



2013 - 14 CD #13.1
2013 - 14 ET #6.5
2013- 14 EBD #13.4
(2013 – 14 Annual Conference)

Endowment Trustees

Report to ALA Council/Executive Board/Membership Information Session

(Long-Term Investment Fund)



Rod Hersberger – Senior Trustee
Saturday – June 28, 2014

**ALA Endowment Trustees
Report to Council
Saturday - June 28, 2014
Las Vegas, NV**

This report provides information regarding the performance of the ALA Long Term Investment Fund (LTI) i.e. the Endowment Fund. It is provided as a supplement to the oral report given by the Chair of the ALA Endowment Trustees. This report also provides information on the general condition of the financial markets, the performance of the individual portfolio managers and other issues that impact the Endowment fund that are viewed as important to the membership. This report will be placed on the Treasurer's web page after this Annual Conference as possible.

**MISSION, ROLE, PURPOSE AND USES OF THE ENDOWMENT
FUND OF THE AMERICAN LIBRARY ASSOCIATION**

MISSION - Exhibit #1

The purpose of the American Library Association's Long Term Investment Fund is to protect and grow the investment resources so as to support current and future Association needs, including scholarships, awards and unique programs that build a strong future for the American Library Association and America's libraries.

INVESTMENT POLICY STATEMENT – Exhibit #2

This policy statement outlines the goals and investment objectives for the American Library Association's Long-Term Investment Portfolio aka the Endowment Fund. This document is intended to provide guidelines for managing the Long-Term Investment, and to outline specific investment policies that will govern how those goals are to be achieved. This statement:

- Describes an appropriate risk posture for the investment of the Long-Term Investment fund's assets
- Specifies the asset allocation policy for those assets
- Establishes investment guidelines regarding the selection of investment managers, permissible securities and diversification of assets,
- Specifies the criteria for evaluating the performance of the investment managers and of the Long-Term Investment as a whole,
- Defines the responsibilities of the Trustees, Executive Board and other parties responsible for the management of the Long-Term Investment fund.

Endowment Fund Uses – Exhibit # 3

Income from the Endowment supports a variety of programs and activities carried out by the Association and some of its Divisions. Annually the Trustees set a “draw” level that is a percentage of each asset category that the holder can use to support programs. The draw was 5% for the current year.

- Spectrum Scholarships
- Carnegie Medal
- Schneider Family Book Award
- Geisel Award
- ALA General Scholarships
- General Administrative/Operating Support

Margaret Edwards Trust - Exhibit # 4

Margaret Alexander Edwards was a long-time champion of teen and young adult reading via the Enoch Pratt Free Library of Baltimore. The Edwards Trust was established in 1989 through a bequest from Margaret Alexander Edwards. The purpose of the Trust is to promote free reading by teenagers and young adults. Since supporting teen reading is one of YALSA's basic tenets, it has long been a booster and recipient of funds in support of the Trust's purpose. The original Trustees have gotten quite elderly and decided to end their participation in the management of the Trust. They felt that YALSA would be a good steward of the original purpose of the Trust going forward. In the past the Trust has provided funds for an annual award of \$1,000 for the best young adult literature program and provided a medal annually to each of the ten Alex Award winning authors. Projects currently under consideration include Teen Book Finder App, Teen Read Week activities and YALSA's annual lists (7) of recommended reading.

As of this meeting, ALA has received about \$813,268 in the form of securities, mutual funds and CD's with another CD worth approximately \$100,000 for a total of approximately \$900,000+. These funds have been added to the endowment and will be managed under the same guidelines, policies and procedures as the other endowment funds. YALSA will receive an appropriate accounting statement and distribution of funds that its directors and management will use to support YALSA programs. Finally, because this is a Trust, ALA will be required to file a 990 tax form each year. This form details the annual activities of the Trust.

ISSUES THAT MAY AFFECT MARKET PERFORMANCE

- Markets have been fairly stable in 2014 - see Exhibit #5
- Fixed income is performing better than in recent years.

- Housing continues its steady improvement.
- Continued unrest and civil war in the Middle East could destabilize the markets somewhat.
- The House moving even further to the right could harden the federal government logjam and budget shutdown in the in the fall is a greater possibility.

MARKET PERFORMANCE

Following 2013's spectacular performance, through May of this year is the Endowment's return was 3.1%. If this trend continues, we can hope for an annual return of between 6 – 8%. Historically, this level of return would be good. If you look at Exhibit #8 (World Market Performance) you can see ALA's portfolio is performing well.

The Exhibit #9 shows the allocation among various asset categories. The Trustees' position matches that of other successful endowments like ours that asset allocation is more important than individual manager performance. Over time, having the right mix of assets will yield better performance.

The final slide Exhibit #10 illustrates how the endowment's funds are currently allocated among the many individual funds (70) that make up the endowment. As you can see there are quite few stakeholders from across the Association that have an interest in the well being of the fund.

Mission, Role, Purpose and Uses of the Endowment Fund

*What Guides the Endowment Trustees in the
Management of the Endowment Fund?*

Endowment Fund Mission

The purpose of the American Library Association's Long-Term Investment Fund aka "The Endowment Fund" is to protect and grow the investment resources so as to support current and future Association needs, including scholarships, awards and unique programs that build a strong future for the American Library Association and America's libraries.

Investment Policy Statement (IPS)

- Provides the guidelines, parameters and framework for managing the portfolio
- Defines the responsibilities of and the relationship between the Trustees, the Executive Board, the Investment Advisor and staff
- Outlines the goals and investment objectives of the portfolio
- Establishes the benchmarks for measuring portfolio performance
- Defines the risk profile of the portfolio
- Specifies the asset allocation policy for the portfolio's assets
- Establishes the guidelines for the hiring and retention of investment managers
- Specifies the criteria for evaluating the performance of the Investment Advisor and portfolio managers

Use of Endowment Spending Proceeds

- Spending policy and payout rate is reviewed and set annually by the Trustees and Executive Board
- The spending/payout rate for the FY15 budget is 5%
- Spectrum Scholarships
- Schneider Family Book Awards
- Carnegie Medal Awards
- William Morris
- Melcher Awards
- Newbery/Caldecott Award Medals
- Geisel Award
- Atkinson Memorial Award
- Conference Speaker Fees
- Conference Travel Support for Students
- General Operating Support
- ALA General Scholarships



Margaret Edwards Trust

Exhibit #4

Margaret Alexander Edwards was a long-time supporter of teen and young adult reading via the Enoch Pratt Free Library of Baltimore, Maryland.

The Edwards Trust was established in 1989 through a bequest from Margaret Alexander Edwards. The purpose of the Trust is to promote the free reading of teenagers and young adults.

YALSA has been a long time booster and recipient of funds in support of the Trust's purpose. The original Trustee's felt that YALSA would be a good steward of the purpose of the Trust and the use of its funds going forward.

The ALA endowment expects to receive approximately \$900,000+



- Supports activities that promote reading for the enjoyment and enrichment of teens and young adults
- Projects can include billboards, newspaper ads, reading clinics and work in the streets of underprivileged neighborhoods
- Encourages the use of experimental approaches



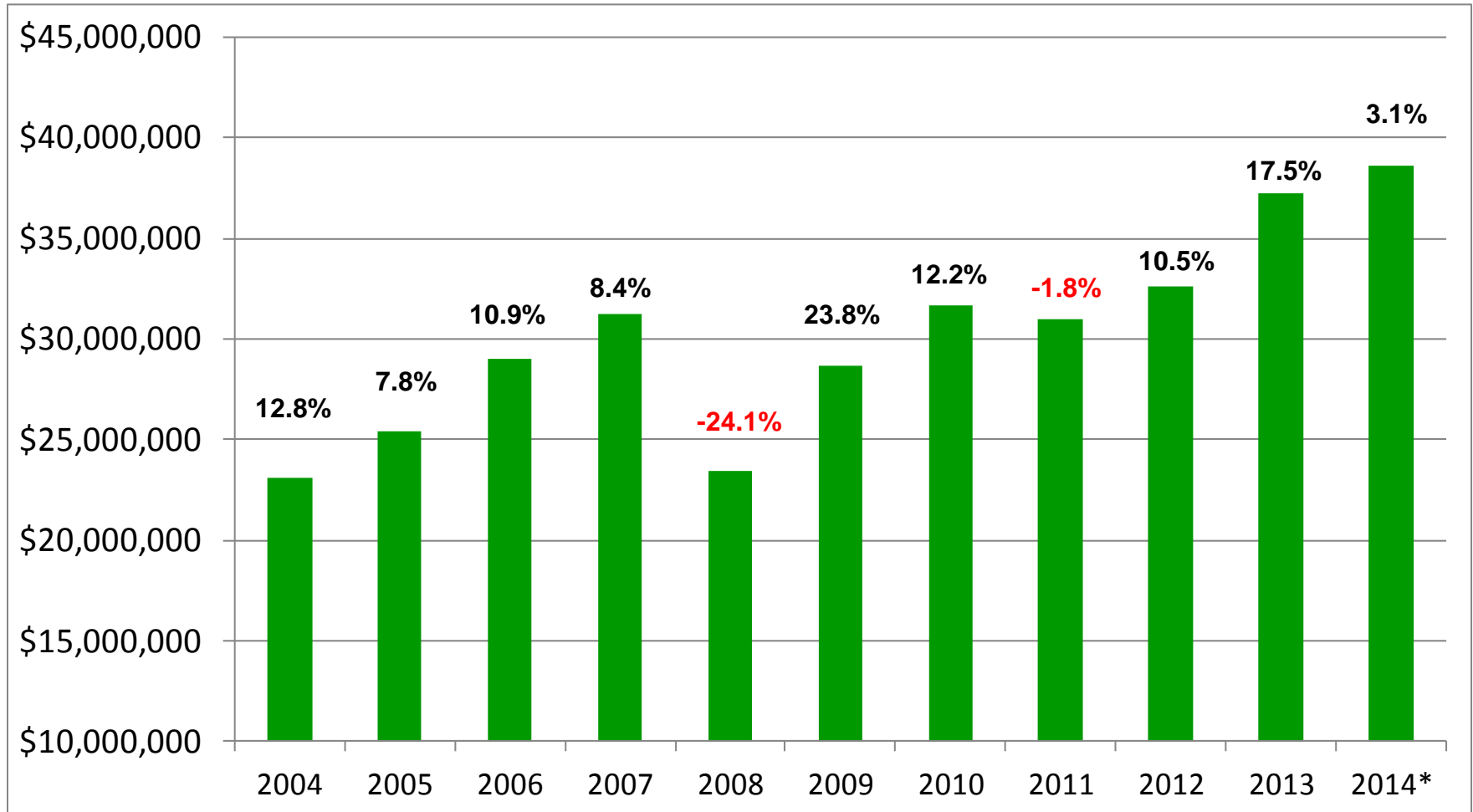
Salient Market Points

- Markets have been fairly stable in 2014.
- Fixed income is performing better than in recent years.
- Housing continues its steady improvement.
- Continued unrest and civil war in the Middle East could destabilize the markets somewhat.
- The House moving even further to the right could harden the federal government logjam and budget shutdown in the in the fall is a greater possibility.

Market Value and Return @ 5-31-14

Exhibit #6

\$38,615,205



*Five months ending 5-31-14

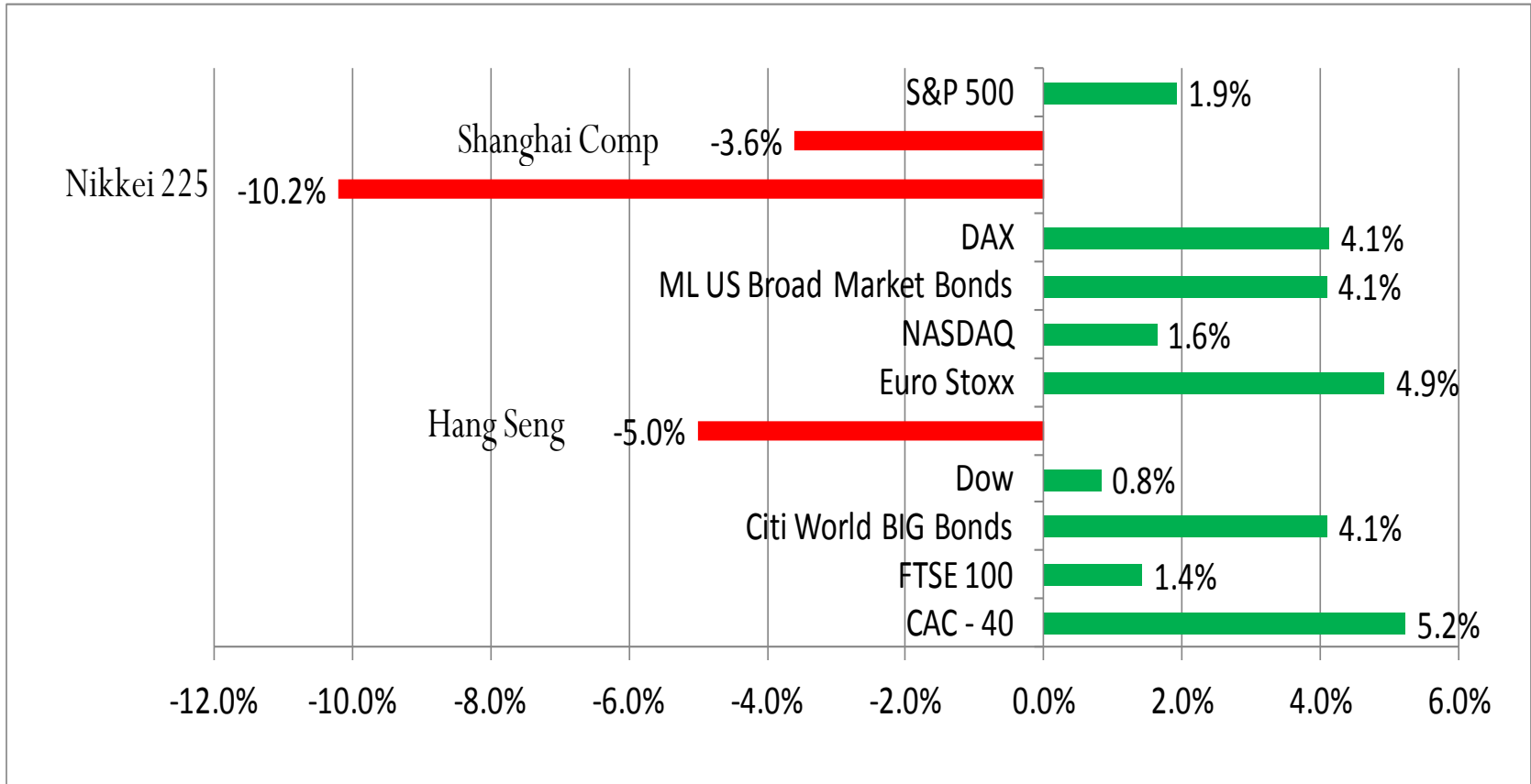
Time Weighted Rate of Return

	<u>Opening</u> <u>Balance</u>	<u>Contributions</u> <u>(Withdrawals)</u>	<u>Interest</u> <u>Dividends</u>	<u>Appreciation</u> <u>(Depreciation)</u>	<u>Closing</u> <u>Balance</u>	<u>ROR</u> <u>Period</u>	<u>ROR</u> <u>Cumulative</u>
January - 2014	\$ 37,288,932	\$ (249,368)	\$ 34,040	\$ 1,304,302	\$36,527,420	3.67%	1.54%
February - 2014	\$ 36,527,420	\$ 7,069	\$ 39,924	\$ (802,621)	\$ 7,622,278	-2.06%	-2.06%
March - 2014	\$ 37,622,278	\$ 0	\$ 66,425	(\$ 65,622)	\$37,623,081	0.00%	1.54%
April - 2014	\$ 37,623,981	(\$ 174,984)	\$ 47,518	(\$ 108,432)	\$37,388,083	-0.16%	1.37%
May - 2014	\$ 37,387,191	\$ 580,634	\$ 44,397	\$ 602,982	\$38,615,205	1.71%	3.10%
Total	\$ 37,387,191	\$ 163,351	\$ 232,304	\$ 930,618	\$38,615,205	NA	3.10%

World Market Performance

Exhibit #8

- Calendar Year Market Returns @ 5-31-14



Manager Allocation and Style

<u>Manager</u>	<u>Value</u>	<u>%</u>
London Company -Large Cap Core	\$ 6,321,400	16.4%
Merrill Lynch Personal Advisor*	\$ 11,677,381	30.2%
Lord Abbett - Convertibles	\$ 1,202,650	3.1%
IDP - Large Cap Value	\$ 3,252,951	8.4%
The Endowment Fund - Alternatives	\$ 1,853,650	4.8%
IDP - International Value	\$ 4,640,588	12.0%
IDP - Large Cap Growth	\$ 6,299,269	16.3%
Pimco - Fixed Income	<u>\$ 3,367,316</u>	<u>8.7%</u>
Total	\$ 38,615,205	100.0%

*MLPA is a platform under which ALA can access different managers in the form of mutual funds and ETF's. There are 8 different managers in this account including the SRI manager Ariel.
 IDP – Institutional Discretionary Portfolio
 SRI – Socially Responsible Investing

Endowment Fund Asset Summary*

Exhibit #10

Life Membership (2)	\$	1,544,608	4.0%
Future Fund	\$	13,129,170	34.0%
Carnegie Fund	\$	1,583,223	4.1%
Spectrum Family (6)	\$	5,715,050	14.8%
Scholarships (10)	\$	2,394,143	6.2%
Awards (39)	\$	7,510,657	19.4%
Divisions (11)	\$	<u>6,738,354</u>	<u>17.5%</u>
Total	\$	<u><u>38,615,205</u></u>	<u><u>100.0%</u></u>

*Approximate and unaudited