. SUMMARY**

The primary categories of expenses incurred to manage the Endowment are investment advisor fees and Trustee activity expenses.

Total FY19 endowment management expenses were:

Cost to manage the endowment:

Investment Advisor Fees (Bank Fees)	\$ 277,057
Work of the Trustees (Other)	<u>\$ 32,441</u>
	\$ 309,498

Total Endowment value FY19: \$46,736,916

Endowment management expenses FY19 (\$): \$ 309,498

Endowment management expenses FY19 (%): .66%

**ATTACHMENTS: (See below Exhibits #1 and #2)**

# Exhibit #1 ALA Internal Performance Report (via Prophix)

				American Library Association					9/14/2020 10:51 AM
Fund: LT Endowment Funds/34&35&36: LT Endowment Funds				Performance Report					
Unit_Project: All: All				For the 12 Months Ending August 2019					
				Year-To-Date					
August 2019				Full Year Budget	Actual	YTD Budget	Variance	Variance %	Prior Year
Actual	Budget	Prior Year	Actual						Actual
<b>23,659</b>	<b>38,212</b>	<b>7,360</b>	<b>Total Revenues</b>	<b>579,632</b>	<b>1,225,948</b>	<b>579,632</b>	<b>646,316</b>	<b>112%</b>	<b>834,941</b>
3,962	7,836	-7,086	(5000) SALARIES & WAGES	88,477	45,626	88,477	42,851	48%	54,558
0	0	0	(5001) WAGES/TEMPORARY EMPLOYEES	0	2,328	0	-2,328	-100%	2,857
0	0	0	(5002) OVERTIME WAGES	0	3,043	0	-3,043	-100%	2,299
1,498	2,359	-3,390	(5010) EMPLOYEE BENEFITS	26,636	14,891	26,636	11,746	44%	17,152
0	0	0	(5016) PROFESSIONAL MEMBERSHIPS	0	50	0	-50	-100%	0
<b>5,460</b>	<b>10,195</b>	<b>-10,476</b>	<b>(500) Payroll &amp; Related Expenses</b>	<b>115,113</b>	<b>65,938</b>	<b>115,113</b>	<b>49,175</b>	<b>43%</b>	<b>76,867</b>
0	0	25,368	(5100) TEMPORARY EMPLOYEES/OUTSIDE	0	17,457	0	-17,457	-100%	25,518
7,043	2,325	0	(5110) PROFESSIONAL SERVICES	27,900	53,390	27,900	-25,490	-91%	16,180
0	0	-75	(5120) LEGAL FEES	0	15	0	-15	-100%	0
48,990	21,166	23,066	(5122) BANK S/C	255,036	277,057	255,036	-22,021	-9%	276,418
0	4	0	(5150) MESSENGER SERVICE	50	0	50	50	100%	107
<b>56,033</b>	<b>23,495</b>	<b>48,359</b>	<b>(510) Outside Services</b>	<b>282,986</b>	<b>347,919</b>	<b>282,986</b>	<b>-64,933</b>	<b>-23%</b>	<b>318,223</b>
0	0	0	(5210) TRANSPORTATION	40,600	27,301	40,600	13,299	33%	50,069
0	0	0	(5212) LODGING & MEALS	46,400	41,640	46,400	4,760	10%	38,878
0	0	0	(5216) BUSINESS MEETINGS	0	2,148	0	-2,148	-100%	58
<b>0</b>	<b>0</b>	<b>0</b>	<b>(520) Travel and Related Expenses</b>	<b>87,000</b>	<b>71,089</b>	<b>87,000</b>	<b>15,911</b>	<b>18%</b>	<b>89,005</b>
607	0	0	(5301) CONFERENCE EQUIPMENT RENTAL	0	607	0	-607	-100%	301
3,462	0	2,300	(5302) MEAL FUNCTIONS	0	21,794	0	-21,794	-100%	7,463
11	1,258	-166	(5304) SPEAKER/GUEST EXPENSE	15,100	248	15,100	14,852	98%	1,489
0	0	0	(5305) SPEAKER/GUEST HONORARIUM	0	6,800	0	-6,800	-100%	13,450
9,263	833	4,819	(5306) AWARDS	300,000	443,915	300,000	-143,915	-48%	418,431
2,000	0	6,306	(5309) AUDIO/VISUAL EQUIPMENT RENTAL & LABO	0	18,957	0	-18,957	-100%	10,271
<b>15,343</b>	<b>2,092</b>	<b>13,259</b>	<b>(530) Meetings and Conferences</b>	<b>315,100</b>	<b>492,321</b>	<b>315,100</b>	<b>-177,221</b>	<b>-56%</b>	<b>451,405</b>
123	575	-864	(5402) PRINTING-OUTSIDE	6,900	8,509	6,900	-1,609	-23%	18
0	0	-558	(5404) DESIGN SERVICE-OUTSIDE	0	0	0	0	0%	558
777	750	267	(5430) WEB OPERATING EXPENSES	9,000	16,791	9,000	-7,791	-87%	3,579
41	0	36	(5433) ORDER PROCESSING/FULFILLMENT	0	914	0	-914	-100%	408
<b>941</b>	<b>1,325</b>	<b>-1,120</b>	<b>(540) Publication Related Expenses</b>	<b>15,900</b>	<b>26,215</b>	<b>15,900</b>	<b>-10,315</b>	<b>-65%</b>	<b>4,563</b>
153	92	-1,781	(5500) SUPPLIES/OPERATING	1,100	1,730	1,100	-630	-57%	2,553
0	0	0	(5501) EQUIPMENT & SOFTWARE/MINOR	0	319	0	-319	-100%	0
3,761	8	63	(5522) TELEPHONE/FAX	100	4,101	100	-4,001	-4001%	596
551	104	0	(5523) POSTAGE/E-MAIL	1,250	1,004	1,250	246	20%	623
189	0	58	(5540) ROYALTY EXPENSE	0	457	0	-457	-100%	191
824	383	152	(5550) PROMOTION	4,600	5,484	4,600	-884	-19%	3,647
31,003	0	0	(5560) ORG SUPPORT/CONTRIBUTION	0	74,943	0	-74,943	-100%	-18,194
417	0	492	(5599) MISC EXPENSE	0	25,365	0	-25,365	-100%	8,869
<b>36,898</b>	<b>588</b>	<b>-1,017</b>	<b>(550) Operating Expenses</b>	<b>7,050</b>	<b>113,403</b>	<b>7,050</b>	<b>-106,353</b>	<b>-1509%</b>	<b>-1,716</b>
<b>114,675</b>	<b>37,694</b>	<b>49,006</b>	<b>Total Direct Expenses</b>	<b>823,149</b>	<b>1,116,885</b>	<b>823,149</b>	<b>-293,736</b>	<b>-36%</b>	<b>938,347</b>
150	42	0	(5901) IJIT/CPU	500	562	500	-62	-12%	221
312,204	28,960	221,400	(5904) TRANSFER TO/FROM ENDOWMENT	347,516	312,704	347,516	34,812	10%	221,400
57	0	12	(5909) IJIT/DIST CTR	0	1,165	0	-1,165	-100%	2,464
49	0	0	(5910) IJIT/REPRO CTR	0	599	0	-599	-100%	1,125
<b>312,461</b>	<b>29,001</b>	<b>221,412</b>	<b>(52) Total Indirect Expenses</b>	<b>348,016</b>	<b>315,030</b>	<b>348,016</b>	<b>32,986</b>	<b>9%</b>	<b>225,210</b>
<b>427,136</b>	<b>66,695</b>	<b>270,418</b>	<b>Total Expenses Before OH and Taxes</b>	<b>1,171,165</b>	<b>1,431,915</b>	<b>1,171,165</b>	<b>-260,750</b>	<b>-22%</b>	<b>1,163,557</b>
<b>-403,477</b>	<b>-28,483</b>	<b>-263,058</b>	<b>Contribution Margin</b>	<b>-591,533</b>	<b>-205,967</b>	<b>-591,533</b>	<b>385,566</b>	<b>65%</b>	<b>-328,616</b>
0	0	371	(5600) TAXES/INCOME	0	0	0	0	0%	371
<b>0</b>	<b>0</b>	<b>371</b>	<b>(OH&amp;TX) TOTAL OVERHEAD / TAXES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0%</b>	<b>371</b>
<b>427,136</b>	<b>66,695</b>	<b>270,789</b>	<b>TOTAL EXPENSES</b>	<b>1,171,165</b>	<b>1,431,915</b>	<b>1,171,165</b>	<b>-260,750</b>	<b>-22%</b>	<b>1,163,928</b>
<b>-403,477</b>	<b>-28,483</b>	<b>-263,429</b>	<b>Net Rev / (Expense) From Operations</b>	<b>-591,533</b>	<b>-205,967</b>	<b>-591,533</b>	<b>385,566</b>	<b>65%</b>	<b>-328,987</b>
71,399	0	142,522	(4422) ENDOWMENT GAIN/LOSS-REALIZED	0	1,147,835	0	1,147,835	100%	1,605,070
-569,642	0	548,795	(4423) ENDWMENT GAIN/LOSS-UNREALIZED	0	-1,234,636	0	-1,234,636	-100%	2,031,212
-149,999	-100,000	-265,000	(5900) Transfer To Endowment	-100,000	-149,999	-100,000	-49,999	-50%	-265,000
<b>-751,721</b>	<b>71,517</b>	<b>692,888</b>	<b>Net Rev / (Expense)</b>	<b>-491,533</b>	<b>-142,770</b>	<b>-491,533</b>	<b>348,764</b>	<b>71%</b>	<b>3,572,296</b>
<b>45,829,614</b>	<b>71,517</b>	<b>43,701,927</b>	<b>Ending Net Asset Balance</b>	<b>-491,533</b>	<b>46,438,565</b>	<b>-491,533</b>	<b>46,930,099</b>	<b>9548%</b>	<b>46,581,335</b>

**Exhibit #2****Endowment Expense Ratio Fees FY 2019**

		<b>Annual</b>	<b>Annual</b>		
		<b>Expense</b>	<b>Expense</b>	<b>Balance as of</b>	<b>Additional</b>
<b><u>Managers</u></b>	<b><u>Symbol</u></b>	<b><u>Ratio as %</u></b>	<b><u>Ratio</u></b>	<b><u>9/30/2020</u></b>	<b><u>Expense</u></b>
Nuveen Real Estate Income Fund Class I	NUSC	0.89%	0.0089	\$ 1,169,519	\$ 10,409
Nuveen ESG Small Cap EFT	NRIX	0.40%	0.0040	\$ 1,559,089	\$ 6,236
SPDR S&P 500 Fossil Fuel Reserve Free	SPYX	0.20%	0.0020	\$ 9,689,657	\$ 19,379
Vanguard Real Estate EFT	VNQ	0.12%	0.0012	\$ 1,181,459	\$ 1,418
Calvert Short Duration Income Class I	CDSIX	0.54%	0.0054	\$ 2,767,182	\$ 14,943
Domini Impact International Equity Class Y	DOMYX	1.10%	0.0110	\$ 1,057,401	\$ 11,631
Doubleline Total Return Bond Class I	DBLTX	0.49%	0.0049	\$ 2,566,118	\$ 12,574
Guggenheim Total Return Bond Institutional Class	GIBX	0.59%	0.0059	\$ 2,749,053	\$ 16,219
Lazard International Strategic Equity Institutional Class	LISIX	0.80%	0.0080	\$ 1,192,568	\$ 9,541
Lord Abbett Short Duration Income Class F	LDLF	0.50%	0.0050	\$ 2,473,435	\$ 12,367
Oakmark International Fund Class ADV	OAYIX	0.90%	0.0090	\$ 998,735	\$ 8,989
Pimco Income Fund Class 1-2	PONPX	0.90%	0.0090	\$ 2,348,183	\$ 21,134
Principal Midcap Fund Class I	PCBIX	<u>0.85%</u>	<u>0.0085</u>	\$ 2,906,958	\$ 24,709
Total		8.28%	0.0828	\$ 32,659,357	\$ 169,549
Average		0.64%	0.0064		

Alternative investments do not have expense ratios.