TO:	ALA Finance and Audit Committee ALA Executive Board ALA Endowment Trustees	EBD #13.4 BARC #13.4 Annual Conference 2018 - 2019

RE: ALA Endowment Investment Policy Statement, May 2019

ACTION REQUESTED/INFORMATION/REPORT:
Approval of the ALA Endowment Investment Policy Statement, revised and approved by the ALA Endowment Trustees May 14, 2019

ACTION REQUESTED BY:
Susan Hildreth, Treasurer, on behalf of the ALA Endowment Trustees

CONTACT PERSON:
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Keith Brown, ALA Finance Office
Rod Hersberger, Endowment Senior Trustee, rhersberger@csub.edu

DRAFT OF MOTION:
I move approval of the revised ALA Endowment Investment Policy Statement, dated May 14, 2019.

DATE: June 21, 2019

BACKGROUND:
The Investment Policy Statement (IPS) is a critical document that outlines the investment priorities and framework for the Endowment. It was last revised in November 2012. The Endowment Trustees have undertaken a strategic review of all policies and procedures during the last year. The Trustees and ALA Finance staff were assisted in this effort by Mercer Not-for-Profit Investment Services. The revised investment policy statement is modeled on similar statements from other non-profit entities.

A guiding statement is included in the Introduction and Purpose of the document. "The intent of this Investment Policy Statement is to design the investment program structure with specific parameters and clearly defined policies and objectives that reflect the philosophy of the ALA Endowment Trustees and the mission of the Association." The document balances prudent investment practices with the mission and values of the Association.

The original March 2019 draft IPS was presented to the Finance and Audit Committee (F&A) and the Executive Board at their meetings in April. Several revisions were suggested by members. As a result, the Trustees considered a revised version of the IPS that was approved at the Trustees' May 14, 2019, meeting. This revised version is attached and will be reviewed by F&A at its June 21 meeting and forwarded to the Executive Board for approval during their meetings at the June 2019 Annual conference.

Revisions that were suggested by F&A are reflected in Sections II and IV; and revisions suggested by Merrill Lynch are reflected in Section VI. We would be glad to answer any questions regarding the IPS and look forward to discussing it at the Annual Conference meetings.

ATTACHMENT: ALA Endowment Investment Policy Statement, May 14, 2019

REVISED DRAFT

AMERICAN LIBRARY ASSOCIATION ENDOWMENT INVESTMENT POLICY STATEMENT

MAY 14, 2019

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SECTION I

INTRODUCTION AND PURPOSE

The purpose of this document is to identify and present a set of investment objectives, investment guidelines and performance standards for the investable financial assets of the American Library Association (ALA.) The investment of the Association's financial assets is intended to support the ongoing mission of the ALA and its Divisions, Round Tables and Offices. The investment objective of the ALA is long-term principal growth of 4% annually plus inflation in accordance with The Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The intent of this Investment Policy Statement is to design the investment program structure with specific parameters and clearly defined policies and objectives that reflect the philosophy of the ALA Endowment Trustees and the mission of the Association.

This document provides guidance for the Endowment Trustees and the Association's finance staff to fulfill the responsibilities that the ALA Executive Board delegates to them. Although these policies and objectives are intended to govern the investment activity, they are designed to be sufficiently flexible in order to be practical.

This Investment Policy Statement (IPS) is set forth to:

1) Define the investment policies, guidelines and objectives of the Association.
2) Create a framework from which the Endowment Trustees can evaluate investment performance, monitor compliance with the IPS, explore new opportunities and make recommendations to enhance the investment portfolio.
3) Provide guidance for, expectations of, and limitations on, all parties bearing investment responsibilities for the Association.
4) Ensure that the Association's investable financial assets are managed according to the highest standards of fiduciary responsibility and in accordance with prudent investment practices including UPMIFA.

All investable funds of the Association, its Divisions, Round Tables and Offices are placed in a single fund for investment purposes. Earnings and draws are apportioned to the individual funds on an annual basis.

SECTION II

DELEGATION OF RESPONSIBILITIES

Relationship between ALA Executive Board and the Endowment Trustees.

The ALA Executive Board is ultimately responsible for decisions that affect the Association. The Executive Board appoints all Endowment Trustees except the ALA Treasurer who is elected by the Association's membership and serves a three-year term. The Executive Board also names the Senior Trustee. The Executive Board delegates to the Endowment Trustees the responsibility of managing the Association's investable financial assets including, but not limited, to the following actions:

1) Select the investment manager from a competitive process. This process should be held every three to five years.
2) Coordinate the activities of investment manager.
3) Study market and investment issues pertinent to the Association and make decisions as appropriate.
4) The Senior Trustee shall report the Trustees activities and decisions four times per year to the Executive Board. The Senior Trustee shall also report at the Association's Council/Membership Information Meetings.

Endowment Trustees Responsibilities

The Endowment Trustees are responsible for managing the investment process in a prudent manner. The Trustees use a total return approach (defined herein) for the evaluation of investment returns and are willing to accept an overall level of risk (defined herein) commensurate with the Association's strategic asset allocation to achieve the stated objectives.

Based on input and advice from the investment advisor, Trustees determine the overall asset allocation model and make decisions on each individual investment. Trustees shall discharge their duties solely in the interest of the Association and for the exclusive purpose of meeting the financial needs of the Association.

The Endowment Trustees' responsibilities include:

1) Developing investment objectives consistent with the financial needs and mission of the American Library Association. ~~XXXX The Trustees have a commitment to Environmental, Social and Governance (ESG) investment products as long as these products do not sacrifice returns~~ XXXX.

2) Determining the investment strategy and asset allocation to meet the Association's objectives.
3) Setting investment policy guidelines.
4) Selecting the investment advisor.
5) Adopting performance measurement standards, reviewing and evaluating investment results in the context of such standards and implementing corrective action as needed.
6) Periodically reviewing the IPS, long-term return objectives, and the asset allocation to maintain appropriate alignments.

Guidelines for the Investment Advisor

Through a competitive process the Endowment Trustees engage an independent investment advisor to assist in developing strategies to meet the Association's objectives and to monitor investment performance and compliance with the stated investment policies. The investment advisor's responsibilities include:

1) Assisting in the development and implementation of investment policies, objectives and guidelines.
2) Conducting portfolio analyses, including asset allocation studies, and recommending investment strategies based on such analyses designed to achieve the Association's objectives.
3) Recommending specific investments in managed accounts, mutual funds, private equity, real assets and other appropriate vehicles.
4) Monitoring investment performance and presenting performance evaluation reports.
5) Attending Endowment Trustee meetings to present overall economic analysis, market conditions and forecasts, and specific investment recommendations for the Trustees action that reflect expected market directions.
6) Providing portfolio asset allocation balancing recommendations annually.
7) Reviewing and developing special investment strategies that complement existing asset classes or strategies to be considered by the Endowment Trustees
8) Assisting the Trustees in special projects, such as asset allocation studies or capital markets research.

SECTION III

ASSOCIATION INVESTMENT OBJECTIVES

Total Return Policy

The Association's investment strategy utilizes the total return approach for calculating investment returns. ALA's total return is comprised of both income and capital gains (realized and unrealized). When considering the portfolio's investment performance, the Trustees will measure the total returns, including dividends on stock, interest on fixed-income securities, distributions from Real Estate Investment Trusts and other income producing investments and capital gains. Distributions will be withdrawn from the portfolio without regard to the portion of the total return that is derived from capital gains or from income.

The long-term annual return objective is a minimum return of 4.0% plus inflation, net of fees.

Specific Return Measurement Objectives

The Endowment Trustee's return objective is based upon a long-term investment horizon, with an expectation that returns will fluctuate over the interim. In setting return objectives, the Trustees give careful consideration to a number of factors including (but not limited to): anticipated additions/withdrawals to/from principal, inflation, interest and dividend yields, and projected rates of return on asset classes considered suitable for inclusion in the portfolio. While there cannot be complete assurance that the defined objectives will be realized, it is believed that the likelihood of their realization is enhanced through investment diversification.

Each month the investment advisor will report actual returns relative to the long-term return objective, a composite index of benchmark indices weighted in the same proportion as the Association's Target Allocation (as described in Section IV, Asset Allocation, herein), and a benchmark index. The returns will also be periodically evaluated versus a comparative universe including the risk levels.

Spending Policy

Each year the Trustees will recommend to the Executive Board a spending or draw rate based on a rolling average of the previous 20 quarters. The Association or any of its Divisions and Round Tables is not obliged to spend any or all of this draw.

Volatility and Risk

The Endowment Trustees believe that the return objective can be achieved while assuming acceptable risk levels commensurate with market volatility. Risk considerations will be viewed from a total portfolio perspective rather than at the individual investment level. Market volatility is defined as the trailing three-and five-year standard deviation of a composite index of benchmark indices weighted in the same proportion as the Association's Target Allocation (as described in Section IV, Asset Allocation, herein).

General Investment Considerations and Constraints:

1) Liquidity: At times, the Association requires cash or other liquid assets to meet its spending or draw needs. Senior Association Finance staff should be the judge of liquidity needs.
2) Time Horizon: The Association has an infinite life. Therefore, the Trustees should manage investable assets with a time horizon longer than the normal market investment cycle which can be defined as10 years or longer.

SECTION IV

ASSET ALLOCATION

The single most important decision regarding investment returns made by the Endowment Trustees is the target asset allocation decision. Investment research has determined that a significant portion of a portfolio's investment behavior can be attributed to 1) the asset classes/styles which are employed; and 2) the weighting to each asset class/style. The Endowment Trustees have the responsibility to identify a target asset allocation mix that offers a high probability of achieving the Association's investment objectives commensurate with acceptable risk levels. The Trustees should review the target asset allocation on an ongoing basis and make revisions as market conditions change.

The Trustees develop an asset allocation model using appropriate best practice tools. The Endowment's target asset allocations are set early in each calendar year and appear in Appendix ALA Endowment Target Asset Allocations (current year

The Trustees will select a target asset allocation that falls within the strategic allocation parameters they have identified. The target asset allocation policy is expected to have a reasonable likelihood of meeting the objectives outlined in Section III. The asset allocation ranges established by this IPS represent a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short-term nature.

Within the asset allocation model, the Trustees employ any appropriate investment vehicle that is in common use. These vehicles may include actively and passively managed mutual funds, electronically traded funds, separately managed accounts, real estate investment trusts, real assets, private equity, hedge funds, domestic and international funds, long-short strategies and so forth. The Association does not purchase or own individual stocks or bonds. ~~The Trustees pursue and evaluate appropriate ESG opportunities in all investment categories, but not at the expense of returns.~~

SECTION V

INVESTMENT ADVISOR POLICIES AND PERFORMANCE MEASUREMENT STANDARDS

The following guidelines broadly define performance and risk criteria for the investment advisor and individual managers.

Although the Trustees make all investment decisions, they rely on the investment advisor to recommend appropriate investments to consider. Trustees expect the investment advisors to help the Association meet or exceed established benchmarks.

Over reasonable market cycles (3 to 5 years) investment manager's returns (net of fees) are expected to be competitive with their comparative index. Returns for traditional managers will also be measured versus a comparative peer universe. Over three and five-year periods investment managers are expected to demonstrate an ability to rank in the top quarter of their comparative peer universe. There may be periods of underperformance by active managers. The Trustees will also monitor investment managers' risk, organization changes and potential style drift on an ongoing basis. This three to five-year period may not apply to alternatives such as private equity.

The Endowment Trustees may terminate an investment advisor or account manager for any reason.

SECTION VI

ADMINISTRATION

Procedure for Revising Guidelines

The Endowment Trustees will review all investment policies and objectives on an annual basis.

Conflicts of Interest

Any actual or potential conflict of interest between Endowment Trustees, Executive Board and senior Association management must be fully disclosed. Such Trustees, or Executive Board members may be requested to recuse themselves from voting in certain circumstances. The Trustees are not expressly prohibited from owning mutual funds or other publicly traded investments the Association holds unless these holdings would be material to the management of a fund or investment product. If so, they must be disclosed.

Contributions

All cash contributions to the Association that are designated for the Endowment shall be invested according to the asset allocation policy.

Portfolio Balancing

The Association's investment portfolio may drift from the target asset allocation due to market movement and cash flows. Since the asset allocations are the most critical component of the Association's return, it is desirable to balance the portfolio periodically~~. to correct significant deviations from the target asset allocation.~~ The Endowment Trustees will periodically review the asset allocations relative to the target allocation as described in Section IV. The Trustees may then direct the investment advisor to make recommendations for rebalancing relative to the target allocation. ~~rebalance in accord with the asset allocation plan.~~

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APPENDIX
ALA Endowment Target Asset Allocations

Asset Class	Minimum	Target Average	Maximum
Total Equity & Real Assets*	**30%**	**55%**	**70%**
Domestic Large/Mid/Small Cap	20%	40%	50%
International Equity	0%	10%	20%
Real Assets	0%	5%	15%
Total Fixed Income*	**25%**	**30%**	**65%**
Domestic Fixed Income	20%	30%	45%
Convertible Bonds (Tactical)	0%	0%	10%
Global Fixed Income (Tactical)	0%	0%	10%
Cash and Ultra-Short (Tactical)	0%	0%	20%
Total Alternatives	**0%**	**10%**	**20%**
Cash	**0%**	**5%**	**10%**
Total		100%	
*Includes mutual funds and ETF"s			