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# Endowment Trustees Report

*(Long-Term Investment / Endowment Fund)*

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**Rod Hersberger – Senior Endowment Trustee**

**Patricia Wand – Endowment Trustee**

**Thursday - April 4, 2019**

**Saturday – April 6, 2019**

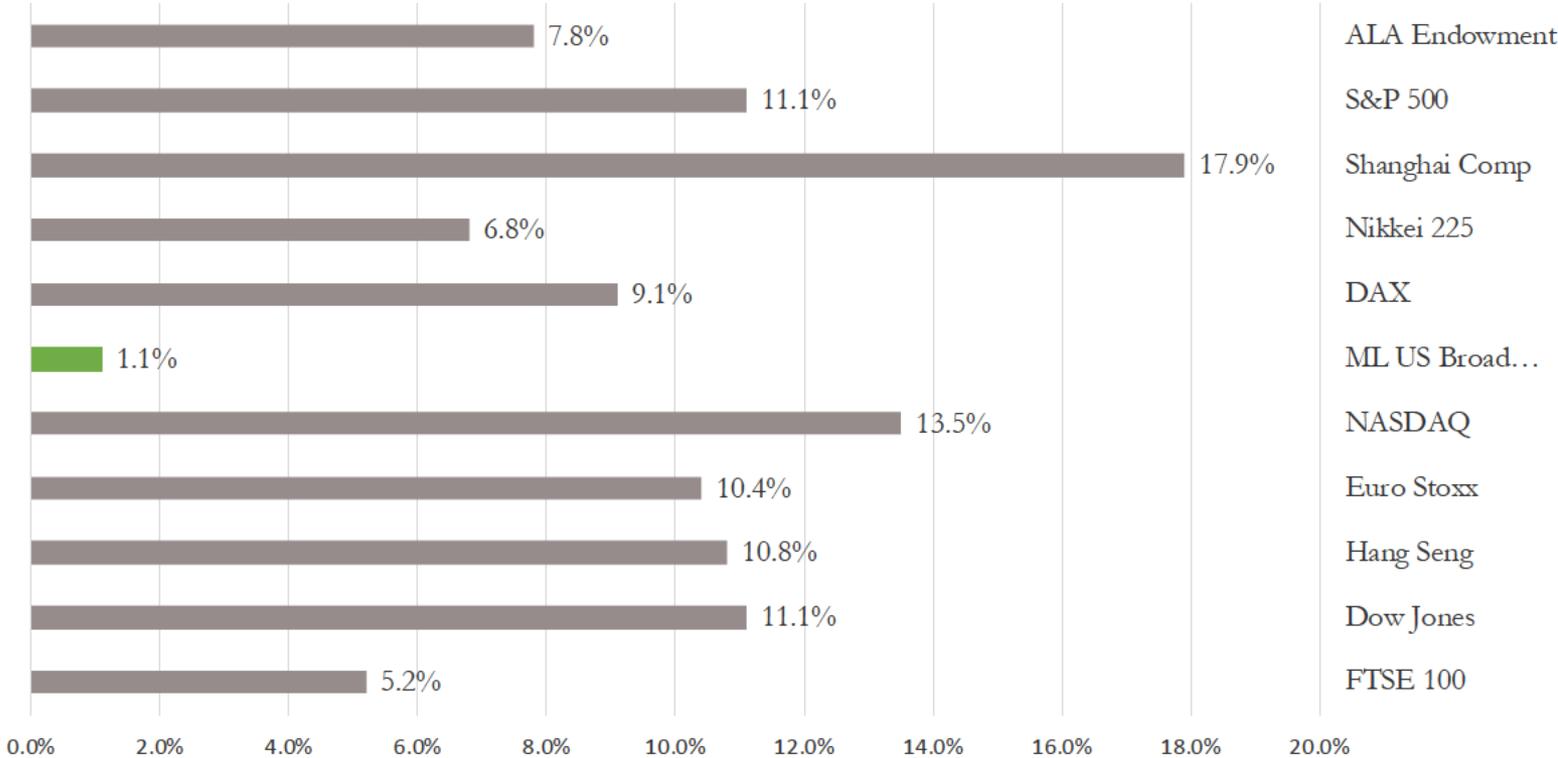


# Diversity Among Asset Classes

- With the possible exception of private equity, no single asset class will outperform the broad market indexes over a long period of time.
- This is why ALA's portfolio must remain fully diversified, It is just as important to have cover in down markets as it is to ride the cresting waves in up markets.
- Part of the Endowment Trustee's fiduciary responsibility includes preparing for the inevitable market fluctuations that will occur.

# World Market Performance

- Calendar Year Market Returns @ 2-28-19



# Market/Book Value and Return\* @ 2-28-19

## \$45,383,035



\*Calendar year to date (two months) through 2-28-19

# Market Impacts & Expectations for 2019

- Global growth continues to slowdown
  - Central banks have stopped their bond buying programs
  - Central banks considering the implementation of additional stimulus plans
  - Central banks expect to hold interest rates at current levels through the end of the year
- Uncertainty continues around the Brexit outcome
- US/China trade discussions progressing slowly
- US economy showing signs of slowing growth
  - Feeling effects of gov't shutdown and unusually inclement weather
  - Current expansion is now in its 121<sup>st</sup> month
- Federal Reserve lowers expected interest rate increases in 2019 from 2x to 0x

# Manager Allocation and Style

<u>Manager</u>	<u>Allocation</u>	<u>%</u>
Clearbridge Large Cap ESG	\$ 10,006,431	22.0%
Principal Mid Cap	\$ 2,205,550	4.9%
Nuveen Small Cap ESG	\$ 1,422,268	3.1%
Equity Income & Growth EFT	\$ 8,585,905	18.9%
Capital Group Internatonal	\$ 2,088,419	4.6%
Domini Internatuional ESG	\$ 1,005,997	2.2%
Lazard International	\$ 1,102,750	2.4%
Oakmark International	\$ 1,077,665	2.4%
Vanguard US REIT EFT	\$ 1,178,071	2.6%
Nuveen Real Asset Income	\$ 1,141,413	2.5%
PIMCO Income	\$ 1,932,966	4.3%
Double Line Total Return	\$ 2,024,556	4.5%
Calvert Short Duration ESG	\$ 2,220,370	4.9%
Guggenheim Total Retrun	\$ 1,989,790	4.4%
Lord Abbott Short Duration	\$ 2,006,171	4.4%
The Endowment Fund	\$ 634,693	1.4%
AQR Long Short Equity Fund	\$ 1,456,275	3.2%
JLL Income Property Trust	\$ 1,079,781	2.4%
Blackstone 2015 BTAS Trust	\$ 1,673,038	3.7%
KKR 2016 Custom Equity Opportunity	\$ 550,927	1.2%
Total	<u>\$ 45,383,035</u>	<u>100.0%</u>

# Time Weighted Rate of Return

	<b>Opening</b>	<b>Contributions</b>	<b>Interest</b>	<b>Appreciation</b>	<b>Closing</b>	<b>ROR*</b>	<b>ROR*</b>
	<u>Balance</u>	<u>(Withdrawals)</u>	<u>Dividends</u>	<u>(Depreciation)</u>	<u>Balance</u>	<u>Period</u>	<u>Cumulative</u>
<b>February - 2019</b>	\$ 44,443,399	\$ 0	\$ 78,617	\$ 861,019	\$ 45,383,035	2.11%	7.82%
<b>January - 2019</b>	\$ 42,091,092	\$ 0	\$ 20,118	\$ 2,332,190	\$ 44,443,399	5.59%	5.59%
<b>Total</b>	<b>\$ 42,091,092</b>	<b>\$ 0</b>	<b>\$ 98,734</b>	<b>\$ 3,193,209</b>	<b>\$ 45,383,035</b>		<b>7.82%</b>

\*Rate of Return

# The Work of the Endowment Trustees

## *Recent Trustee Actions*

- The Trustees held their midwinter education meeting in NYC - February 20<sup>th</sup>
- The Trustees also held a “Working Session” at the New York Public library to complete work on their strategic review in November 2018 – February 19<sup>th</sup>
- Received an update from the Executive Director on the major revenue change streams projects taking place across the Association, in conjunction with the 3-Year investment plan
- Finalized the framework and process for handling small endowments with less than and or drop below \$50,000
- Approved a 5% spending/payout from the endowment for the FY20 budget
- No asset allocation changes to the portfolio
- Replaced the US Small Cap EFT manager Schwab at with Nuveen\* Small Cap ESG EFT at \$1.3 million (2.9%)
- Hired Partners Group Private Equity ESG manager with a commitment of \$1.0 million. Note: ESG now accounts for 31.8% of the portfolio before any private equity ESG draws.



■ \*Nuveen is in the process of becoming the investment brand for TIAA.

# Guidelines Used for Investment Policy Statement (IPS) Development

- *Development Criteria* – Construct an IPS designed to be clear, concise and focused in order to help the Trustees’ communicate at a high level the goals and guidelines for the portfolio to the Executive Board and membership
- Developed to be detailed enough to communicate the intent but not so granular that it unintentionally hinders the portfolios management activities
- Should be primarily focused on the Endowment as a whole
- Delegation of Responsibilities – Executive Board, Endowment Trustees, investment managers, and investment consultant
- Asset Allocation – Based on the broad parameters set by the Executive Board and based on the objectives/constraints of the endowment e.g. asset allocation parameters, diversification, risk tolerance etc.
- Manager Policies – Covers the Trustees views and responsibilities on hiring, firing, monitoring and providing guidelines to a manager
- Administration – Covers specific policies on compliance with UPMIFA\*, conflicts of interest, cash management, rebalancing protocols, reporting, benchmarking, portfolio stress testing, Trustee openings, applications, education & orientation of Trustees, recruitment of potential applicants, communications with members/member leadership

*\*Uniform Prudent Management of Institutional Funds Act. It is an act that provides guidance on investment decisions and endowment expenditures for nonprofit and charitable organizations.*

# Endowment Trustees Six Month Plan



- Develop a modern Investment Policy Statement (IPS)
- Revise Trustees charge & responsibilities
- Develop a Trustees procedures Manual
- Decision Making Tree illustrating the relationship with Executive Board
- Perform some Portfolio Stress Testing for disaster preparedness
- Enhance the Trustees' web presence
- Develop an endowment FAQ
- Update the Trustees' job description
- Promote fundraising for Future Fund
- Consider and set long/short term quantitative and qualitative goals – 5 years/10 years



# Response to SRRT/SRT Recommendations

## SRRT/SRT Recommendations

1. Release an RFP\* for an Investment Consultant with values aligned with ALA
2. Consider switching from Merrill Lynch (Investment Advisor) and Cambridge (Large Cap ESG Manager) to managers that recognize the financial risks of fossil fuels in the portfolio
3. Consider increasing the percentage of Environmental, Social and Governance (ESG) criteria for investments in the ALA Endowment Fund.
4. Consider the recent American Medical Association (AMA) divestment from fossil fuels as a model for ALA.

## Trustees' Response

1. As a matter of policy the Trustees issue an RFI\*\* at least every five years. The next will be issued in the next eighteen months.
2. The RFI will be a competitive process open to all qualified bidders. The Trustees take a very broad view of ESG that includes all three factors in the classification – environment, social and governance - rather than focusing solely on fossil fuel stocks. The Association has no financial risk that is supposed in this statement.
3. At their meeting in February 2019, the Trustees added two new ESG investments. These two new investments raise the total of ESG investments to 34.1% of the portfolio. Five years ago, on January 31, 2014, the ESG percent of the total was only 1.3%. The Trustees continually review and evaluate additional ESG investments which includes direct meetings with ESG investment managers.
4. The Association owns no individual stocks. Therefore there is nothing to divest. ALA invests in twenty different funds. Of these, only six have negligible investments in energy stocks that amount to only 1.7% of the portfolio's total value.

\*Request for Proposal

\*\*Request for Information