

Endowment Trustees Report

(Long-Term Investment / Endowment Fund)

Rod Hersberger – Senior Trustee
Saturday – January 21, 2017



Issues Impacting the Market - 2016

- Unexpected post-election rally in stock market
- The outcome of Brexit referendum
- Reflation by the US was the dominate driver of global asset returns
- Markets experiencing the highest level of volatility since 2011
- Negative rates by central banks illustrated the limits of monetary policy as zero or negative interest rates in Japan and Europe had mixed results
- Secular anti-globalization political risks were on display
- Uncertainty on the timing of an interest rate increase by Federal Reserve increasing volatility in market
- Federal Reserve lowered its forward rate hike guidance to be more gradual and is now in line with market expectations i.e. 4 to 2
- Expectation and outcome of the Presidential election

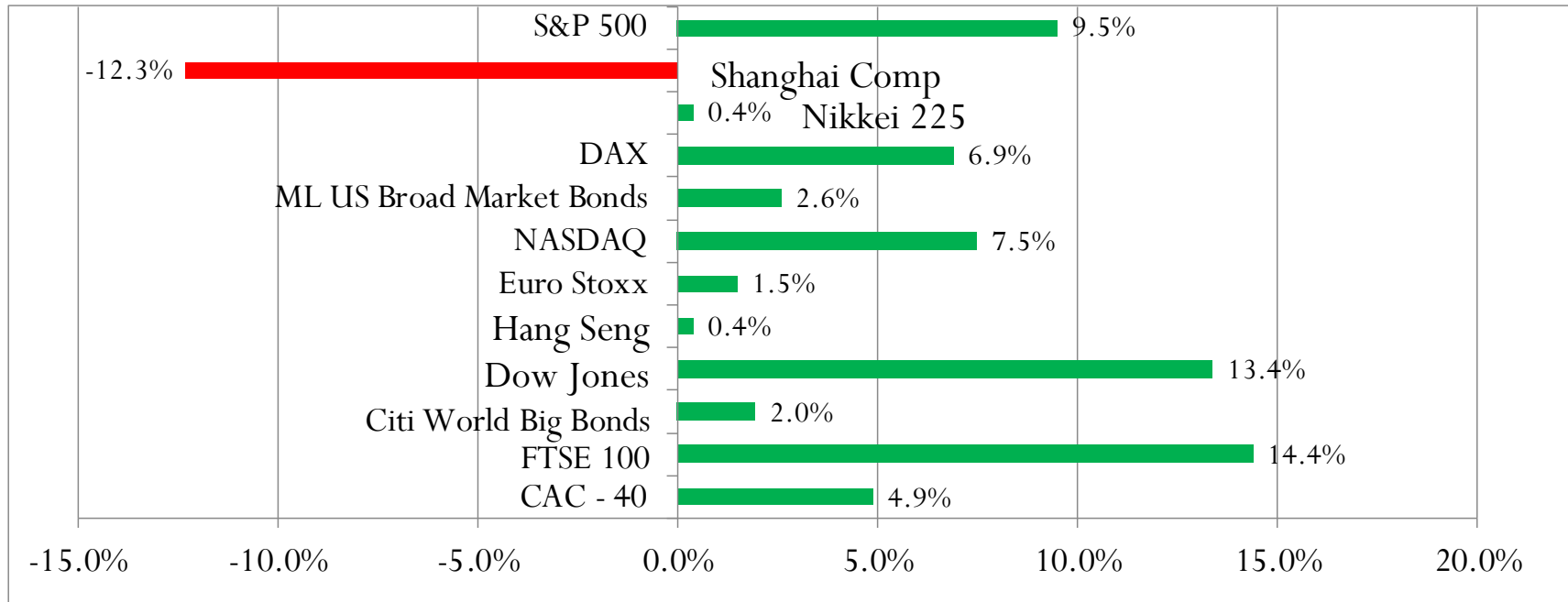
Market Expectations - 2017

- Positive gains in the general market (1.6% - 10.4% with a projected average of 4.4%)
- Uncertainty and volatility in the market expected to remain constant
- Exposure and allocations to “Alternative” investments expected to increase
- Inflation sensitive assets should get a closer look
- Protectionism (anti-trade) expected to rise based on pre-election talking points
 - Will put pressure on emerging market economies
 - Trigger a possible trade war, which is inflationary in nature
- Uncertainty over the reality of a Trump administration
- Prospects of quantitative easing in the US could reduce the burden on US monetary policy
- The search for upside potential will have investors moving away from developed markets

World Market Performance

Exhibit #3

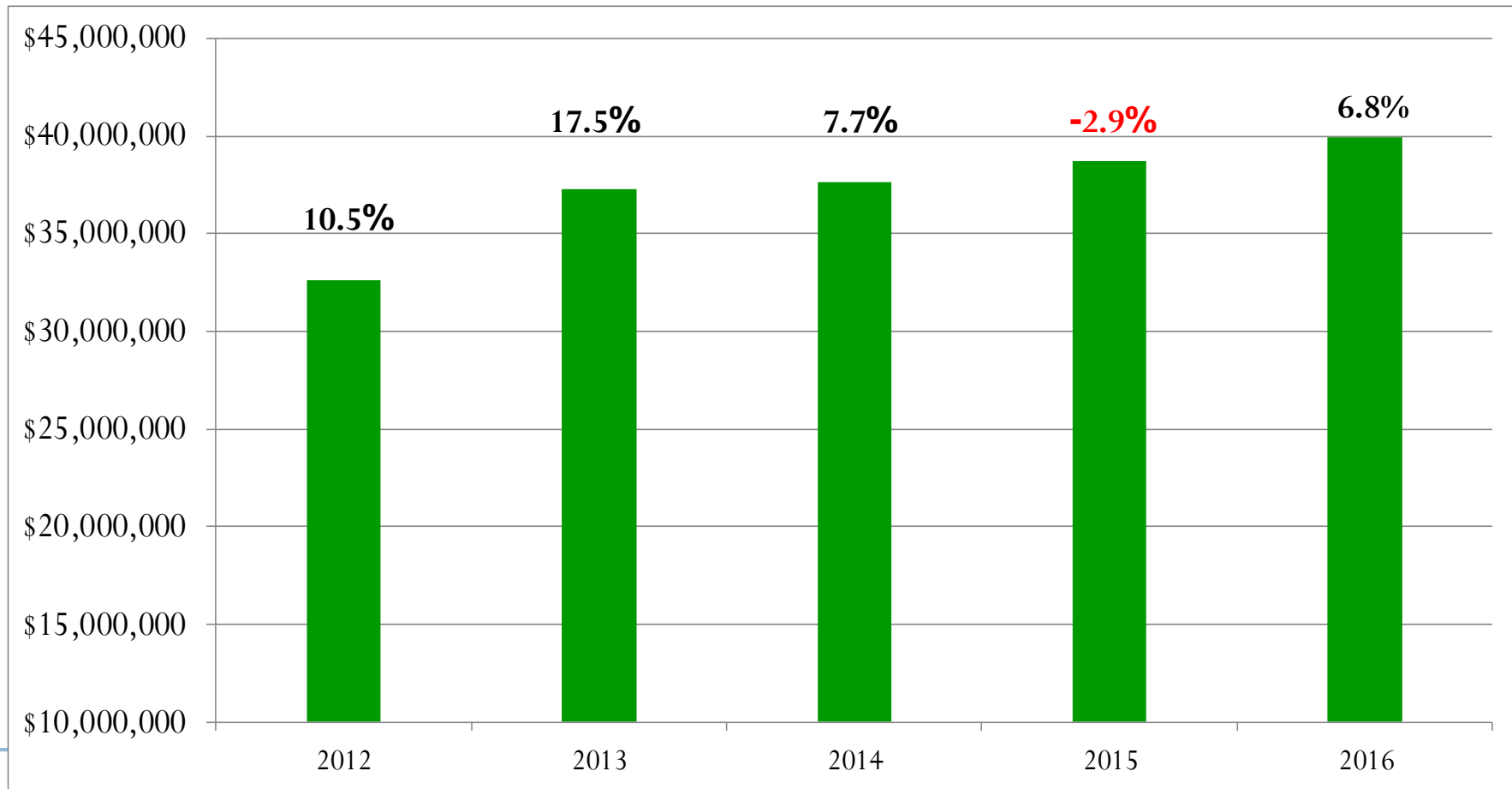
- Calendar Year Market Returns @ 12-31-16



Market Value and Return @ 12-31-16

Exhibit #4

\$40,016,349



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>
December - 2016	\$ 39,503,423	\$ (11,887)	\$ 468,994	\$ 56,319	\$ 40,016,349	1.88%	6.67%
November - 2016	\$ 39,360,901	\$ 0	\$ 128,814	\$ 13,708	\$ 39,503,423	0.36%	4.79%
October - 2016	\$ 39,975,839	\$ 0	\$ 55,794	\$ (670,732)	\$ 39,360,901	(1.54%)	4.41%
September - 2016	\$ 40,016,169	\$ (136,760)	\$ 102,527	\$ (6,097)	\$ 39,975,839	0.24%	6.04%
August - 2016	\$ 40,071,641	\$ 0	\$ 53,518	\$ (108,989)	\$ 40,016,169	(0.14%)	5.79%
July - 2016	\$ 38,856,503	\$ 0	\$ 57,882	\$ 1,157,255	\$ 40,071,641	3.13%	5.93%
June - 2016	\$ 39,036,116	\$ (245,500)	\$ 96,284	\$ (30,396)	\$ 38,856,503	0.17%	2.72%
May - 2016	\$ 38,777,713	\$ 0	\$ 52,029	\$ 206,374	\$ 39,036,116	0.67%	2.54%
April - 2016	\$ 38,445,594	\$ 0	\$ 56,864	\$ 275,254	\$ 38,777,713	0.86%	1.86%
March - 2016	\$ 36,454,834	\$ 18,825	\$ 108,752	\$ 1,900,883	\$ 38,445,938	5.46%	0.98%
February - 2016	\$ 37,233,216	\$ (627,004)	\$ 41,405	\$ (192,783)	\$ 36,454,834	(0.39%)	(4.25%)
January - 2016	\$ 38,724,962	\$ 9,342	\$ 30,994	\$ (1,532,082)	\$ 37,233,216	(3.87%)	(3.87%)
Total	\$ 38,723,216	\$ (999,922)	\$ 599,302	\$ 1,651,497	\$ 39,975,839	NA	6.67%

*Rate of Return

Manager Allocation and Style

<u>Manager</u>	<u>Value</u>	<u>%</u>
Clearbridge ESG - Large Cap Core	\$ 8,051,061	20.1%
Merrill Lynch Personal Advisor* - (MLPA)	\$ 15,668,000	39.2%
The Endowment Fund/KKR/Blackstone - Alternatives	\$ 2,487,924	6.2%
Capital Group - International	\$ 1,619,346	4.0%
Equity Income & Growth - ETF	\$ 8,155,980	20.4%
Loomis Sayles - Fixed Income	<u>\$ 4,034,039</u>	<u>10.1%</u>
Total	\$ 40,016,349	100.0%

*MLPA is a platform under which ALA can access different managers in the form of mutual funds and ETF's. There are 10 different managers.

Endowment Fund Management

Fiscal 2016

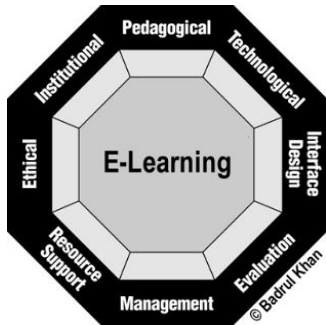
Exhibit #7

As a result of the fund's growth over the previous 20 quarters, a spending/payout rate of 5% was approved for the fiscal year 2016. This resulted in approximately \$1.7 million being made available during the year in support of awards, scholarships, unit initiatives, general operations and the Association's "Strategic Directions."



Why are Available Endowment Funds Important?

- What are they used for? -



- Increases the amount of \$\$\$'s available for scholarships and awards
 - Divisions: \$ 46,000
 - Spectrum Family: \$397,000
- Spectrum Scholarships in FY16 – 61
 - Approximately 1,001 since inception
- Helps to support the general operations of Divisions, Round Tables and Offices
 - General Fund: \$810,000
 - Divisions: \$109,000*
- Supports the Association's Mission and Strategic Directions, as well as, unit initiatives
 - \$250,000 in FY16 to support improvements in ALA Information Technology systems

*Divisions also transferred \$250,000 from their operating net asset balances to their individual endowments

Environmental, Social and Governance (ESG) - Impact Investing

The membership has indicated over the years that socially responsible investing is important. The Trustees believe that companies with positive environmental, social and governance attributes can perform comparably to their peers over the long term provided you have the right investment manager – Clearbridge ESG. As a result of their approach to investing their returns are very comparable to non SRI portfolios.

- Trustees have a strong belief in the power of active management vs screening – hence the hiring of Clearbridge ESG
- Clearbridge combines active management with active advocacy (ownership) via proxy voting and engagement
- ESG now makes up 20% of the Endowment, up from 1%
- Clearbridge fits within the overall asset allocation strategy of the portfolio