ALA Endowment Trustees
Report to Council
Sunday - July 12, 2009
Chicago, IL

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 Senior Trustee of the 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.

Attachments

Attached for your review are charts (Exhibits #1- 6) detailing the value of the portfolio, the allocation of the assets by type, investment style and manager. Also included is a historical review, manager investment style/benchmark comparisons and other pertinent information related to the management of the Endowment Fund.

The Tale of Two Quarters

First Quarter - As was mentioned in the Midwinter Meeting report in Denver calendar 2008 ended with extreme levels of volatility – mostly to the down side. Day to day market losses were at levels never seen before over such and extended period of time i.e. July – December. During this time the US market lost upwards of $6.9 trillion in value. The first quarter of 2009 started out the same way as 2008 ended – extreme downward volatility. Through March 9th the general market was down approximately -24.0%. This magnitude of loss within such a short period of time (nine weeks) can only be described as abysmal. Bad news of any type was another reason for investors to panic and move closer to "Capitulation,[1]" particularly by non-professional investors. Many market pundits believe this condition or turning point occurred on or around March 9th. Additionally, the pundits now believe that investors have for an extended period of time been over reacting and driving the market down further than market conditions would warrant.

[1] The point where investors will sell and leave the market at any cost and likely not return

Second Quarter – As mentioned previously beginning on or about March 9th the market psychology changed and began to take off. This rally lasted through the entire second quarter. Exhibit #5 illustrates the degree to which things changed during the period. After hitting a twelve year low on March 6th the Dow gained 27.5% and gave the index its first quarterly in over a year and a half. Note however that it is still down 40% from its all-time high on October 9, 2007. As the exhibit illustrates most major indexes had strong gains during the quarter. The only index that did well in both quarters was the Shanghai Composite. At this point it looks as though it will be China leading the world out of the current recession. The quarter represents a period of healing for the financial markets. Credit markets showed much improvement and holding more risky assets was less fearful. Big banks were able to tap the capital markets and rebuild their balance sheets with much needed capital. Emerging markets and commodities were the big winners.

The second quarter rally was so strong that many are beginning to believe that there has been too much optimism (buying) on the up side just as there may have been too much pessimism when the market was headed down. It should be noted that bulls and bears alike generally agree that to post a significant rally in the second half of the year will require convincing evidence that the US economy is on the right track.

Endowment Fund Performance

For the six months ended 6-30-09 the value in the ALA Endowment fund increased by $1.2 million from $23.4 million to $24.8 million - see exhibit #1. This resulted in a return of 5.8% compared to the portfolio's benchmark, which was 3.7%.

As we can see from exhibit #3, most of the portfolio managers have rebounded from the devastation of the first quarter where the portfolio lost $1.3 million. Comparisons to their respective benchmarks were mixed. Their results were as follows:

Alliance Bernstein – Core manager – reported a gain of 18.0% compared to its benchmark of 3.2%. Alliance is the portfolio's equity stabilizer with holdings in the growth and value categories, currently 60/40. They make investment decisions based on long-term secular market themes, along with some catalysts to provide support and short term economic trends.

After struggling for much of 2008 the rest of the market has caught up to their view on the market i.e. they were too early in their theme centered rotation toward overweighting information technology, materials, consumer discretionary and industrials, while underweight consumer staples, health care, financials and utilities. The Trustees stayed with these managers because there had been no adverse changes in management or their method of investing and as such warranted an opportunity to turn their fortunes around.

Marsico – Large Cap Growth manager – reported a gain of 5.7% compared to its benchmark of 11.5%. Performace, was helped by holdings in the financial sector with Morgan Stanley, Goldman Sachs and Mastercard, as well as similar holdings in Wells Fargo and US Bancorp. Relative to the index Marsico is still overweight industrials and consumer discretionary's, while significantly underweight information technology and healthcare. Note: that Marsico runs a concentrated portfolio with approximately 30-50 securities.

Blackrock – Large Cap Value manager – reported a loss of -3.7% compared to its benchmark (S&P/Citigroup Value) of -1.4 %. Blackrock was on the positive side of the financial crisis as the portfolio benefited from holdings in JPMorgan chase, Captial One UNUM Provident and Bank of America. However, they were hurt badly by the turnaround in the fortunes for energy as Valero energy, Marathon and Occidental Petroleum all suffered significant losses. Despite the big hit in energy the portfolio is still overweight energy due to what the managers consider to be outstanding buying opportunities. The portfolio is also overweight in healthcare industrials and information technology. Meanwhile, the portfolio is significantly underweight consumer staples and telecommunications and no holdings in basic materials or utilities. Value continues to lag growth.

NFJ – Small Cap manager – reported a loss of -0.1% compared to its benchmark (Russell 2000 Value) which lost -5.2 %. In view of how small caps perform in volatile markets such as we're experiencing now the results are good. In view of the characteristics of this asset category and the current market environment the performance is strong. As a value contrarian style investor who concentrates on out of favor, low multiple small cap companies they provide more downside risk protection. The portfolio was helped by holdings of regional type banks like Bancorp south, Susquehanna Banc and Old National Banc. The portfolio was hurt by holdings in Pilgrims Pride, Commercial Metal and Genco Shipping. Currently the portfolio's underweight in financials, consumer discretionaries and information technology and overweight in energy, utilities and consumer staples.

As stated in earlier reports this asset category typically performs well coming out of a recession. It is also one of the first categories to be hurt at the onset of a recession. In anticipation of the rotation back into of small cap stocks as the economy improves, exposure in this asset category will likely be increased during the year.

Lazard – International manager – reported a small gain of 1.1% compared to its benchmark (MSCI EAFE) of 8.1%. There are 38 stock markets in developed and emerging markets around the world and all are reporting strong gains for the year. Lazard is by nature a defensive manager in a volatile asset class, which is why they were hired. As such they protect on the down side but won't realize as much of the markets rise when things turn positive. Lazard was helped during the year by an overweighting in the United Kingdom and Canada, while underweight in the Pacific, particularly Japan.

Heitman – REIT manager – reported a loss of -9.6% compared to its benchmark (Wilshire Real Estate Securities) which also reported a loss of -12.9%. Despite the performance this asset category continues to spin off a significant amount of interest to the benefit of the association. Based on conversations with the managers a compelling case for expanding our exposure in this area is still being made. Just like in 2006 when they suggested that we reduce our exposure in this asset category due to overvaluations, they are now suggesting that valuations have never been lower and represent an extraordinary buying opportunity.

Invesco – REIT manager and new to the portfolio since the Midwinter Meeting – reported a loss of -3.6% compared to its benchmark of -12.9%. It should be noted that REIT's benchmark ended the 1st quarter down -33.5%, a twelve year low. However, despite the negative YTD results, REIT's realized a gain of 28.9% in the second quarter. This is a historical high for a quarter.

PIMCO – Fixed Income manager – reported a gain of 6.9% to its benchmark (ML US Bond Market) which returned 2.0%. Much of the portfolio's success can be directly attributed to the decision by the Trustees to build up the holdings in this asset class beginning in 2006 from the lower end (22.5%) of its range to the maximum. (37.5%) end. The portfolio benefited from its investment in mortgage backed securities. As conditions are shifting the Trustees are slowing reducing its exposure to pure fixed income assets.

Lord Abbett – Convertible Bond manager and new to the portfolio since the Midwinter Meeting – reported a gain of 10.6% slightly less than its benchmark return of 12.3%. Convertible securities are hybrids in that they are fixed income securities with the ability to be converted into equities provided certain market conditions are met. Thus they have the benefits of both worlds with the potential to generate additional gains.

Ariel Capital – SRI manager – reported a gain of 14.4% compared to its primary benchmark (Russell 1000 Midcap Value) of 3.2%. Because of Ariel's unique standing in the investment community in that they are an SRI fund that compares itself to a more industry standard benchmark i.e. non-SRI (Russell 1000 Value), we have also provided two SRI specific indices, the Domini 400 and the KLD Social Select. Performance measurers were not available as of this writing. Ariel's performance was helped by holdings in International Game and AFLAC

Note: The Trustees meet on a monthly basis via telephone, with ALA staff and Merrill Lynch – ALA's Investment Advisor – to review the Endowments' investment performance, asset allocation and other matters. As a result of this practice, asset allocation decisions are made by the Trustees' during the course of the year, based on prevailing market conditions.

Asset Allocation and Rebalancing

See exhibit #4 for details on the asset allocation strategy and current allocation. The practice of rebalancing is based on an assessment of the prevailing risks and opportunities in the market. The Trustees', in conjunction with its investment advisor, continually monitor the portfolio and look for new opportunities to boost performance at appropriate levels of risk.

It should be noted that using asset allocation strategies is the foundation for generating excess investment earning. This is value added by "Active Management." This is accomplished by the following:

1. Overweighting an asset category which is undervalued or out of favor
2. Underweighting an asset category which is overvalued or in –favor
3. Interviewing and selecting managers that add value over their benchmarks
4. Rebalancing asset categories over time as appropriate

Based on the prevailing and expected future market conditions the Trustees are continuing their strategy of maintaining the current balance between equities and fixed income and reviewing other asset classes that will reduce risk and enhance performance. Many believe that the foundation has been laid for some significant long-term gains in equities due to the de-leveraging or revaluation that is taking place in the market.

Over the last 51/2 year period ending 6-30-09 active management has generated $2.5 million in investment earnings. This compares to passive[2] management investment earnings of $1.4 million. As a result, active management generated additional or excess investment earnings of $1.1 million.

[2] Industry benchmark of 60% S&P 500 index and 40% Barclays Aggregate Bond

Acknowledgements

On behalf of the Trustees I would like to thank the ALA Finance staff who assists the Endowment Trustees in carrying out our duties. We continue to be especially well served by Greg Calloway, Keith Brown and Elaine Klimek of the ALA financial staff. They have been very dependable, reliable and thorough in assisting the Trustees in our financial oversight responsibilities.

Respectfully submitted,

Dan Bradbury – Chair (2012)
John Vitali – Trustee (2010)
Robert Walton – Trustee (2011)
Rod Hersberger – ALA Treasurer, Ex Officio (2010)

2008 - 09 CD#16.1

2008 – 09 EBD #13.6

(2008 – 09 Annual Conference)

Endowment Trustees Report to Council

(Long-Term Investment Fund)

Dan Bradbury – Senior Trustee

Sunday – July 12, 2009

Market Flash Points

- Current Bull market begins its run on March 9, 2009
- The Dow turns positive for the first time this year on May 5, 2009
- The transition from a Bear market to a Bull market has generally resulted in strong performance – see Exhibit #6
- The month of April realized the one of the largest monthly gains in market history
- Emerging markets, particularly China and Brazil, are leading the global markets out of its malaise
- Is the current Bull run too strong for the market conditions that exist?

Market Valued vs. Book Value @ 6-30-09

Exhibit #1

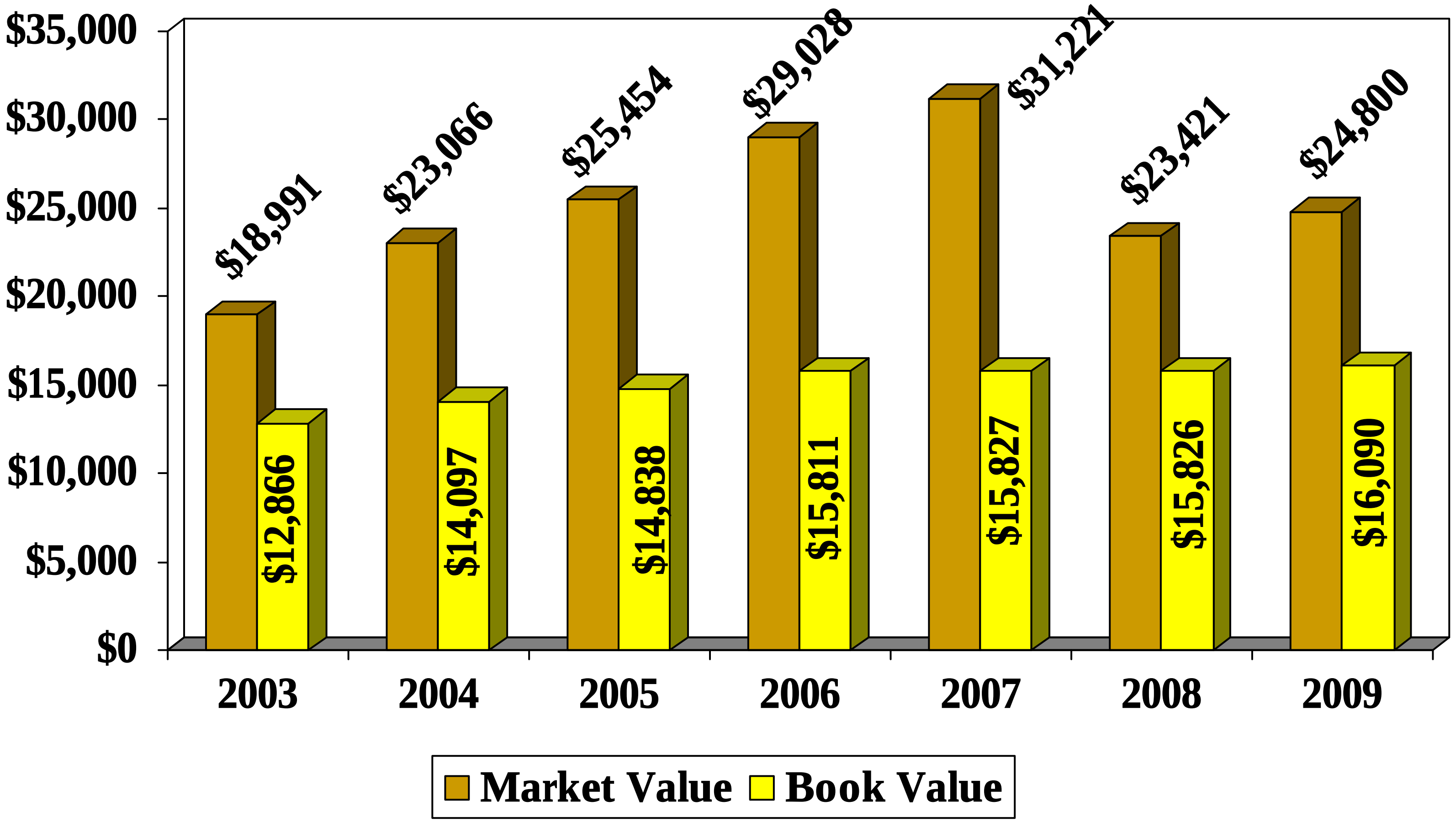

Exhibit #2

Endowment Fund Manager Allocation & Style @ 6-30-09

$24,799,482

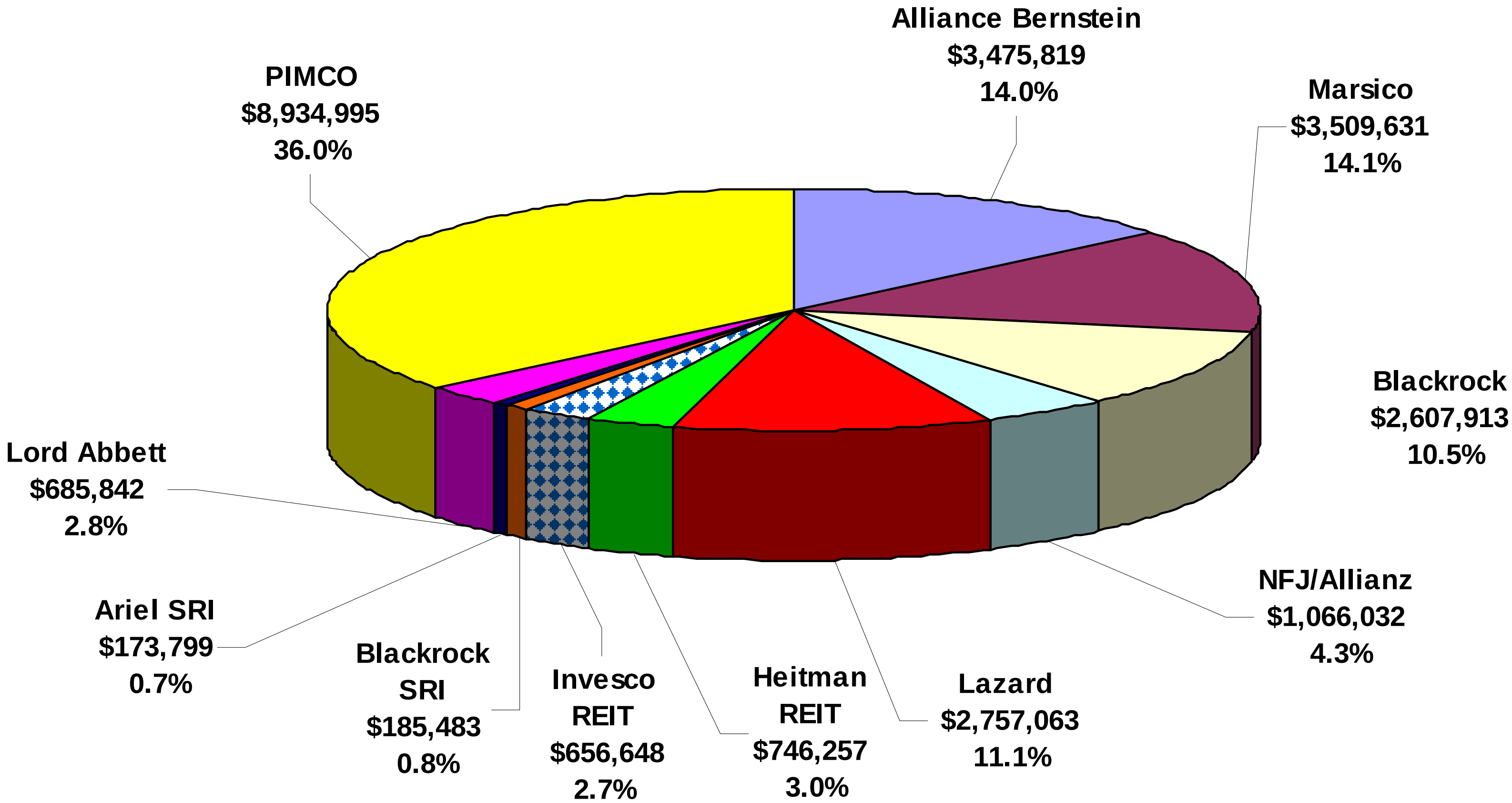

Exhibit #3

Performance – 6/30/09 **(YTD Returns)**

Managers	Market Value	YTD $ Change	Mgr Return	Benchmark
Alliance Bernstein	$ 3,475,819	$ 520,469	18.0%	3.2%
Marsico	$ 3,509,631	$ 174,417	5.7%	11.5%
Blackrock	$ 2,607,913	$ (37,485)	(3.7%)	(1.4%)
NFJ/Allianz	$ 1,006,032	$ (6,326)	(0.1%)	(5.2%)
Lazard International	$ 2,757,063	$ 18,997	1.1%	8.1%
Heitman -REIT	$ 746,257	$ (90,492)	(9.6%)	(12.9%)
Invesco - REIT	$ 656,648	$ 25,148	(3.6%)	(12.9%)
Blackrock SRI	$ 185,483	$ 9,698	6.0%	5.5%
Ariel SRI	$ 173,799	$ 21,838	14.4%	3.2%
Lord Abbett - Convertibles	$ 685,842	$ 54,342	10.6%	12.3%
PIMCO	$ 8,934,995	$ 530,249	6.9%	2.0%
	$ 24,799,482	$ 1,220,855	5.8%	3.7%

Exhibit #4

Asset Allocation Strategy

ASSET ALLOCATION STRATEGY		POLICY GUIDELINES @ 3-31-09			
		Min	Target	Actual	Max
Domestic Large/Medium Cap Stocks		30%	40%	40%	50%
	Alliance Bernstein - Core			14.0%	
	Blackrock - Large Cap Value			10.5%	
	Marsico - Large Cap Growth			14.1%	
	Blackrock - Large Cap SRI			0.8%	
	Ariel - SRI			0.7%	
Domestic Small/Medium Cap Stocks		0%	5%	4%	10%
	NFJ - Small Cap Value			4.3%	
International Equity		5%	10%	11%	15%
	Lazard - International			11.1%	
Real Estate Investment Trust (REIT)		5%	10%	6%	15%
	Invesco			2.7%	
	Heitman			3.0%	
Investment Grade Fixed Income		22.5%	30%	39%	40%
	Lord Abbett			2.8%	
	PIMCO - Bonds			36.0%	

Exhibit #5

The Tale of Two Quarters

(Market Returns and Changes)

Managers	3/6/09*	1st Quarter**	2nd Quarter***
Dow Jones	-24.5%	-13.3%	-3.8%
Wilshire 5000	-23.7%	-10.7%	3.8%
S&P 500	-24.3%	-11.7%	1.8%
NASDAQ	-18.0%	-3.1%	16.4%
Russell 2000	-29.7%	-15.4%	1.8%
ALA Endowment	-9.7%	-5.0%	5.8%
FTSE 100	-20.4%	-11.5%	-4.2%
Nikkei	-19.0%	-8.5%	12.4%
Shanghai Composite	20.4%	30.3%	62.5%
DJ Euro Stoxx	-23.6%	-14.0%	0.1%

***Represents market low for year **YTD Return Period Ending 3-31-09 ***YTD Return Period Ending 6-30-09**

Why Stay Fully Invested*?

Exhibit #6

Market Bottom	% Change from the Bottom 1 Mos	3 Mos	6 Mos	9 Mos	12 Mos	15 Mos	18 Mos	21 Mos	24 Mos
6/13/1949	7.2%	13.4%	21.8%	25.7%	40.1%	38.3%	41.6%	52.2%	54.7%
6/26/1962	8.2%	8.0%	21.6%	27.0%	32.3%	37.6%	41.9%	52.3%	55.1%
10/7/1966	7.8%	8.7%	14.7%	16.8%	24.8%	21.1%	16.3%	22.6%	28.5%
5/26/1970	9.0%	20.5%	22.7%	39.2%	43.6%	43.6%	29.4%	46.2%	53.9%
12/6/1974	10.3%	31.9%	45.4%	44.7%	41.8%	68.4%	66.9%	71.2%	66.5%
2/28/1978	2.3%	12.1%	19.2%	8.4%	9.0%	12.7%	19.2%	11.9%	15.1%
8/12/1982	16.7%	33.9%	39.9%	56.3%	52.3%	60.9%	49.4%	48.9%	56.8%
10/19/1987	9.0%	11.4%	15.0%	20.6%	22.9%	28.8%	37.3%	48.6%	54.3%
10/11/1990	5.2%	5.8%	22.9%	25.1%	26.2%	35.3%	37.6%	40.8%	32.6%
3/22/2001	12.7%	12.9%	-12.3%	6.9%	11.1%	-1.5%	-15.0%	-9.4%	-9.2%
9/21/2001	11.8%	21.9%	27.3%	12.4%	-3.0%	3.4%	3.5%	11.7%	17.1%
10/9/2002	17.2%	20.5%	12.5%	25.7%	32.9%	43.5%	43.3%	40.2%	38.0%
Average	**9.8%**	**16.7%**	**20.9%**	**25.7%**	**27.8%**	**32.7%**	**31.0%**	**36.4%**	**38.6%**

***As the table above illustrates, over the last 12 Bear markets the Dow has risen an average of 28.7% every three months as the market recovers**

Information Source – CNBC.com

Thanks for Your Attention