

2016 – 2017 CD #16.1
2016 – 17 ET #6.6
2016 – 17 EBD #13.4
(2017 Annual Conference)



Endowment Trustees Report

(Long-Term Investment / Endowment Fund)

Rod Hersberger – Senior Trustee
Saturday – June 24, 2017
Monday – June 26, 2017



How Does the Endowment Help ALA?

- For FY18 there will be a 5% spending or payout rate from the endowment
- \$1.8 million will be available to the units for scholarships, awards and other activities. This includes \$589,000 for use in the General Fund
- As our investment success grows, so does our ability to support the ALA mission



Issues Impacting the Market

- Corporate earnings growth continues to rebound off the profit-recession lows of early 2016, but a more moderate outlook in the growth trend is likely
- Fixed income assets are likely to be challenged amid broadly rising interest rates and high valuations and tight credit spreads
- While growth prospects have a moderate outlook, they remain lackluster compared to historical norms
- Bolstered by a weaker dollar, non-U.S. equities led the first half global stock market rally, with emerging-market equities pushing past U.S. large-cap performance on a one-year basis for the first time in years
- Reflation in the market is driving growth and opportunities in the emerging markets
- The market has been seemingly unfazed by persistent political uncertainty

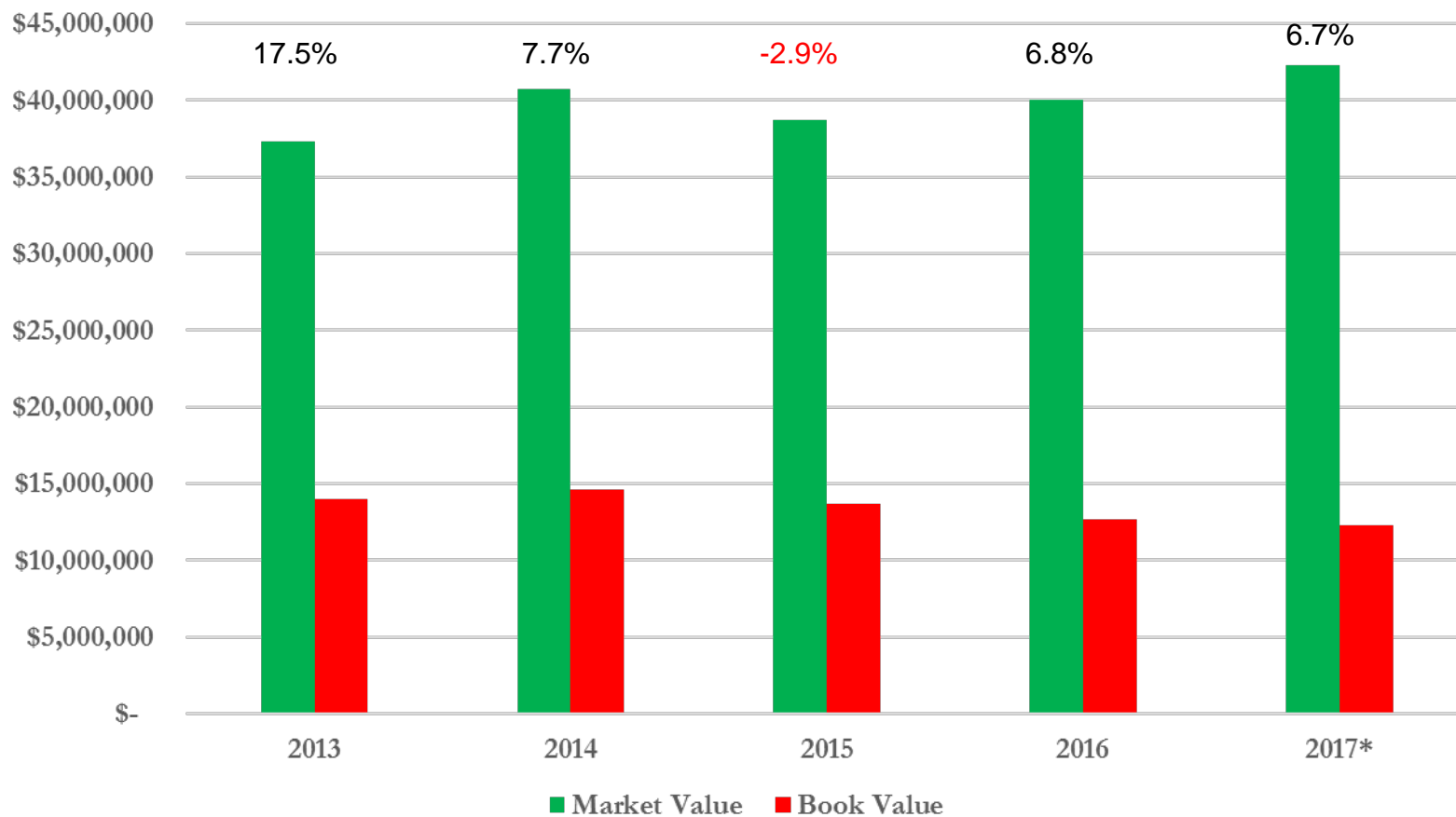
Issues Impacting the Market (Con't)

- Federal Reserve raised interest rates at its latest Fed meeting (6/14/17)
- Recent election results in the UK cast even more uncertainty over Brexit resolution

Market Value and Return @ 5-31-17

Exhibit #3

\$42,306,812



*Calendar year to date through 5-31-17

Manager Allocation and Style

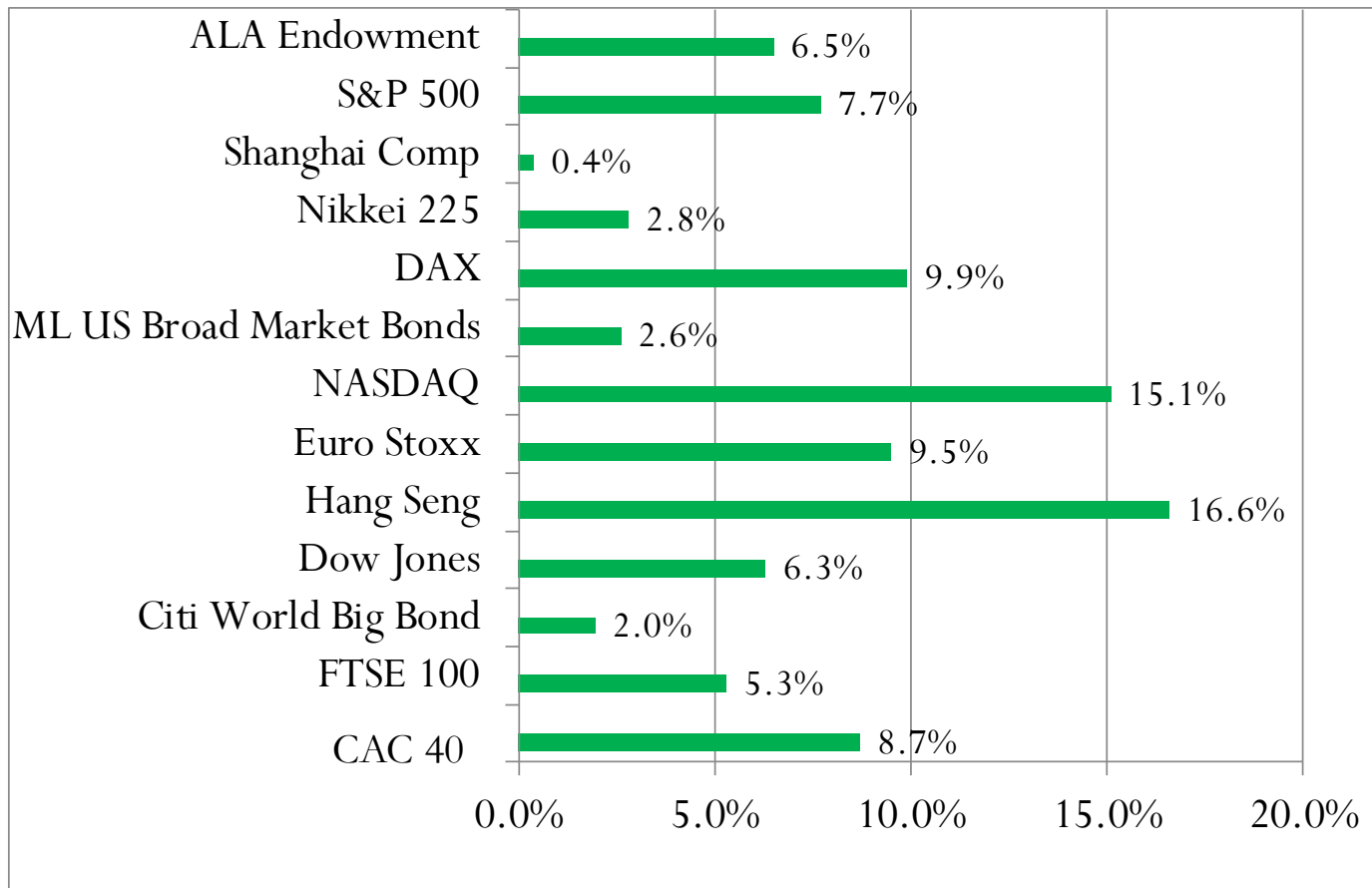
<u>Manager</u>	<u>Value</u>	<u>%</u>
Clearbridge ESG - Large Cap Core	\$ 8,726,272	20.6%
Merrill Lynch Personal Advisor - (MLPA*)	\$ 20,043,468	47.4%
The Endowment Fund/KKR/Blackstone/ JLL - Alternatives	\$ 2,835,272	6.7%
Capital Group - International	\$ 1,923,230	4.5%
Equity Income & Growth - ETF	<u>\$ 8,778,570</u>	<u>20.9%</u>
Total	\$ 42,306,812	100.0%

*MLPA is a platform under which ALA can access different managers of various investing styles in the form of mutual funds and ETF's - 9 managers.

World Market Performance

Exhibit #5

- Calendar Year Market Returns @ 5-31-17



Time Weighted Rate of Return

	<u>Opening Balance</u>	<u>Contributions (Withdrawals)</u>	<u>Interest Dividends</u>	<u>Appreciation (Depreciation)</u>	<u>Closing Balance</u>	<u>ROR* Period</u>	<u>ROR* Cumulative</u>
May – 2017	\$ 41,865,026	\$ 0	\$ 66,766	\$ 375,019	\$ 42,306,812	1.06%	6.74%
April – 2017	\$ 41,279,087	\$ 0	\$ 54,594	\$ 531,345	\$ 41,865,026	1.42%	5.63%
March – 2017	\$ 41,153,883	\$ 0	\$ 97,058	\$ 28,146	\$ 41,279,087	0.31%	4.15%
February – 2017	\$ 40,347,834	\$ 0	\$ 46,492	\$ 759,556	\$ 41,153,883	2.02%	3.83%
January – 2017	\$ 40,016,349	\$ (379,787)**	\$ 24,100	\$ 687,173	\$ 40,347,834	1.78%	1.78%
Total	\$ 38,723,216	\$ (379,787)	\$ 289,010	\$ 2,381,240	\$ 42,306,812	NA	6.74%

*Rate of Return

**Quarterly settlement between the General Fund, the units of ALA and the portfolio i.e. scholarships, awards etc.

Manager Performance @ 3-31-17

Exhibit #7

- 1, 3 and 5 Years -

<u>Manager</u>	<u>Benchmark</u>	<u>Investment Structure</u>	<u>1 Year</u>	<u>Index</u>	<u>3 Years</u>	<u>Index</u>	<u>5 Years</u>	<u>Index</u>
Equity Income & Growth ETF	S&P 500	ETF	16.2%	17.2%	9.5%	10.4%	12.9%	13.3%
Clearbridge Large Cap ESG	Russell 1000 Growth	SMA**	16.6%	15.8%	13.4%	11.3%	16.0%	13.3%
Principal Mid Cap*	Russell Mid Cap	Mutual Fund	17.5%	16.7%	10.2%	9.0%	14.1%	13.3%
Capital Group International	MSCI EAFE	SMA**	10.2%	11.7%	1.3%	0.5%	6.1%	5.8%
Lazard International Strategic*	MSCI EAFE	Mutual Fund	-0.5%	11.7%	-1.4%	0.5%	6.1%	5.8%
Oakmark International*	MSCI EAFE	Mutual Fund	21.7%	11.7%	2.1%	0.5%	9.0%	5.8%
Vanguard US REIT ETF*	MSCI US REIT	Mutual Fund	3.0%	3.2%	9.9%	10.1%	9.7%	9.8%
Nuveen Real Asset Income*	Nuveen Real Asset Blend	Mutual Fund	10.2%	8.3%	6.8%	5.2%	8.9%	7.4%
PIMCO Income Fund	Barclays US Agg	Mutual Fund	9.8%	2.6%	6.0%	3.1%	8.3%	2.3%
Double Line Total Return*	Barclays US Agg	Mutual Fund	2.2%	2.6%	3.7%	3.0%	4.0%	2.2%
Lord Abbett Floating Rate*	CS Leveraged Loan	Mutual Fund	9.1%	9.7%	3.7%	3.7%	4.8%	4.8%
Guggenheim Total Return*	Barclays US Agg	Mutual Fund	6.5%	2.6%	4.6%	3.0%	5.8%	2.2%
Lord Abbett Short Duration*	Barclays US Agg	Mutual Fund	3.6%	0.7%	2.1%	0.9%	2.6%	1.0%
JLL Income Property Trust			5.7%					
The Endowment Fund	HFRI Fund of Funds		1.5%					

*MLPA

**Separately Managed Accounts

Giving to ALA Endowments

Exhibit #8

FY 2015 - FY 2017

	FY 2015				FY 2016				FY 2017			
	Total	# of donors	Average gift	Median gift	Total	# of donors	Average gift	Median gift	Total	# of donors	Average Gift	Median gift
Divisions	\$ 25,665	28	\$ 917	\$ 50	\$ 4,285	30	\$ 143	\$ 50	\$ 3,877	46	\$ 67	\$ 50
Round Tables	\$ 23,713	31	\$ 551	\$ 50	\$ 37,005	73	\$ 463	\$ 100	\$35,543	55	\$ 547	\$ 50
Spectrum	\$ 26,565	199	\$ 117	\$ 35	\$ 21,733	166	\$ 116	\$ 35	\$33,302	259	\$ 113	\$ 50
Scholarship	\$ 7,752	159	\$ 46	\$ 35	\$ 8,297	156	\$ 51	\$ 35	\$ 7,317	146	\$ 48	\$ 35
CCF	\$ 2,162	36	\$ 50	\$ 35	\$ 6,053	33	\$ 604	\$ 35	\$12,901	54	\$ 243	\$ 50
General Endowment	\$ 8,827	95	\$ 93	\$ 35	\$ 5,268	79	\$ 65	\$ 35	\$ 5,433	95	\$ 57	\$ 35
Washington Office	\$ 960	5	\$ 192	\$ 250	\$ 350	1	\$ 350	\$ 350	\$ 300	2	\$ 150	\$ 150
Awards	\$ 30,233	7	\$ 3,779	\$ 4,500	\$ -	0	\$-	\$ -	\$ -	0	\$ -	\$ -
Total	\$125,877	560	\$ 203	\$43	\$82,991	538	\$ 143	\$ 35	\$98,672	657	\$ 137	\$ 50

- Most of the biggest gifts to the endowment occur in the form of bequests
- Can't plan for the timing of bequests
- Although there are more donors the dollars are down
- Because the biggest endowment gifts come through as bequests, planned giving campaigns are often intrinsically endowment campaigns

ALA and Environmental, Governance and Social (EGS) Investing

- ESG has replaced Socially Responsible Investing (SRI) in the investing industry vernacular
- The Trustees hired ALA's first ESG manager in May 2004 – Ariel (\$200,000)
- Even though the fund grew, recent performance lagged.
- Ariel was replaced by Clearbridge in April 2016
- Clearbridge now represents 20+% of the portfolio at \$8.7 million
- The Trustees are continuously educating ourselves on the EGS topic
- The Trustees have aggressively pressed our investment advisor for more EGS managers to consider
- The Trustees have talked and/or are considering EGS fixed income managers:
 - CRA Qualified Investment
 - TIAA-Creff Social Bond
 - Touchstone Total Return
 - Calvert Short Duration
- Research suggests that there are small differences in yield and risk for ESG fixed income investments.

Work of the Endowment Trustees

Recent Trustee Actions

- The Trustees maintained their practice of meeting in NYC (February), the center of the investing world. The results were once again very productive and will benefit the growth of the portfolio
- After consulting with our Investment Advisor (Merrill Lynch) the Trustees modified the portfolio's asset allocation with the following changes:
 - Reduce the overweight in US REITs by 3%
 - Allocate 3% to Schwab US Small Cap equity ETF
- Met with and had an extensive dialogue with TIAA managers for another perspective on impact investing (EGS). Will invite back for a future meeting for further discussion
- Will meet with EGS fixed income manager Calvert at the Trustees fall meeting
- Have been investigating the use of “Smart Beta*,” another option to for creating additional returns in the portfolio beyond Alpha**.
- Continuing to pursue additional Private Equity investment opportunities that fit the criteria of the portfolio



*Refers to an enhanced indexing strategy that seeks to exploit certain performance factors in an attempt to *outperform* a benchmark index.

**The excess returns of an investment relative to the return of a benchmark index

Thank you