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2009 –10 CD #16.0
2009 - 10 ET #6.0
2009 - 10 EBD #13.1
(2009-10 Midwinter Meeting)

Endowment Trustees Report To Council

(Long-Term Investment Fund)

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Dan Bradbury – Senior Trustee
Sunday – January 17, 2010
Boston, MA.

Exhibit #1

Market Flash Points

- **Strong market advance since March 9, 2009**
- **Unemployment still rising and expected to continue through 1st quarter of 2010**
- **Economic conditions worldwide improving – led by China and the Far East**
- **Federal Reserve continues to maintain an interest rate friendly environment**
- **Inflation still under control**
- **A double dip recession still a concern**

Exhibit #2

Market Value vs. Book Value @ 12-31-09

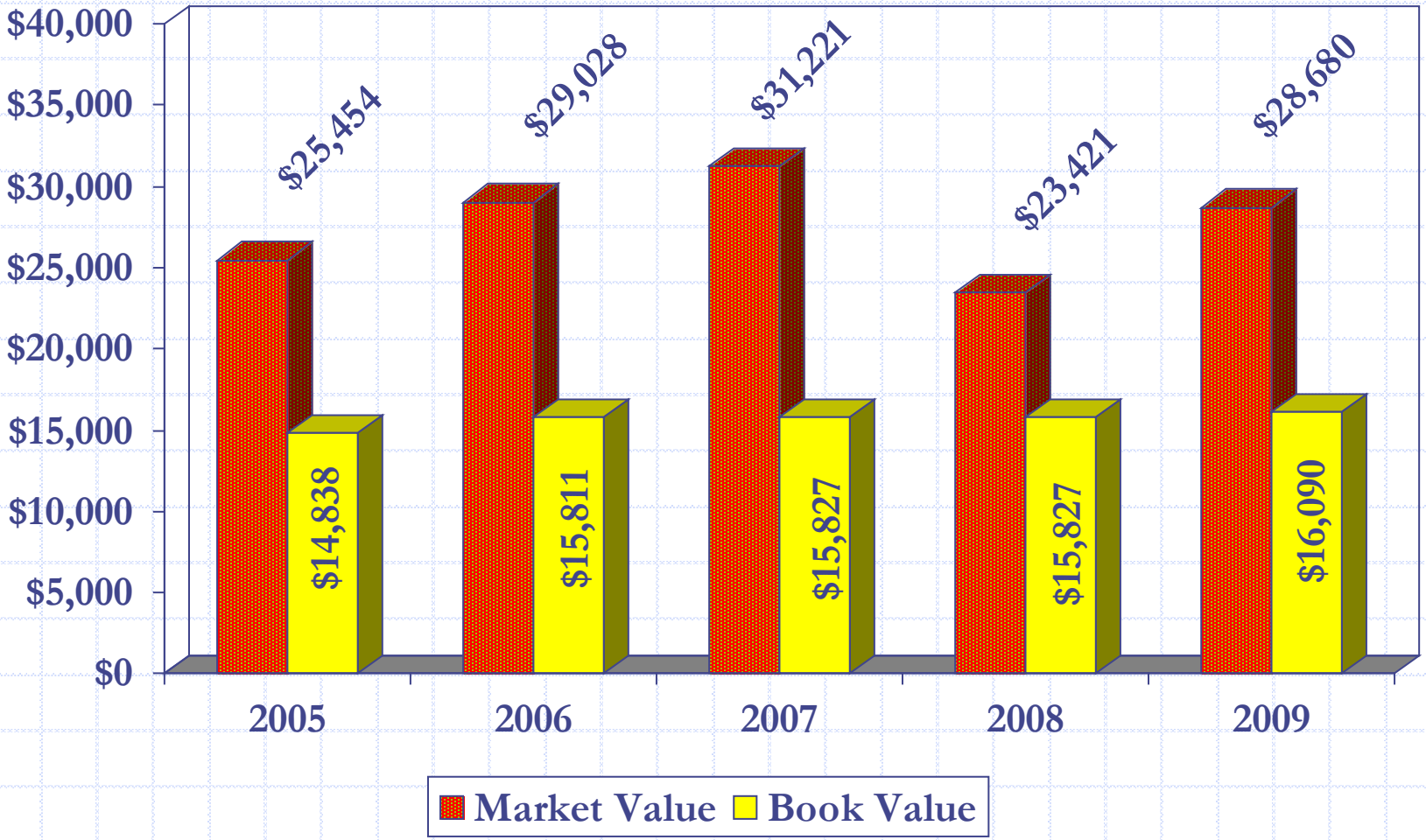
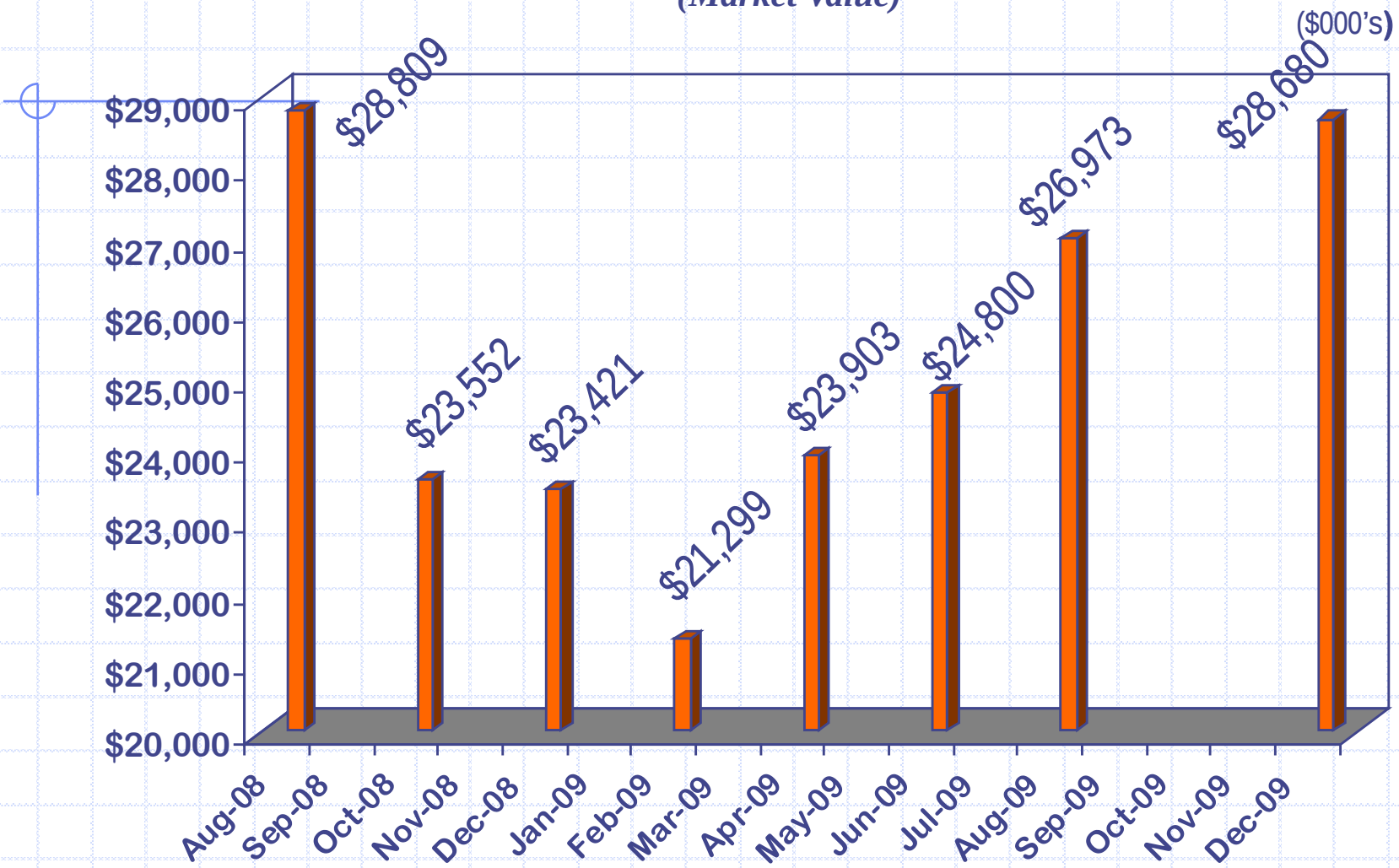


Exhibit #3

Meltdown to Recovery

(Market Value)



*Millions

Endowment Fund Manager Allocation & Style @ 12-31-09

Exhibit #4

$28,680,316

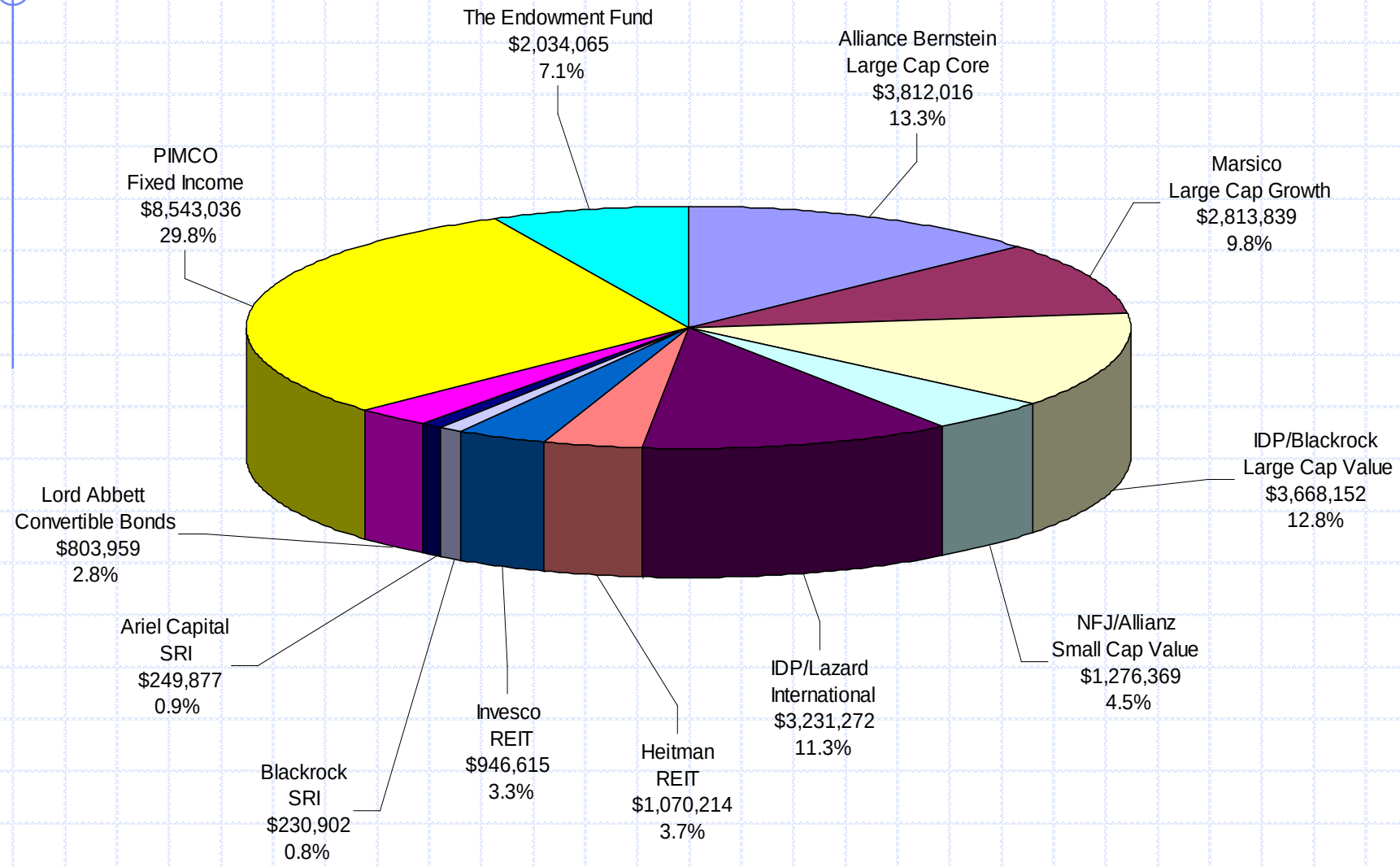


Exhibit #5

Performance – 12/31/09 (YTD Returns)

Managers	Market Value	Yearly Gain	Returns	Index
Alliance - Core	$ 3,812,016	$ 1,256,666	44.4%	24.1%
Marsico - LCG	$ 2,813,839	$ 878,625	29.5%	37.2%
IDP LCV*	$ 3,668,152	$ 423,301	19.2%	19.7%
NFJ - SCG	$ 1,276,369	$ 204,011	19.9%	20.6%
Blackrock - SRI	$ 230,902	$ 55,117	32.4%	31.7%
IDP International*	$ 3,231,272	$ 493,206	18.6%	32.2%
Invesco - REIT	$ 946,615	$ 314,882	39.7%	29.0%
Heitman - REIT	$ 1,070,214	$ 233,465	30.2%	29.0%
Lord Abbett - Conv Bonds	$ 803,959	$ 172,226	30.1%	28.4%
PIMCO - Bonds	$ 8,543,036	$ 1,084,924	13.8%	6.1%
Endowment Fund**	$ 2,034,065	$ 34,065	1.6%	2.3%
Merrill Lynch Managed	**$ 28,430,439**	**$ 5,150,488**		
Ariel Capital - SRI	$ 249,877	$ 96,536	63.0%	34.2%
Composite**	**$ 28,680,316**	**$ 5,247,024**	**23.8%**	**20.7%**

*Reflects the performance of the previous manager and the new one.

**Returns for the Endowment Fund are reported on a 30 day lag basis. As such this represents their performance through 11-30-09

ASSET ALLOCATION STRATEGY	POLICY GUIDELINES @ 12-31-09			
	Min	Target	Actual	Max
Domestic Large/Medium Cap Stocks	30%	40%	38%	50%
Alliance Bernstein - Core			13%	
IDP - Large Cap Value			13%	
Marsico - Large Cap Growth			10%	
Blackrock - Large Cap SRI			1%	
Ariel - SRI			1%	
Domestic Small/Medium Cap Stocks	0%	5%	4%	10%
NFJ - Small Cap Value			4%	
Alternative Investments				
Endowment Fund	0%	10%	7%	15%
International Equity	5%	10%	11%	15%
IDP - International			11%	
Real Estate Investment Trust (REIT)	5%	5%	7%	15%
Invesco			3%	
Heitman			4%	
Investment Grade Fixed Income	22.5%	30%	33%	40%
Lord Abbett			3%	
PIMCO - Bonds			30%	
Cash and Cash Equivalents	0%	0%	0%	5%
			100%	

Recent Strategic/Tactical Moves

- Implemented a Large Cap Value overweight and reduced the Large Cap Growth overweight to underweight
- Replaced the former Large Cap Value manager Blackrock with an Institutional Discretionary Portfolio* (IDP) – October 2009
- Replaced the former International manager Lazard with an Institutional Discretionary Portfolio* (IDP) – November 2009
- Invested $2 million in The Endowment Fund** - Alternative Investment – October 2009

*A portfolio solution of "Manager of Managers" – a portfolio of individual managers, mutual funds, ETF's

**A portfolio of "Fund of Fund" hedge fund managers i.e. multiple hedge funds in one portfolio

Exhibit #8

Active vs. Passive Management

(The six year period ended 12-31-09)

- Investment Earnings of ALA Endowment - $6.6 million
- Investment Earnings Assuming Passive management - $5.0 million
- Excess Investment Earnings available to ALA over the period - $1.6 million

Contributing to the current value of

$28.7 million as of 12-31-09

Thank You for Your Attention

ALA Endowment Trustees
Report to Council
Sunday - January 17, 2010
Boston, MA

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 Midwinter Meeting.

Attachments

Attached for your review are charts (Exhibits #1- 9) 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, as well as, other pertinent information related to the management of the Endowment Fund.

Financial Year in Review - 2009

In our report at Annual Conference in Chicago our report was centered on "The Tale of Two Quarters." The first quarter results, particularly through March 9, 2009, represented the capitulation of the last remaining fair weather/non-professional investors. Since that time the market regained its footing and found a reason to break out, although some may question the soundness of the reasoning. Exhibit #3 illustrates the degree of volatility experienced in the market over the last 15 months or so and its impact on the value of the portfolio. At its low point in 2009, the value in the ALA Endowment was $21.3 million.

The overall market downfall began in the spring of 2008. By the time ALA's 2009 fiscal year began (9-1-08), the market was undergoing a complete meltdown. October, November and December were particularly hard hit. In essence, 2008 ushered into 2009 the rubble of a worldwide financial crisis, a bursting housing bubble, rising unemployment, distrust in Wall Street and extremely low consumer confidence. Fortunately forces in this country and around the world mobilized, via both independent and coordinated efforts, to address the issues. As we entered calendar 2009 the general feeling was that the country, if not the world, was

slipping into another "Great Depression." Hence, the poor first quarter results. However, something happened along the way.

As bad news continued to roll out, far too many investors panicked and a sell at any price began to unfold. As a result, the market became oversold and stock prices fell to levels not seen in decades. Eventually (3-9-09) smart investors saw through the haze and reason began to prevail. This resulted in the buying opportunity of a lifetime.

Eventually 2009 played out as a year of unresolved contradictions. While the credit markets stabilized, commodity prices rose and stock prices surged, investors continued to be unnerved by high unemployment, little to no consumer spending and a weak or no growth economy. Because of this uncertainty may investors stayed on the sidelines for much of the year. However, for those investors with foresight and stayed fully invested during the downturn, it was a once in a lifetime buying opportunity. These efforts were justly rewarded and will be explained shortly.

Endowment Fund Performance

For the twelve months ended 12-31-09 the value in the ALA Endowment fund increased by $5.3 million from $23.4 million to $28.6 million - see exhibit #2. This resulted in a return of 23.8% compared to the portfolio's benchmark of 20.7%. As we can see from exhibit #5, all of the portfolio managers reported positive results. Additionally, comparisons to their respective benchmarks were also positive with a few exceptions. Their results were as follows:

Alliance Bernstein – Core manager – reported a gain of 44.4% compared to its benchmark of 24.1%. Alliance is the portfolio's equity stabilizer with holdings in the growth and value categories, currently 70/30. They make investment decisions based on long-term secular market themes, along with some catalysts to provide support and short term economic trends. You will recall in 2007 and 2008 they made investments that were ahead of the general market and their returns suffered. They stayed with their convictions and their early decisions are coming to fruition. The portfolio is still over-weight technology and consumer discretionary's, while underweight energy and consumer staples.

Marsico – Large Cap Growth manager – reported a gain of 29.5% compared to its benchmark of 37.2%. Although performance was strong it was less than its index. Relative to the index Marsico is overweight industrials and consumer discretionary's, while significantly underweight information technology and

healthcare. Note: Marsico runs a concentrated portfolio with approximately 30-50 securities.

IDP/(Blackrock) – Large Cap Value manager – This is the combined results of the Institutional Discretionary Portfolio (IDP) manager and Blackrock. The IDP has been in place (managed) since October. The combined efforts resulted in a gain of 19.2% compared to its benchmark (S&P/Citigroup Value) of 19.7%. The new manager was hired because the Trustees felt that the overall performance of Blackrock was good, but a better investing alternative was available in this asset category and carried much less one manager risk.

NFJ – Small Cap manager – reported a gain of 19.9% compared to its benchmark (Russell 2000 Value) which gained 20.5%. NFJ has performed very well in all types of market conditions, which is contrary to how small cap stock managers typically perform in volatile markets. 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.

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 continues to be helped by holdings of regional type banks like Bancorp south, Susquehanna Banc and Old National Banc.

IDP International/(Lazard) – International manager – reported a gain of 18.6% compared to its benchmark (MSCI EAFE) of 32.2%, which is a 34.5% gain. As stated this time last year, there are 38 stock markets in developed and emerging countries around the world but all reported positive gains this year instead of losses. 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. This is the nature of Lazard's investing style and explains why they have lagged the turnaround that occurred in 2009.

Heitman – REIT manager – reported a gain of 30.2% compared to its benchmark (Wilshire Real Estate Securities) which also reported a gain of 29.0%. Over the year REIT's have had the cloud of a pending commercial real estate problem lurking in the background. Many experts feel that refinancing debt coming due in the commercial market is the other shoe waiting to fall in real estate. It has not gotten the same level of coverage as residential real estate.

Invesco – REIT manager – reported a gain of 39.7% compared to its benchmark (Wilshire Real Estate Securities) which also reported a gain of 29.0%. Much of what was stated above for Heitman applies to Invesco.

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 has been presented. Valuations have never been lower and again represent an extraordinary buying opportunity.

Blackrock – SRI manager – reported a gain of 32.4% compared to its primary benchmark (Russell 1000 Midcap Value) of 34.2%. The Blackrock SRI manager applies the same process for investing as its non-SRI portfolios – quantitative models and fundamental research, growth/momentum and valuation. At this point the portfolio is still underweight financials, prefer energy to materials, overweight consumer discretionary and healthcare.

Ariel Capital – SRI manager – reported a gain of 63.0% compared to its primary benchmark (Russell 1000 Midcap Value) of 34.2%. Despite a difficult year in 2008 Ariel stayed true to its investment philosophy that "Slow and Steady Wins the Race – the story of the Tortoise and the Hare." 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. These benchmarks reported declines in performance of 31.7% and 31.1% respectively. Ariel's performance was helped by holdings in media and consumer discretionary stocks.

PIMCO – Fixed Income manager – reported a gain of 13.8% compared to its benchmark (ML US Bond Market) which returned 6.1%. Pimco has been very good at making investment decisions based on where they think interests are headed. They continue to overweight government and AA securities with maturities in the 1-5 year range. Because of the expectation of higher rates in the future and its potential impact on the performance of this asset category, the Trustees have been reducing their position in PIMCO and reallocating those dollars into other asset classes when possible.

Asset Allocation and Rebalancing

Exhibit #6 provides details on the current asset allocation and strategy. 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. Since the Annual Conference the Trustees made the decision to overweight large cap value and under weight large cap growth.

Over the last 6 year period ending 12-31-09 active management has generated $6.6 million in investment earnings – see Exhibit #8. This compares to passive[1] management investment earnings of $5.0 million. As a result, active management generated additional or excess investment earnings of $1.6 million.

Outlook in 2010 – Cautious Optimism

As the Trustees have stated over the years, predicting the future is unwise and full of risk. 2010 will be no different. However, by looking at available information the Trustees are confident that the portfolio is well positioned to take advantage of the current financial environment and protect the corpus while adding some value.

Many analysts expect the market for 2010 to end with a positive gain although with some bumps along the way. The current economic recovery is weak but steadily strengthening. Due to many uncertainties i.e. high unemployment, low consumer spending etc. the fear of a double dip recession lurks in the background. Another potential bump is the market's reaction when the Federal Reserve begins to siphon off some of the unprecedented amounts of cash pumped into the financial system to support banks and the economy. The concern is what impact the Fed's action will have on mortgage rates and the housing market, credit availability for small and

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

large business and the specter of inflation. Also hovering over the market is a fear of the ever increasing deficit – spending on bailouts (AIG), new programs (Jobs), war efforts (Afghanistan) – will lead to a weakening dollar and a decline in our standard of living.

Investment Policy Review

As part of the Trustees' regular business, an annual review is made of the ALA investment policy. The policy was reviewed during the Trustees' fall meeting in November. A number of language changes are under review with ALA's investment advisor in order to strengthen the policy. These changes include dealing with real assets such as commodities, and real estate, ETF's and language on the process and practices for monitoring alternative investments.

New Portfolio Managers

During the year the Trustees continually monitor the financial landscape and performance of its managers. This monitoring resulted in the following changes:

1. Blackock – Large Cap Value manager replaced by IDP* Value
2. Lazard – International manager replaced by IDP* International
3. The Endowment Fund – Alternative Hedge fund manager added to the portfolio

*Institutional Discretionary Portfolio – a Merrill Lynch developed portfolio managed by multiple managers in a given asset category, whose activities are monitored by 30 professionals for manager research, due diligence and portfolio management. These portfolios may consist of individual managers who invest in individual stocks, mutual funds or ETF's.

The Institutional Discretionary Portfolio offers a very disciplined and institutional process for evaluating investment managers. Merrill Lynch's 30 dedicated analysts have the opportunity to swap in and out appropriate managers based on the opportunity to take advantage of the prevailing market conditions. It also improves the risk management framework by minimizing the risk of failure by one manage among a group i.e. manager of mangers, compared to only one manager being responsible for the category. IDP portfolios are flexible and versatile. They can invest in individual stocks, mutual funds and ETF's.

In the case of Blackrock the IDP offered a better option for higher returns and lowering risk. Lazard on the other hand presented an opportunity to be less

defensive on the upside of a market rally. Lazard has been very good at minimizing any losses in a down market, but have trailed significantly when the market is performing well. The Trustees also invested $2.0 million in the Endowment Fund, which is a hedge fund and fall under the category of "Alternative" investments. The Trustees, along with ALA's Investment Advisor – Merrill Lynch, determined that it was appropriate for ALA to move in this direction at this time. After much examination it was determined that a fund of funds approach was a better fit compared to one hedge fund manager. The Endowment fund is a fund made up of multiple hedge funds. This investment affords the portfolio the opportunity for higher gains while reducing the volatility.

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)

Value Added by Active Management of ALA Endowment Assets
Most Recent 6 Year Period Ended December 31, 2009

Submitted by Raj Bhatia, C.I.M.A., January 5, 2010

For the six year period ended December 31, 2009, the net Investment Earnings of the ALA Endowment Fund has amounted to **$6.6 million**. (See table below)

A typical Asset allocation for Endowments calls for keeping 60% in Equity and 40% in Fixed Income securities. This strategy, if deployed by ALA using Index exchange traded funds, would have had gross Investment Earnings of **$5.0 million** for the same time period. (See table below)

ALA policy guidelines call for an Active Asset Allocation Strategy. This Strategy is implemented by the Endowment Trustees with input from ALA staff of and the Investment Management Consultant from Merrill Lynch Institutional Consulting Group. The strategy includes:

a) Overweighting, within guidelines, an Asset Category which is undervalued or out-of-favor.
b) Underweighting, within guidelines, an Asset Category which is overvalued or in-favor.
c) Interviewing and selecting Managers that add value over their benchmarks.
d) Rebalancing the Asset Class Categories over time.

The difference between following an Active Asset Allocation and Manager Selection strategy versus following a Passive Index Investment Strategy has resulted in excess Investment earnings of **$1.6 million** (net of all fees) for the six year period ended December 31, 2009. (See table below)

	Full Year 2004	Full Year 2005	Full Year 2006	Full Year 2007	Full Year 2008	Full Year 2009	6 Year Totals
Beginning Composite Value	$18,990,626	$23,065,541	$25,454,151	$29,027,424	$31,221,422	$23,662,248	$18,990,626
Ending Composite Value	23,065,541	25,454,151	29,027,424	31,221,422	23,662,248	28,680,314	28,680,314
Net Contributions	1,372,000	741,000	958,000	16,000	263,500	(257,657)	3,092,843
Average Value of Account	19,827,455	22,874,714	25,749,534	29,241,983	31,243,380	23,575,555	25,418,770
Active ALA Investment Earnings (Net $)	**2,702,915**	**1,647,610**	**2,615,272**	**2,177,998**	**(7,822,674)**	**5,275,723**	**6,596,845**
Passive ETF Investment Earnings *	**1,594,524**	**855,011**	**2,848,413**	**1,715,393**	**(6,194,750)**	**4,222,099**	**5,040,691**
Active Earnings- Passive Index Earnings	**$1,108,391**	**$792,599**	**($233,141)**	**$462,605**	**($1,627,924)**	**$1,053,624**	**$1,556,154**

** Estimate of typical industry benchmark of 60% S&P 500 & 40% Barclays Aggregate Bond using 60% SPY & 40% AGG.*

For informational purposes only. Account statement is the official record of holdings, balances and security values.