ALA Endowment Trustees
Report to Council
Saturday - June 23, 2012
Anaheim, CA

This report provides information regarding the performance of the ALA Long Term Investment Fund (LTI) AKA the Endowment Fund. It is provided as a supplement to the oral report given by the Senior Trustee of the ALA Endowment Trustees. Specific items will include 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- 9) detailing issues impacting the general market, the value of the portfolio, world market performance, manager performance & allocation and other pertinent information related to the management of the Endowment Fund.

Endowment Fund Performance

The Investing Environment in 2012 **–** The first quarter of 2012 was very similar to the first quarter of 2011 – where the results were good and things looked promising for a strong year. This is evidenced by the fact that the endowment realized a return of 7% and gain of $2.1 million. However, something happened along the way to upset the high expectations for the year:

- Japan's Tsunami and Nuclear Disasters
- Arab Spring Uprisings
- Increasing Severity of the European Debt Crisis

These events amplified the market's volatility and investor uncertainty. The final result was a down market for the year.

Factors in the first quarter of 2012 have set up in a similar fashion to 2011. As we entered 2012 most economic indicators were pointing to a better economy with stronger GDP growth expectations, falling unemployment figures, improving jobs numbers, continued corporate profitability etc. The result was a gain in the portfolio of $2.1 million for a return of 7.0%. Since the first quarter the portfolio has once again been impacted by a number of factors that have come into focus in the minds of investors:

- Continued European Sovereign/Bank Debt Issues
- Recessionary Induced Austerity in Europe
- Year-End U.S. Fiscal/Debt Issues
- Slowing Growth in the Pacific Rim

As these issues came into focus after the first quarter, investors reacted quite negatively as is their tendency to do to any bad news i.e. over reaction. This of course had a negative impact on the results in the portfolio as reflected in the YTD results through May – see performance below.

As fear in the markets continue to take hold, investors reacted as they usually do by abandoning equities and plowing funds into fixed income. This is done with the mind-set that the U.S. is still a safe haven – where the money flows - in times of trouble and uncertainty. As such, the dollar has strengthened against most other world currencies and U.S. treasuries have seen improved yields.

Performance - The Trustees can report that the value of the endowment at 5-31-12 is $31.1 million. This represents a YTD increase of $782,090 (2.9%) from $30.9 million in December - see exhibit 2. The gain in the portfolio compares to its benchmark which reflected a gain of 3.6%. As we can see from exhibits 5-6, the individual manager results are largely a reflection of the impacts from the European crisis and slower global growth. Exhibits 2-3 further illustrate that the market can turn on a dime when negative news reaches the market. The negative impacts are continuing in June.

While the equity managers realized mixed results in their performance, the fixed income managers held up much better. This was particularly for those managers who invested primarily in treasury bonds. Both Neuberger Berman and Pimco benefited from the faltering equity markets as Treasury bonds took off as investors looked for a “safe haven” as things in Europe continued to deteriorate and no real solution in sight. As the equity markets declined,

investors didn't seem to mind the fact that they were getting miniscule interest rate returns for their investments in fixed income securities. In this case, the security of lower returns trumped fear of being in the equity market. Note that bonds tend to perform better than other assets classes, such as equities, during periods of sluggish economic growth and low inflation.

Remaining 2013 Year End Outlook

As the first quarter came to a close, the Trustees and ALA's investment – Merrill Lynch – took a critical look at financial, economic and political landscape to determine what if any issues may have an impact the portfolio. The review pointed to a number of issues that will likely hit the performance of the economy by year-end. Additionally, these realities have not yet been fully priced into the market and will drive returns lower. They are as follows:

- U.S. Fiscal/Debt/Budget Issues
- Continued European Stress – Another Shoe Waiting to Fall
- Deteriorating Economic News
- Presidential Election

Fiscal/Debt/Budget Issues – The U.S. faces a potential fiscal crisis of unprecedented magnitude as a result of political inaction on a number of tough budgetary issues that are best addressed before year-end. Many analysts call this impending inflection point the "Fiscal Cliff." The fiscal cliff is essentially the need to address the potential impact of $720 billion of fiscal tightening. If not action is taken to address these issues there is expected to be a 2% drag on the economy as the impact represents 4.6% of total GDP. The current thinking is that this shock can't be fully avoided. Some of the points that need to be addressed are:

- Expiring Bush Tax Cuts - $240 billion
- Payroll Tax Holiday - $129 billion
- Debt Ceiling Deal Parts I & II - $150 billion
- Extended Unemployment - $40 billion
- Other - $150 billion[1]

[1] Infrastructure spending, new healthcare law, AMT etc.

European Stress – Europe continues to present a problem for the global economy. Addressing the sovereign debt of a number of countries – Greece, Italy, Spain and Portugal – under capitalized banks continues to unfold. As one solution is put in place another needs to take its place as interim steps are implemented instead of a permanent solution.

Bad Economic Data – After the first quarter economic news seemed to falter at nearly every turn. Productivity is deteriorating, jobless claims are rising, unemployment is rising, and GDP growth is being revised downward.

Presidential Election – As the latest presidential election nears in November, it seems as though every decision in Congress will be slanted toward the position of the respective parties. As a result, not much is likely to get done as each party will have incentives to highlight differences as opposed to areas of agreement and will exercise partisan brinksmanship - at least until after the election.

Asset Allocation Changes

The Trustees are still strong advocates of the idea that asset allocation is the key to generating excess returns in the portfolio, while at the same time provide opportunities to protect the corpus. After the critical review of the markets as highlighted in the 2013 market outlook for the remainder of the year, the Trustees put in place a recommendation designed to help address the concerns regarding the impending year-end fiscal issues. During the May conference call the Trustees took the action of reducing[2] the portfolio's exposure to real assets (4.4%), which contains commodities and other hard assets and allocated those dollars to the corporate fixed income manager. This changed increased the corporate fixed income manager portion of the portfolio from 5.7% to 10.1%.

Despite current state of uncertainty related to future events, the Trustees feel confident that the portfolio is very well positioned to take advantage of the current financial environment to protect the corpus and still add value to the portfolio. Changes to the portfolio will be made as circumstances dictate.

[2] Closed out

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)

2011 - 12 CD #16.1
2011- 12 ET #6.9
2011 – 12 EBD #13.4

(2011 – 12 Annual Conference)

Endowment Trustees Report to Executive Board

(Long-Term Investment Fund)

Dan Bradbury – Senior Trustee

Monday – June 25, 2012

Issues Impacting the Market

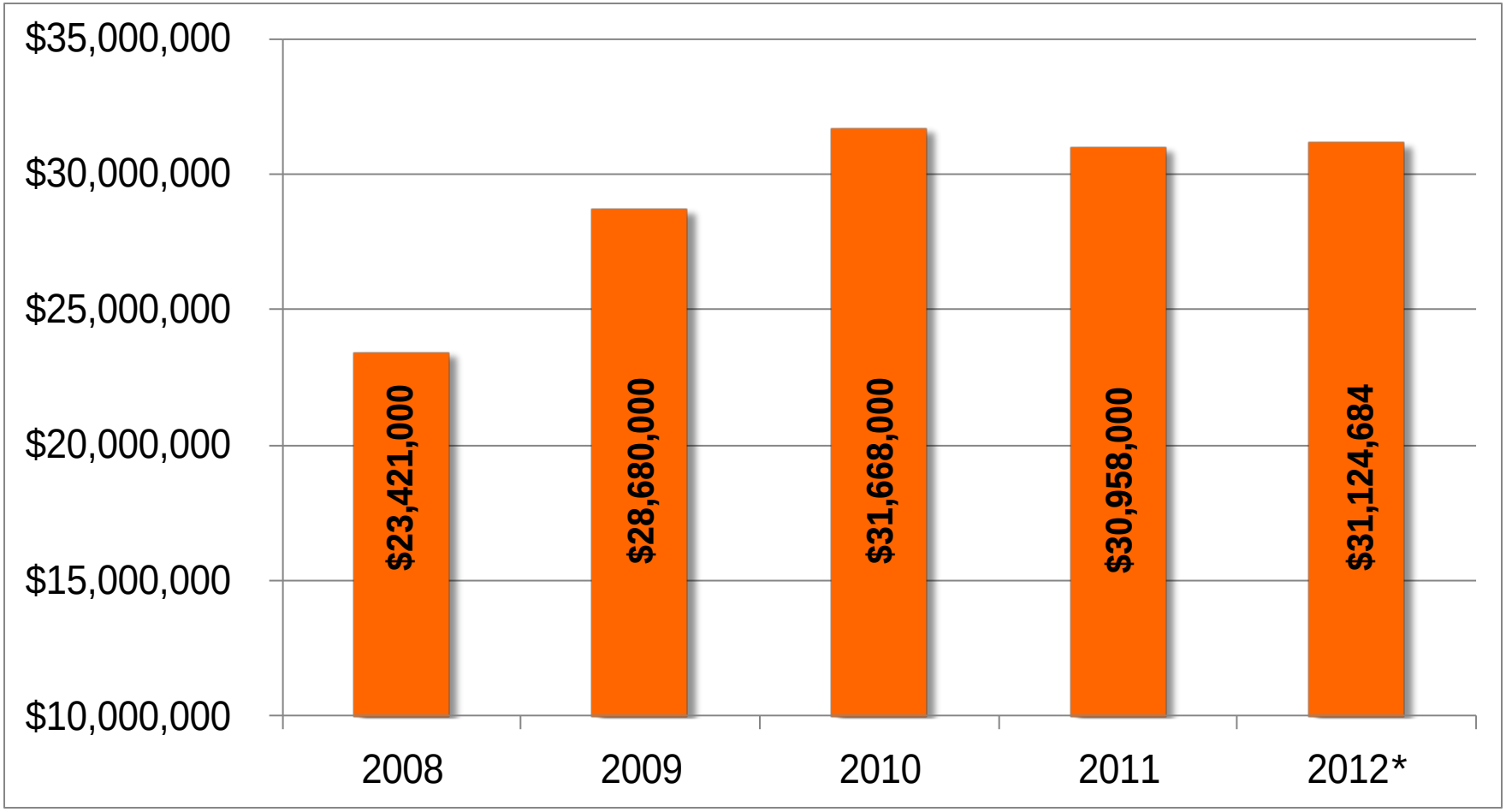
Exhibit #1

- Market experienced its best 1st quarter results since 1998
- Concerns over European debt continue to weigh on the market during the second quarter and has acted as a downside accelerant
- Contracting (recession) European economies compounding slowing growth in Pacific rim economies, which have been the growth engines of the global economy.
- JPMorgan Chase's $2.0 billion trading loss reignites fears of U.S. banks gone too far

Market Value @ 5-31-12

Exhibit #2

$31,124,684

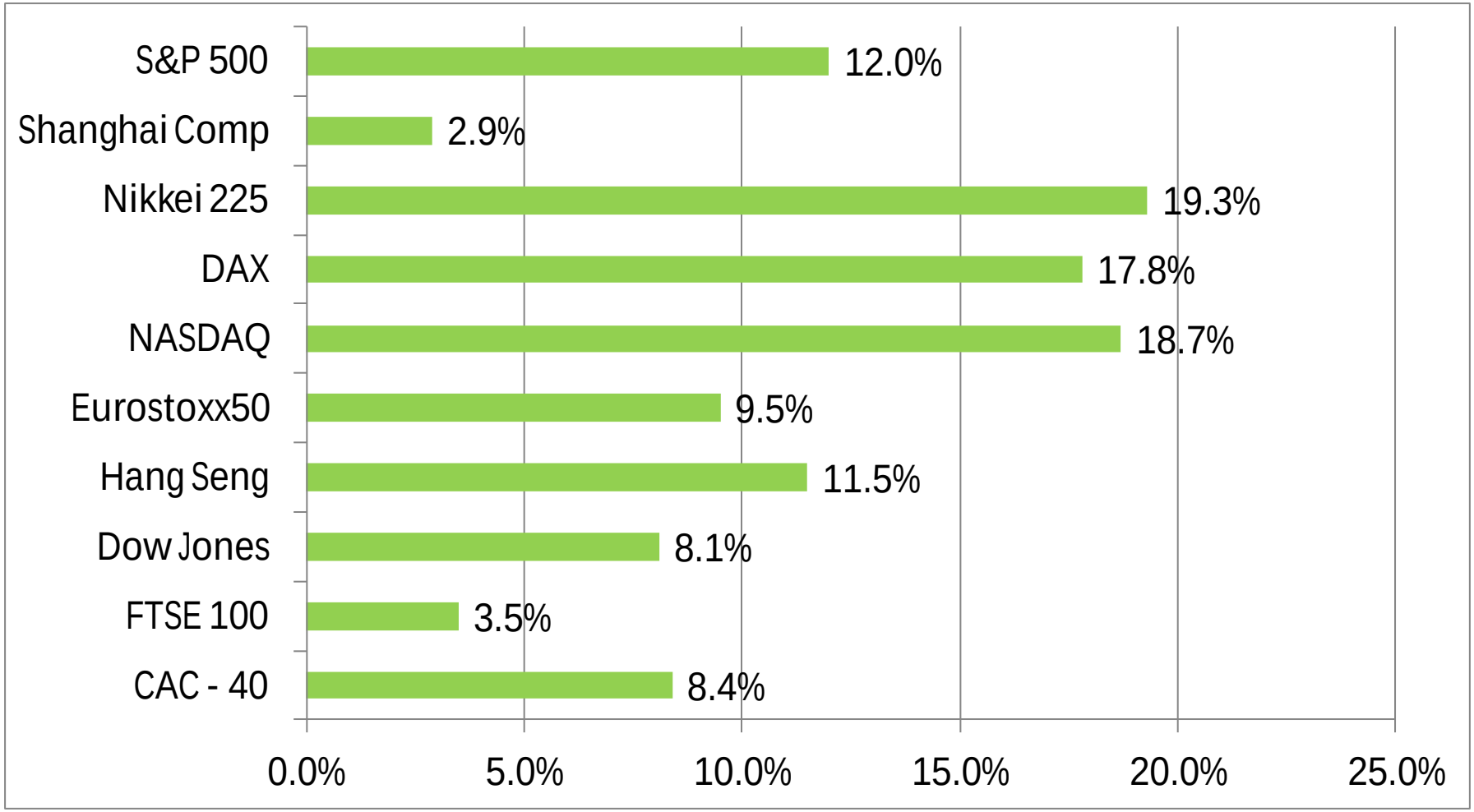


*YTD 5 months ending 5-31-12

World Market Performance

Exhibit #3

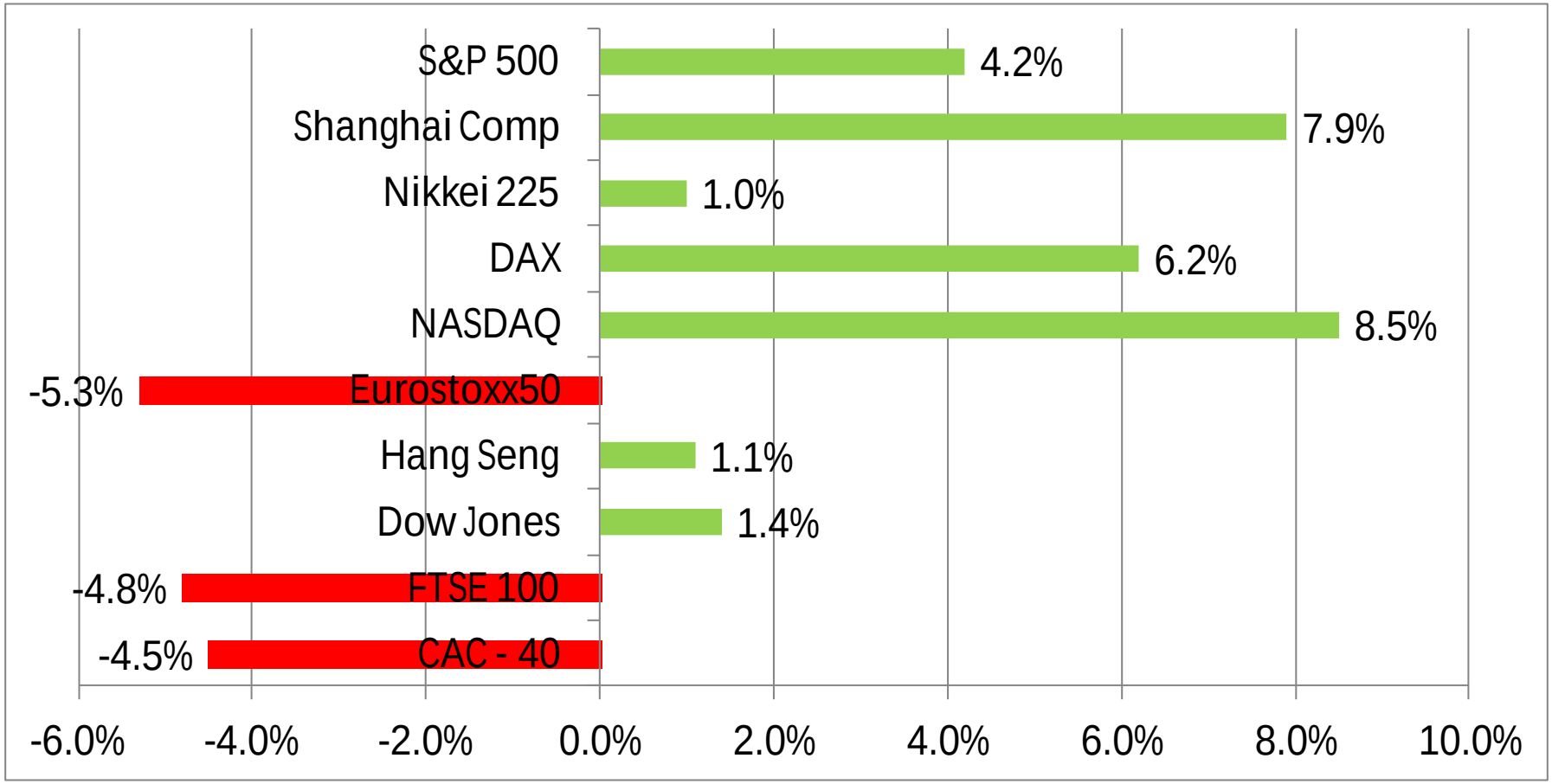
- Market Returns for the 3 Months Ending 3-31-12



World Market Performance

Exhibit #4

- Market Returns for the 5 Months Ending 5-31-12



Manager Performance and Allocation
5 Months Ending - 5/31/12

Exhibit #5

Managers	Market Value	% of Portfolio	Returns	Index
London – Large Cap Core	$ 3,757,030	12.1%	5.8%	3.5%
IDP – Large Cap Growth	$ 3,919,251	12.6%	4.6%	7.2%
IDP – Large Cap Value	$ 2,541,363	8.2%	2.2%	3.5%
NFJ – Small Cap Value	$ 1,419,267	4.6%	-4.4%	3.3%
Ariel Capital - SRI	$ 532,801	1.7%	3.5%	4.0%
IDP - International	$ 1,804,161	5.8%	-0.7%	-3.5%
Endowment Fund	$ 3,385,296	10.9%	1.4%	2.5%
Invesco - REIT	$ 1,700,394	5.5%	7.7%	8.4%
Total Equity	$19,059,563	61.4%		

Manager Performance and Allocation
5 Months Ending-5/31/12 (Con't)

Exhibit #6

Managers	Market Value	% of Portfolio	Returns	Index
Neuberger - Intermediate	$ 1,026,812	3.3%	2.1%	1.9%
Lord Abbett – Convt. Bonds	$ 834,849	2.7%	2.8%	3.7%
Global Bonds	$ 3,118,284	10.0%	2.1%	0.9%
Corporate Fixed Income	$ 3,060,136	9.8%	-1.0%	0.9%
Pimco - Bonds	$ 4,025,039	12.8%	4.4%	2.5%
Total Fixed Income	$12,065,120	38.6%		
Total Portfolio	$31,124,683	100.00%	2.9%	3.6%

Exhibit #7

Manager Composite Performance

@ 3/31/12*

Managers	1 Year	Benchmark	3 Year	Benchmark	5 Year	Benchmark
London Company - Core	18.5%	4.8%	28.0%	22.8%	7.4%	(0.8%)
IDP - Large Cap Growth	8.3%	11.0%	NA	NA	NA	NA
IDP - Large Cap Value	3.6%	4.8%	21.8%	22.8%	NA	NA
NFJ - Small Cap Value	(5.0%)	(1.1%)	20.4%	25.4%	2.3%	0.0%
Ariel Capital - SRI	0.7%	2.3%	33.5%	29.2%	3.8%	1.3%
IDP - International	(5.1%)	(5.3%)	19.5%	17.7%	NA	NA
Invesco - REIT	12.0%	11.3%	37.7%	42.2%	(0.4%)	(0.1%)
Neuberger – Intermediate Bonds	6.3%	5.9%	6.3%	5.0%	5.6%	5.3%
Lord Abbett - Convertible Bonds	(3.0%)	1.7%	12.1%	14.1%	3.7%	0.4%
Global Bond	0.7%	5.6%	NA	NA	NA	NA
PIMCO - Bonds	6.2%	7.7%	9.2%	7.0%	7.7%	6.2%
Endowment Fund - Alternatives	(3.3%)	(3.0%)	6.1%	4.5%	0.6%	(0.6%)

*Most currently available information

Asset Allocation Strategy

Exhibit #8

ASSET ALLOCATION STRATEGY	POLICY GUIDELINES @ 3-31-12			
	Min	Target	Actual	Max
Domestic Large/Medium Cap Stocks	30%	45%	34.6%	50%
London Company - Core			12.1%	
IDP - Large Cap Value			8.2%	
IDP - Large Cap Growth			12.6%	
Ariel - SRI			1.7%	
Domestic Small/Medium Cap Stocks	0%	5%	4.6%	10%
NFJ - Small Cap Value			4.6%	
Alternative Investments	0%	10%	10.9%	15%
Endowment Fund			10.9%	
International Equity	5%	10%	5.8%	15%
IDP - International			5.8%	
Real Estate Investment Trust (REIT)	5%	5%	5.5%	15%
Invesco			5.5%	
Investment Grade Fixed Income	20%	30%	38.7%	50%
Neuberger Intermediate			3.3%	
Global Fixed Income			10.0%	
Corporate Fixed Income			9.8%	
Lord Abbett			2.7%	
PIMCO - Bonds			12.9%	
Total			100%	

Exhibit #9

Pending Portfolio Impacts

-Year End Fiscal Cliff & Other-

- Debt Ceiling Deal Part I - $40 Billion
- Expiring Bush Tax Cuts - $240 Billion
- Debt Ceiling Deal Part II - $110 Billion
- Other* - $150 Billion
- Expiring Payroll Tax Holiday - $129 Billion
- Extending Unemployment - $40 Billion
- European Debt Crisis
- Presidential Election
- Slowing economic growth in China, India and other emerging markets
- Austerity induced recession in Europe

*Includes infrastructure spending, Health care implementation, AMT etc.