ALA Endowment Trustees
Report to Council
Sunday - June 26, 2011
New Orleans, LA

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 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.

Attachments

Attached for your review are charts (Exhibits #1- 13) 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.

Endowment Fund Performance

The Trustees are happy to report that the value of the endowment at 5-31-11 was $33,471,467. This was a gain of approximately $1.8 million (5.7%) for the year - see exhibit #4. The return for the ALA portfolio was 5.9% compared to its benchmark of 6.3%. As we can see from exhibit #6, all of the portfolio managers reported positive results. Additionally, comparisons to their respective benchmarks were also positive with a few exceptions.

The results in the 1st quarter were probably the strongest quarterly market results since 1998. Many market pundits felt that this was the result of too much investor exuberance i.e. the fundamentals didn't quite justify the results. Since then numerous economic conditions have been faltering. So much so that as of this writing most of the portfolio has given back most of its gains for the year. Friday June 17th broke a six week losing streak in the US financial markets. However, as of 5-31-11manager results were as follows:

Alliance Bernstein – Core manager – reported a gain of 6.5% compared to its benchmark of 7.8%. Alliance is the portfolio's equity stabilizer with holdings in the growth and value categories. Holdings are currently spilt 60/40 in favor of growth. The firm makes investment decisions based on long-term secular market themes, along with some catalysts to provide support and short term cyclical changes in the economy. The portfolio is currently overweight in information technology, energy and materials, while underweight in consumer staples and financials. The portfolio was helped to date by holdings in Amazon, Juniper Net, Netflix Inc. Red Hat and Qualcomm.

Institutional Discretionary Portfolio (IDP) – Large Cap Growth manager – reported a gain of 6.1% compared to its benchmark of 8.4%. The IDP growth portfolio is a combination of exposure to a blend of investment managers/styles, mutual funds and exchange traded funds (ETF's). This portfolio is dynamically managed which may include allocation changes, manager changes, style changes and component changes. Changes are made based on prevailing market conditions and future expectations.

Institutional Discretionary Portfolio (IDP) – Large Cap Value manager – reported a gain of 6.4% compared to its benchmark of 8.1%. This portfolio includes four individual large cap value style managers with various percentages of the category (20%, 20%, 30% and 15%), one mid cap EFT (5%) and one mid cap mutual fund (10%). This portfolio is dynamically managed which may include allocation changes, manager changes, style changes and component changes. Changes are made based on prevailing market conditions and future expectations. The portfolio is being positioned to be more conservative as the team feels that the economic cycle may have peaked and wants to be ahead of any correction.

NFJ – Small Cap manager – reported a gain of 10.2% compared to its benchmark (Russell 2000 Value) which gained 6.4%. 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. The portfolio is currently underweight its index in financials and overweigh in industrials, materials, utilities and consumer staples. The portfolio continues to be helped by holdings of Lubrizol Corporation, Brinks, Ennis, Inc. and Phillips-Van Heusen Corporation.

Institutional Discretionary Portfolio (IDP) International – International manager – reported a gain of 7.4% compared to its benchmark (MSCI EAFE) of 6.6%. This portfolio provides exposure to international activity via three mutual funds with various percentages (25%, 29% and 41%) and one international ETF (5%).
This portfolio is dynamically managed which may include allocation changes, manager changes, style changes and component changes. Changes are made based on prevailing market conditions and future expectations.

Invesco – REIT manager – reported a gain of 13.9% compared to its benchmark (Wilshire Real Estate Securities) which also reported a gain of 14.1%. This asset category continues to spin off a significant amount of interest income to the benefit of the association. All this is being accomplished in the shadow of a struggling residential housing market. Commercial real estate, which was forecast to be the second shoe to drop in real estate, has rebounded nicely. The portfolio is currently overweight in retail property, office space, apartments and diversified properties. The best performing holdings were Simon Property Group, Vornado REIT, Camden Property and Boston Properties.

Ariel Capital – SRI manager – reported a gain of 9.1% compared to its primary benchmark (Russell 1000 Midcap Value) of 9.5%. Ariel is an SRI fund that compares itself to a more industry standard benchmark i.e. non-SRI benchmarks. Ariel's performance was helped by holdings in consumer discretionary stocks, financial services and healthcare holdings.

Lord Abbett – Convertible Bond manager – reported a gain of 3.7% compared to its benchmark return of 6.0%. 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. The portfolio is currently overweight health care, consumer discretionaries and materials.

Neuberger Berman – Intermediate Bond manager – reported a gain of 2.4% compared to its benchmark return of 2.5 %. Neuberger seeks total returns with lower volatility than longer maturity bond strategies. The taxable fixed income sector delivered good absolute performance as interest rates continued to test their cyclical lows. Credit sensitive sectors mostly outperformed Treasuries. High yield issues were up strongly and fared better than investment grade bonds. Treasuries and corporates made up the bulk of the portfolio.

The Endowment Fund – Fund of Funds Hedge Fund Manager – reported a gain of 5.0 %, which is more than its benchmark of 4.4%. Note that the Endowment Fund is a fund of funds hedge fund manager and reports on a 30 day lag. As such the results you are seeing now are as of April 30, 2011. This asset class gives the portfolio access to areas of investment that ordinarily would not be available to us, while at the same time provide additional stability from a volatility standpoint.

PIMCO – Fixed Income manager – reported a gain of 3.5% compared to its benchmark (ML US Bond Market) which returned 3.1%. 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.

Global Bonds and Real Assets – International Fixed Income manager and Real Assets – reported a gain of 5.5% compared to its benchmark which returned 4.3%. This is a portfolio of three managers – Oppenheimer International Bond, Templeton Global bond and Templeton Global Total Return – with exposure to international fixed income securities, as well as, two managers – Hartford Global Real Assets and Pimco Commodity Real Assets **-** with exposure to international hard assets i.e. real estate, commodities etc. This category performs well in a volatile/inflationary environment.

Asset Allocation and Rebalancing

Exhibit #4 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. Since the Midwinter Meeting the Trustees have made the following moves to enhance performance:

- Reduced fixed income bonds (Pimco) by $1.2 million or 4% from 15% to 11% and reallocated as follows:

    - Reallocated $600,000 to large cap core (Alliance)
    - Reallocated $600,000 to large cap growth (IDP)

As you can see from the above information the Trustees have underweighted the portfolio’s holdings in fixed income securities.

Outlook for 2011

When we reported to you at the Midwinter Meeting in San Diego, we stated the following - “***2010 closed out much more positively than many expected. Many analysts now expect the market for 2011 to end with a positive gain although with some bumps along the way. As stated earlier the current economic recovery is weaker than most post recession recoveries. The economy is expected to grow at about 3.0% - 3.5% during the year. In view of the severity of the most recent economic decline i.e. “The Great Recession,” this level of growth is considered to be a weak recovery***. “ As we have seen recently, economic conditions have begun to falter and rather quickly. Many optimistic prognosticators, including most governing financial authorities i.e. Federal Reserve, International Monetary Fund, individual central banks etc., are calling this just a “Soft Patch” in the growth and evolution of the economy. However, many other people are making the argument that this situation is more than just a soft patch, but is in reality a structural change in the global economic system.

Despite the recent bad economic news, America’s largest companies are flush with cash, corporate revenue continues to grow, profit margins are widening and stocks are still reasonably priced. This loss of momentum is confirmed by other leading indicators from sinking commodities prices to the stock market’s selloff. Last year the Federal Reserve helped drag the economy out of its doldrums. However, with QE2 provided liquidity scheduled to end on 6/30/11 due to considerable criticism, the economy will likely have to find its own footing.

Despite these ominous signs the Trustees feel confident that the portfolio is well positioned to take advantage of the current financial environment, protect the corpus and still continue to add value to the portfolio.

Changes in the Spending/Payout Formula in Policy 8.5.1

As noted in our Midwinter report in San Diego, the Trustees have for the better part of the year been examining ways to increase the amount of funds that could be made available for scholarships, awards, program initiatives and other projects. After performing some financial modeling, it was determined that a spending/payout range of 3% - 5% would provide the desired additional funds while minimizing the overall impact on the returns in the portfolio – see attached Exhibit #12.

The recommended changes are as follows:

- Establish a payout range of 3% - 5%
- Rate will be applied on the five year calendar quarterly (20) the net asset balance
- The initial rate will be 4%

Why the Change? - Under the current policy individual funds within the endowment are entitled to use the net interest for any number of uses, subject to any donor restrictions. Units typically would not know the amount of endowment earnings available to them until about the second close any current year audit. By moving to the new formula a number of benefits occur:

- More dollars will be available scholarships, awards, operations etc.
- Budget planning for the use of endowment earnings will be improved

Language Changes in Policy - In making the recommended change to the spending/payout formula, the overall language in the policy needed to be adjusted to appropriately reflect the change. Attached for your review is exhibit #13, which highlights the new language as compared to the old language.

Increasing the Number of Trustees

This past spring Council approved the recommendation to increase the number of Endowment Trustees to a maximum of seven (7). It was felt that this was important step in preserving to the successful management of the endowment fund – see exhibit #9. This action will provide a great deal of flexibility in the management of the endowment and is in line with endowments of similar size. At this point the Trustees feel that it is important to get the process started and are recommending that one additional Trustee be added to the committee during the upcoming recruitment cycle, which begins at the end of this conference. As such, recruitment will begin the process of replacing one expiring position and one new position.

Endowment Growth & Sources: 2001 - 2010

At the Midwinter Meeting in San Diego Council requested information on the growth in the endowment fund and the primary sources of its growth. After working with staff, we were able to provide that information, which was shared with you by e-mail communication on 2-15-11through the ALA Treasurer Jim

Neal. We thought that we would again share that information with you and it is illustrated in exhibits #10 & #11.

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) – 2nd Term
John Vitali – Trustee (2013) – 2nd Term
Robert Walton – Trustee (2014) – 2nd Term
James Neal – ALA Treasurer, Ex Officio (2013)

2010 - 11 CD #16.1
2010 - 11 ET #6.9
2010 – 11 EBD #13.3

(2010 – 11 Annual Conference)

Endowment Trustees
Report to Executive Board

(Long-Term Investment Fund)

Dan Bradbury – Senior Trustee
Sunday – June 26, 2011

Exhibit #1

Issues Affecting the Market

- Oil prices spiked during the 1st quarter as gas reached $4.50 a gallon – now falling
- Key economic indicators have been faltering since late April but the Fed remains hopeful of a stronger second half
- Unemployment unexpectedly rose to 9.1%
- Private sector wage growth today is about the same as in 2001
- Retailers reported weak May sales results
- The disruptive impact of the Japanese disaster on manufacturing now working its way through the system.
- The stalemate over Greek debt restructuring has resulted in violence and are disrupting European Union and global markets
- US rating agencies threatening to downgrade US debt

Exhibit #2

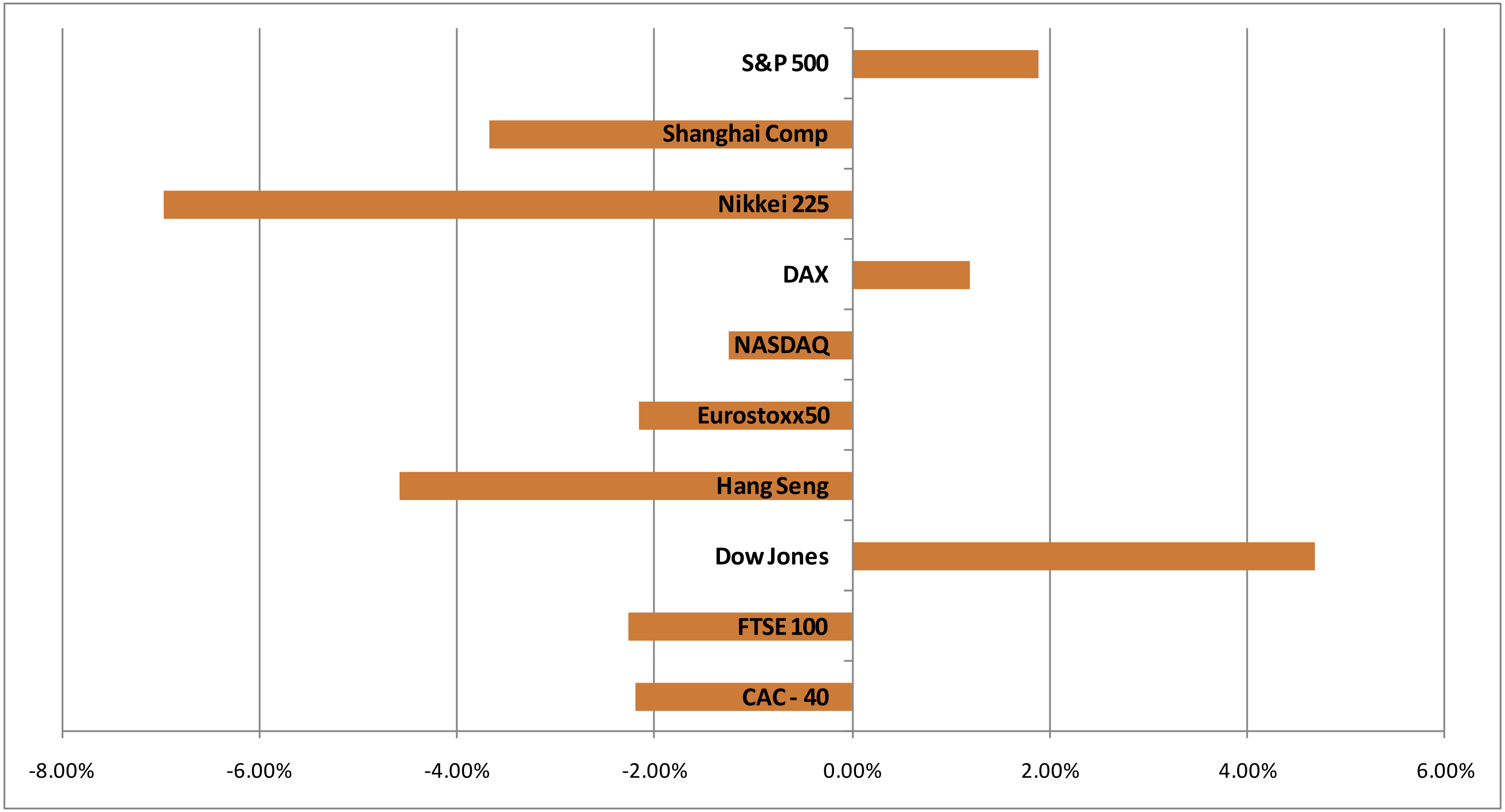
Estimated Economic Growth

	ACTUAL 2010	Forecast 2011	Forecast 2012
Global Growth	**5.1%**	**4.3%**	**4.5%**
Advanced economies	**3.0%**	**2.2%**	**2.6%**
United States	2.9%	2.5%	2.7%
Euro Zone	1.8%	2.0%	1.7%
United Kingdom	1.3%	1.5%	2.3%
Japan	4.0%	-0.7%	2.9%
Emerging Economies	**7.4%**	**6.6%**	**6.4%**
China	10.3%	9.6%	9.5%
India	10.4%	8.2%	7.8%
Russia	4.0%	4.8%	4.5%
Brazil	7.5%	4.1%	3.6%
Crude Oil Price Per Barrel	**$79.03**	**$106.30**	**$105.25**
CPI - Advanced	1.6%	2.6%	1.7%
CPI - Emerging	6.1%	6.9%	5.6%

Source: International Monetary Fund

World Market Performance*

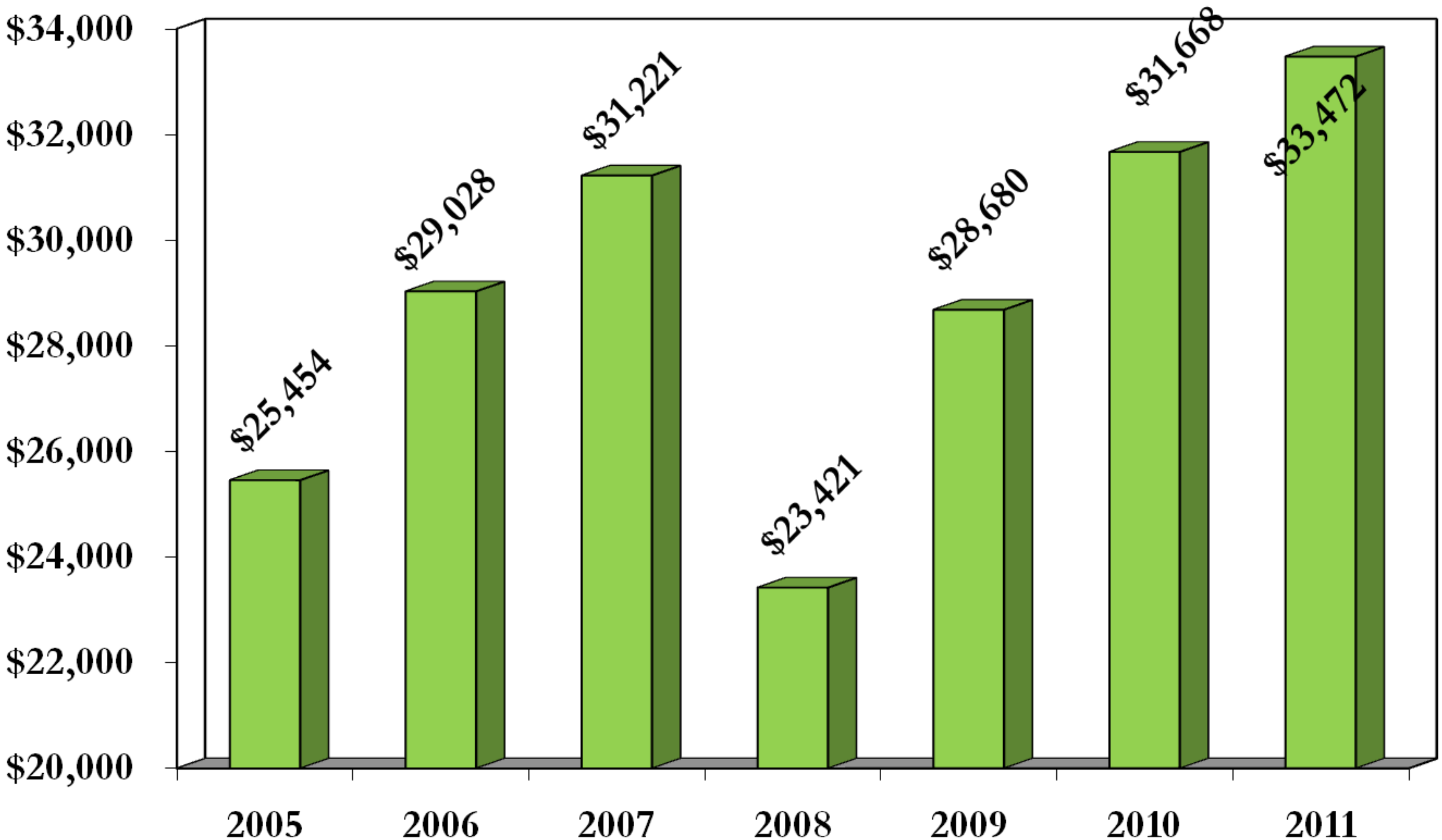
Exhibit #3



*Six months through 6-20-11

Market Value @ 5-31-11

Exhibit #4



Endowment Fund Manager Allocation & Style @ 5-31-11

Exhibit #5

$33,471,467

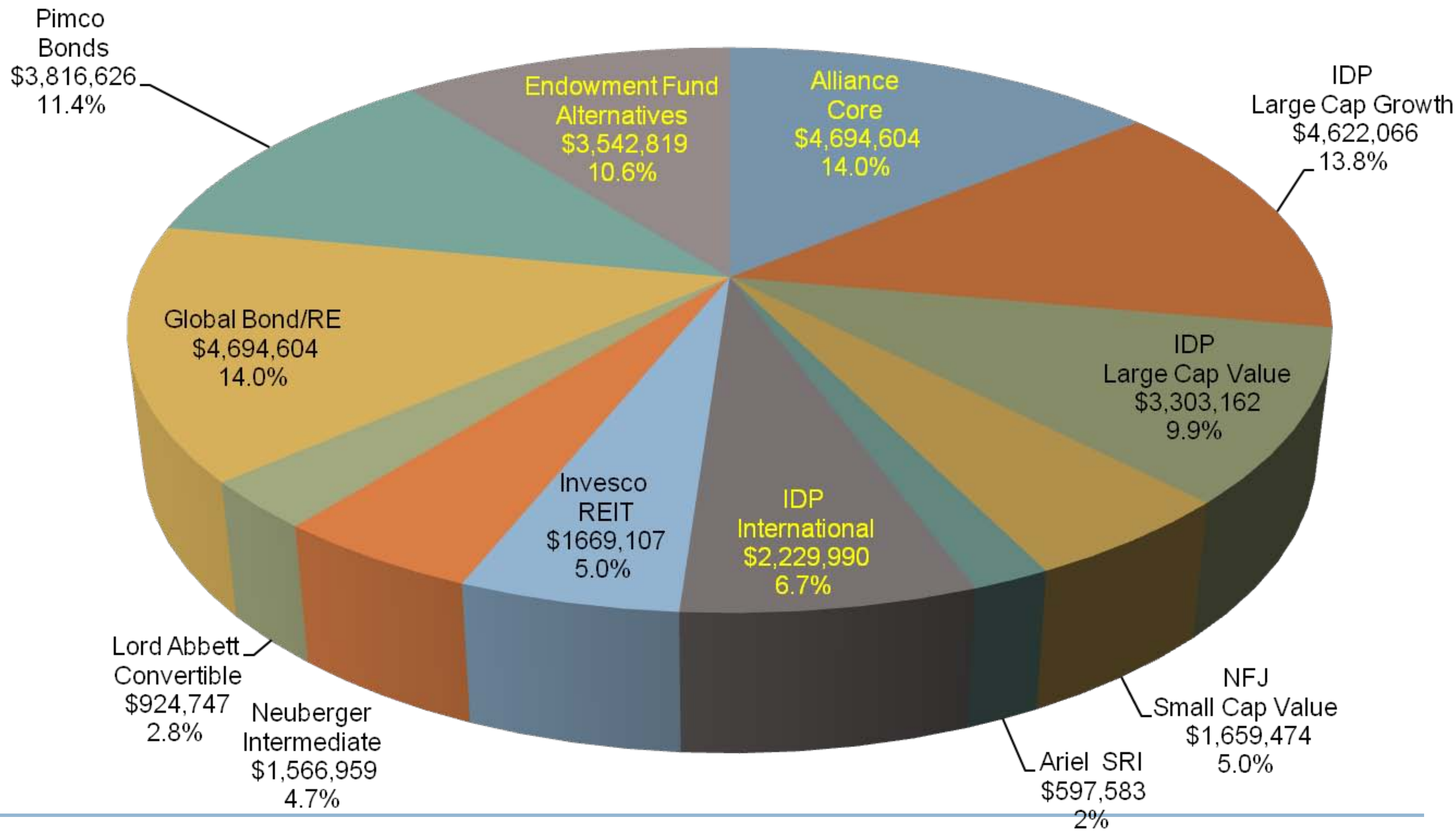


Exhibit #6

Performance Gains – 5/31/11 (YTD Returns)

Managers		Market Value	%	Returns	Index
Alliance - Core	$	4,694,604	14.0%	6.5%	7.8%
IDP - Large Cap Growth	$	4,622,066	13.8%	6.1%	8.4%
IDP - Large Cap Value	$	3,303,162	9.9%	6.4%	8.1%
NFJ - Small Cap Value	$	1,659,474	5.0%	10.2%	6.4%
Ariel Capital - SRI	$	605,707	1.8%	9.1%	9.5%
IDP - International	$	2,229,990	6.7%	7.4%	6.6%
Invesco - REIT	$	1,669,107	5.0%	13.9%	14.1%
Total Equity Managers	**$**	**18,784,110**	**56.1%**		
Neuberger - Intermediate	$	1,566,959	4.7%	2.4%	2.5%
Lord Abbett - Conv Bonds	$	924,747	2.8%	3.7%	6.0%
Global Bond & Real Assets	$	4,836,206	14.4%	5.5%	4.3%
PIMCO - Bonds	$	3,816,626	11.4%	3.5%	3.1%
Total Fixed Income Managers	**$**	**11,144,538**	**33.3%**		
Endowment Fund* - Alternative	$	3,542,819	10.6%	5.0%	4.4%
Total Portfolio Value**	**$**	**33,471,467**	**100.0%**	**5.9%**	**6.3%**

*Returns for the Endowment Fund are reported on a 30 day lag basis. As such this represents their performance through 4-30-11. additionally, it is a fund of funds hedge fund.

**The ALA composite index is comprised of the 55% Russell 3000, 35% Merrill Lynch Domestic Master and 10% MSCI EAFE

Exhibit #7

Asset Allocation Strategy

ASSET ALLOCATION STRATEGY		POLICY GUIDELINES @ 3-31-11			
		Min	Target	Actual	Max
Domestic Large/Medium Cap Stocks		30%	40%	39.7%	50%
	Alliance Bernstein - Core			14.2%	
	IDP - Large Cap Value			10.0%	
	IDP - Large Cap Growth			13.9%	
	Ariel - SRI			1.6%	
Domestic Small/Medium Cap Stocks		0%	5%	5.0%	10%
	NFJ - Small Cap Value			5.0%	
Alternative Investments		0%	10%	10.3%	15%
	Endowment Fund			10.3%	
International Equity		5%	10%	6.8%	15%
	IDP - International			6.8%	
Real Estate Investment Trust (REIT)		5%	5%	4.9%	15%
	Invesco			4.9%	
Investment Grade Fixed Income		20%	30%	33.3%	50%
	Neuberger Intermediate			4.6%	
	Global Fixed			14.7%	
	Lord Abbett			2.8%	
	PIMCO - Bonds			11.2%	
Cash and Cash Equivalents		0%	0%	0%	5%
				100%	

Exhibit #8

Recent Tactical Moves in the Portfolio

<u>Actions</u>

- Reduced US fixed income holdings by 4% ($1.2 million) by trimming Pimco from 15% of the portfolio to 11%.
- Increased US equity holdings by 4% ($1.2 million) by adding 2% ($600,000) to Alliance, the Large Cap Core manager and 2% ($600,000) to the IDP Large Cap Growth manager.

<u>Rational</u>

- Market conditions suggest an overweighting of real assets*.
- There is an increased expectation by the market and analysts that S&P earnings will grow from $95 per share to $100 per share.
- Emerging markets are mired in country specific problems related to rising inflation.
- Debt resolution in Europe and US is an ongoing concern

*Real assets added to the portfolio in November – Global Bond, Real Assets

Exhibit #9

Other Actions Taken By the Trustees

Actions

- Recommend revising the spending/payout formula in ALA policy 8.5.1 to a range of 3% - 5% of the five-year trailing calendar quarterly (20) rolling average of each funds net asset balance.

- After approval to increase the number of Trustees to a maximum of seven (7), the Trustees recommend the addition of one additional Trustee position in the upcoming renewal cycle which concludes at the end of the Annual Conference in Anaheim, CA 2012. This will increase the number of Trustees* from 4 to 5.

Rational

- To provide a more clarity and certainty from a planning and budgeting perspective, and to make available more dollars for awards, scholarships, special projects/initiatives general day to day operations

- The portfolio has reached a size and sophistication i.e. number of managers, strategies employed, complexity of investment options, that additional expertise is would benefit the management of the portfolio.

*Includes the ALA Treasurer.

Exhibit #10

Endowment Value

FY 2001 – FY 2010 (8-31-XX)

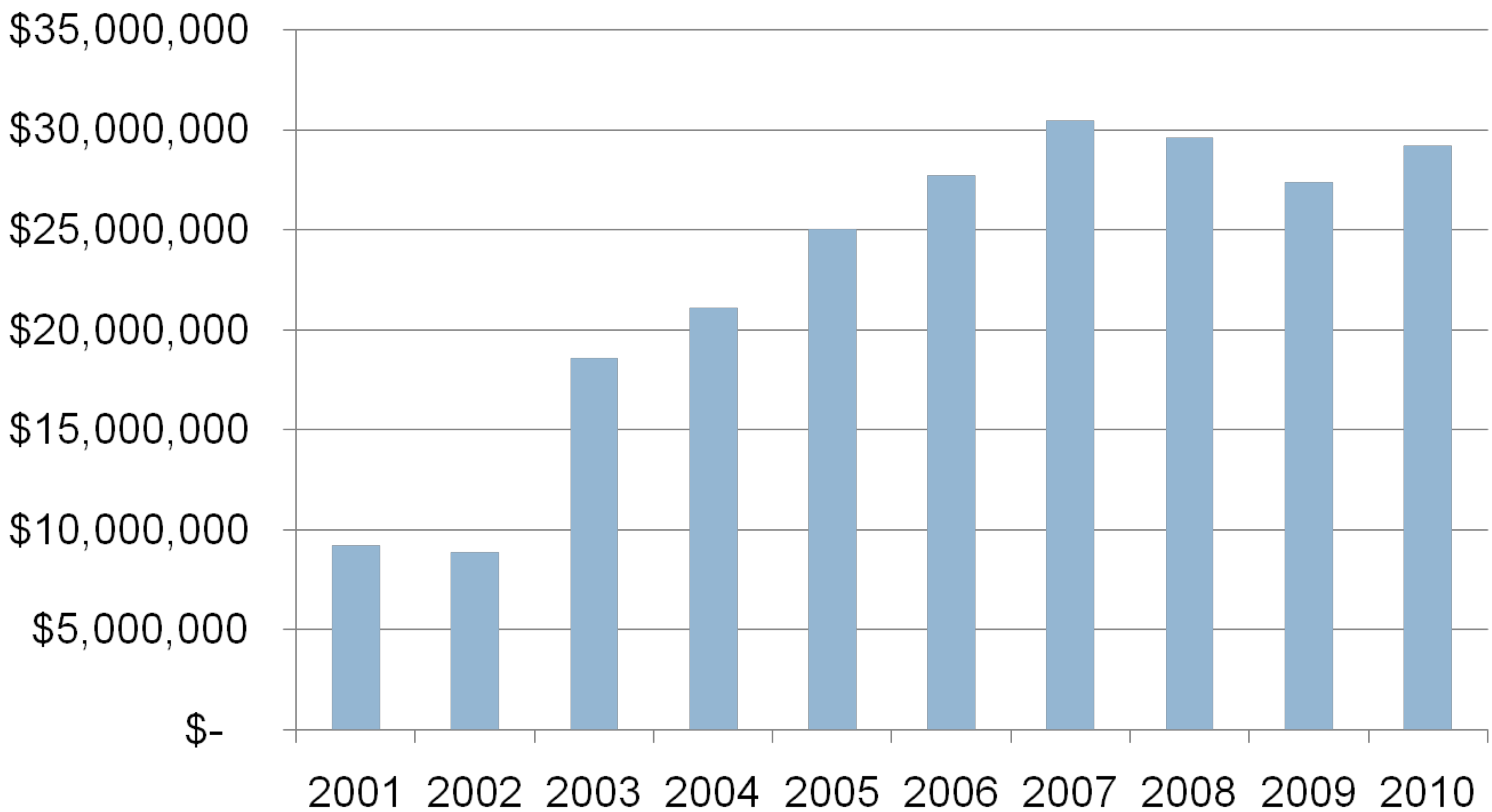
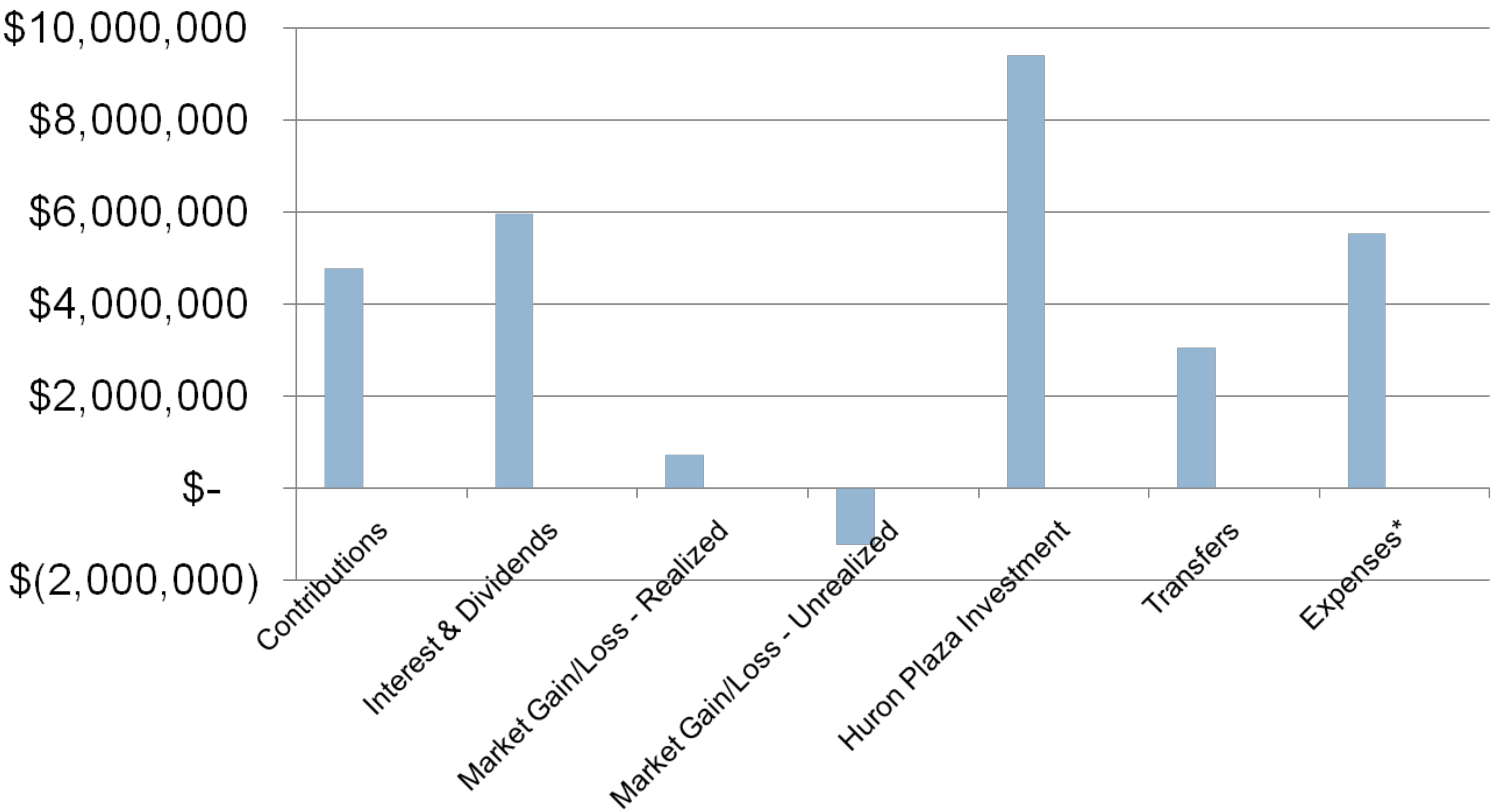


Exhibit #11

Cumulative Revenue Sources and Expenses

2001 – 2010



*Includes scholarships, awards and bank fees.