



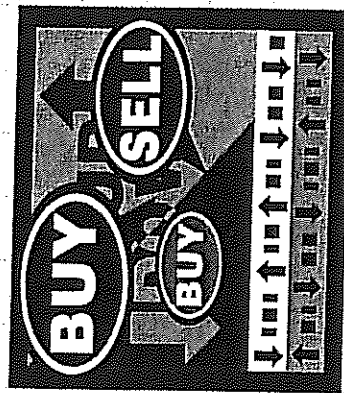
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(2007-08 Annual Conference)

Endowment Trustees Report to Council

(Long-Term Investment Fund)

Anaheim, CA

Robert Newlen - Chair
Sunday - June 29, 2008



CD # 16.1

**LONG TERM INVESTMENT TRUSTEES
REPORT TO COUNCIL
SUNDAY - JUNE 29, 2008
Anaheim, CA**

This report provides information regarding the performance of ALA's Long Term Investment Fund (LTI) i.e. the Endowment Fund, for the calendar five-month period ending 5-31-08. It is provided as a supplement to the oral report given by the Senior Trustee of the ALA Endowment fund (Long-Term Investment fund). 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 at <http://www.ala.org/treasurer>.

Attachments

Attached for your review are charts (Exhibits #1- 10) 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.

Economic/Financial Review 1st Quarter 3-31-08

The first quarter of 2008 was one of the most turbulent quarters in memory. Both equities and fixed income continued to be impacted by the credit crisis and growing evidence that the US economy is slowing. As the evidence of a US slow down increased, concerns spread around the world. Emerging markets leaders like China and India, which had stellar performances in 2007, lead the underperformance in the quarter. Despite the slow down commodity prices soared, particularly oil. The credit crisis continued to spread affecting areas that had previously been considered safe i.e. municipal bonds and auction rate securities. The fixed income markets fared better as there was a clear flight to safety. As conditions worsened US consumer spending took a hit. This was on top of a softening job market, tighter credit conditions and declining housing prices. The price of oil was also a major

contributor to the downward pressure on the market. Through most of the quarter investors were waiting or speculating when the cost of a barrel of oil would break through the \$100 barrier. Today we are closer to \$140.

To help address the issue, the Federal Reserve took an aggressive posture by cutting its benchmark Fed Funds rate from 4.25% to 2.25%. Additionally, it created a lending facility for financial institutions to help increase liquidity and shore up investor confidence. Note that this is in stark contrast to the stance taken by the Fed's European counterparts (European Central Bank, Bank of England etc.) who are very reluctant to cut rates due to inflation fears. Price stability is their sole mandate. In many corners inflation is lurking as a concern in the US. Many investors believe that the Fed should be raising rates in an attempt to head off any unwanted inflation. Hence, the outlook for the rest of the year and beyond remains clouded.

One of the most important events of the quarter was the near collapse of the investment bank Bear Sterns. Due to the potential negative impact on the financial markets around the world the Federal Reserve aggressively stepped and helped facilitate a buyer for Bear Sterns. It also established a credit facility that in the past was never available to investment banks. All this was done in an attempt to maintain stability and provide liquidity to the financial markets.

Endowment Fund Performance YTD 5-31-08

For the five months ending 5-31-08 the value in the ALA Endowment fund declined by approximately \$667,000 from \$31.2 million to \$30.6 million - see exhibit #5 and #6. This resulted in a return of (-1.7%) compared to the portfolio's benchmark of (-1.7%). Despite the negative results it is significantly better than the market as a whole - S&P 500 (-9.4%) and Wilshire 5000 (-9.5%). Performance on an individual manager basis resulted in most of the managers trailing their respective benchmarks. There results are as follows:

Alliance Bernstein - Alliance, the large cap core manager, reported a loss of (-4.7%) compared to its benchmark which was down (-3.8%). The growth side of Alliance's portfolio mix suffered with the rest of the growth market as a whole. Two of their primary investment ideas/themes - telecom and technology - were among the worst performing sectors during the quarter. The Trustees recently interviewed the manager to discuss their performance.

They are still strong believers in their strategy that emphasizes technology and consumer discretionary and under-weights energy and industrial stocks is a good one. Alliance is a classic sector rotator. Their three and five year performance history suggests that they will likely come out ahead. In the second half of 2007 they were beginning to benefit from their strategy.

Marsico - Marsico, the large cap growth manager, returned (-6.3%) compared to its index which was down (-2.0%). As a pure growth manager that runs a concentrated portfolio, their results are reflecting the fact that, as noted above, value style investing is currently outperforming the growth style. Positions in information technology hurt the portfolio. It is expected that growth will begin to gain traction as large cap multinationals benefit from the weak dollar and international trade.

Blackrock – Blackrock, the large cap value manager, returned (-7.9%) compared to its index of (-5.4%). Although value investing was in favor by investors, Blackrock was not able to benefit. Positions in telecom and technology hurt the portfolio. The Trustees will be discussing this performance with the manager at an upcoming conference call.

NFJ/Alliance – NFJ/Alliance, the small cap growth manager, continues to outperform with a return of 6.2% compared to its benchmark which was down (-0.3%). Generally, small cap stocks are very susceptible to the perceptions of economic performance. In this environment small caps were one of the worse performing sectors. NFJ has defied the market and has significantly outperformed its peers and the index. This is a direct credit to the stock picking ability of the manager. Currently this asset category is at the low end of its target allocation range. As market conditions improve this will likely change as small caps generally fair very well coming out of a slow down. On the down side is the likely prospect of rising interest rates, which typically works against small and mid sized cap stocks.

Lazard – Lazard, the international manager, returned (-2.6%) compared to its index of (-4.8%). For the first time in a number of years the international market has suffered along with other markets. As has been stated in the past, this manager will under-perform the index during good times as a result of its defensive posture and out-perform the index in bad times. Like the small cap market, the international market can turn negative very quickly. Lazard protects on the downside in this potentially volatile sector. Although

currently, most market strategists still believe that exposure in this asset class is essential and will pay dividends in the future. The evidence suggests that the emerging markets are maintaining their strength despite the difficulties in the US.

Heitman – Heitman, the REIT manager, returned 9.0% compared to its index of 8.6%. This is a complete and quick turnaround in this asset class. Recent discussions with the manager suggest that the market is fairly valued, whereas 2007 was not. Opportunities exist but the market has gotten so efficient that significant out-performance will be difficult. It was noted however that opportunities exist internationally. The status of the international REIT market is about where the US was eight years ago. As such, there are inefficiencies between each market that will ultimately result in significant out-performance. The Trustees are awaiting and evaluating more information on this asset class as a potential area of investment.

PIMCO – PIMCO, the fixed income manager, reported a return of 2.0% compared to its index of 1.0%. As one of the premier bond managers in the world ALA is receiving the benefit of their expertise. Due to their return and the size of the allocation the negative impact from the equity side was minimized

Blackrock SRI – Blackrock, an actively managed SRI account reported results for the period that were down (-7.4%) as compared to its benchmark of (-4.3%). SRI positions were caught in the same downdraft that the rest of the equity market suffered

Ariel Capital Appreciation - Ariel Capital, the SRI mutual fund, reported a return of (-3.6%) compared to its index of 0.4%. Due to the unique nature of Ariel, other more appropriate SRI indices returned (-3.6%) and (-9.5%) respectively. See Exhibit #8.

Asset Allocation and Rebalancing

See exhibit #7 for details on asset allocation and rebalancing. The practice of rebalancing is based on an assessment of the prevailing risks and opportunities in the market. The Trustees' continually monitor the portfolio and look for new opportunities to boost performance at appropriate levels of risk.

Based on prevailing market conditions the portfolio has benefited from an over-weighting in fixed income securities. There has also been an under-weighting of the large cap value portion of the portfolio and a corresponding increase in the large cap growth portion. All indications are that large cap growth stocks are poised to make some sustained gains, particularly if the economy shows any signs of firming or if they have any international exposure due to the weakened dollar.

Note: The Trustees meet on a monthly basis via telephone, with ALA staff and Merrill Lynch – ALA's Investment Advisor – to review the LTI's 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 and are based on prevailing market conditions.

Future Outlook in 2008

Most financial experts agree that the economic picture for the remainder of 2008 is very cloudy. There seem to be two distinct camps among investors as market strategists and economists have very different views of the world. The questions being posed in constructing a portfolio are: should investments be geared for inflation or deflation? Have the emerging world economies decoupled from the developed economies? Will the US lead the world into an economic slowdown or recession? Should commodities be utilized in this environment? Are bonds the place to be? The one area that most people can agree on is that the dollar is undervalued. It has become so devalued that US domestic manufacturing sector is becoming competitive and is poised for a renaissance.

Clearly the rest of 2008 will be very challenging with volatility being a daily occurrence. If as expected future corporate earnings disappoint, the market will begin to price in the disappointment and drive the value of the market down. There is evidence that this is happening now. This puts the Federal Reserve in a very precarious position. They have the dual mandate of price stability and promoting growth. As stated in the 1st quarter review the Fed is faced with fighting on two fronts – inflation and deflation - with opposing remedies. Strong arguments can be made that the other is the most pressing issue to address.

Management Tool Considerations

As part of the Trustees ongoing due diligence we are always in the process of evaluating various management tools that can be used to supplement the

level of returns currently realized in the endowment. One of the tools under consideration is the use of "Alternative" investments. This includes emerging markets, convertibles, hedge funds, real estate and commodities. The reason for this consideration is the fact that the endowment has reached a level of critical mass (\$30.0million) that strongly suggests that the use of these instruments is essential. Through the work of our investment advisor – Merrill Lynch – the Trustees have learned that endowments the size of ALA typically maintain an asset allocation of 8% dedicated to alternatives. Additionally, it has been learned that despite the well known and publicized failures i.e. hedge funds, their inclusion as an asset class actually lowers the risk profile of the portfolio.

The Trustees will continue their due diligence on this question as well as provide some education on the subject at the appropriate time.

New YALSA Endowment

During the Trustees April Spring meeting the YALSA Executive Director – Beth York – made a request for the establishment of a "Leadership" endowment for YALSA. The genesis for this endowment began in August of 2007 with a fundraising effort among Past Presidents of the division. To date they have collected \$11,000. An additional \$25,000 has been authorized to be transfer from the YALSA operating fund balance in FY 2009.

This purpose of this endowment is to generate interest and dividends to support specifically identified programs for leadership development initiatives such as scholarships, fellowships and awards, mentoring programs, leadership institutes, related travel and workshop grants.

New Trustee Appointment

The ALA Endowment Trustees are pleased to announce and welcome the newest Trustee Robert Walton, who was elected to serve a three term at the 2008 Executive Board Spring meeting in Chicago. His term officially begins at the conclusion of the 2008 ALA Annual Conference in Anaheim, CA and ends at the conclusion of the 2011 ALA Annual Conference in New Orleans. He will be replacing Robert Newlen whose term expires after this conference.

Mr. Robert Walton has been a professional librarian actively involved with library service for close to thirty-two years. He is currently the Chief Executive Office of the Claremont University Consortium in California. He has extensive experience in planning and providing technology to libraries in both the U.S. and internationally, in addition to overseeing the management of a large portfolio. Mr. Walton holds an M.L.I.S in Information Science from the University of Texas at Austin, as well as, a Bachelor of Science degree.

We welcome Robert and look forward to utilizing his experience and insights in addressing the issues that face the Long-Term Investment Fund.

Acknowledgements

We continue to be 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,

Robert Newlen – Chair (2008)

Dan Bradbury – Trustee (2009)

John Vitali – Trustee (2010)

Rod Hersberger – ALA Treasurer, Ex Officio (2010)

Market Flash Points

- Credit crisis continues to be a major concern
- Federal Reserve has acted aggressively to address credit concerns by cutting rates
- European banks reluctant to cut rates
- Evidence that economy is slowing due to extreme downward pressure on US consumer spending
- Dollar continues to lose value
- Volatility continues to be extreme.

Investment Process

Exhibit #2

Investment Policy Statement (revised Dec 2007) provides detailed guidelines to the Endowment Trustees for management and review of the 8 Money Managers & one Mutual Fund deployed for managing the assets of the Endowment Fund.

- (1) Each Portfolio Manager is asked to present their account to the Trustees in the scheduled Monthly Conference Calls. (Over 7 calls were held last year).
- (2) Portfolio managers performance is reviewed with the help of an Institutional Consultant in these conference calls. (2 New Managers were hired in the last 18 months).
- (3) The ALA Investment Policy Statement provides detailed criteria for hiring and firing Money Managers for the Endowment Account.

Tactical Asset Allocation Changes

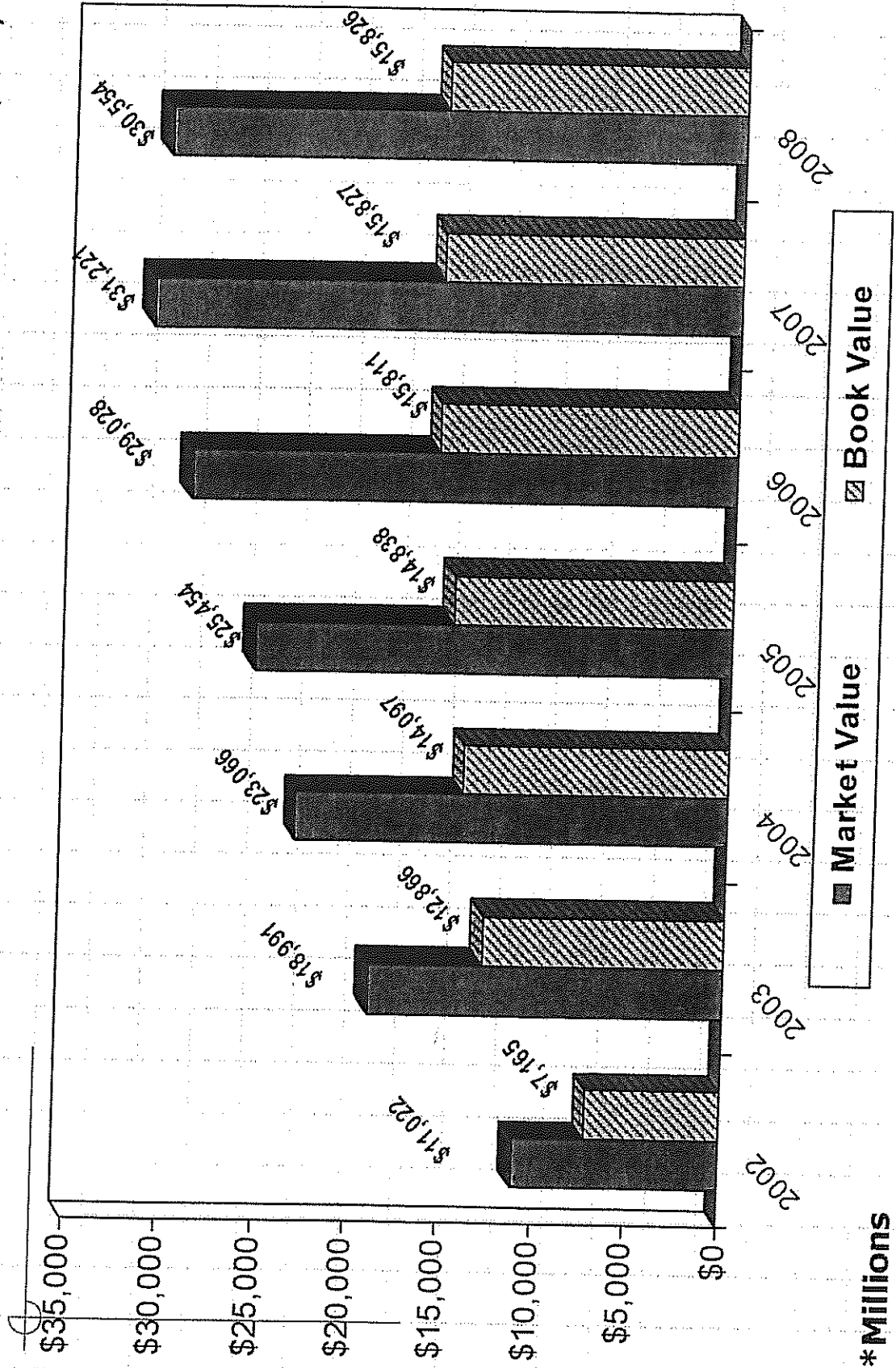
The Endowment Trustees, at the advice of the Consultants have made several asset allocation decisions over the last year for the benefit of the Endowment:

- Gradually increased Fixed Income allocation from an underweight 27% in 2005 to the current 36% overweight position
- Reduced REITs (Real Estate Investment Trusts) to the minimum weighting of 5% in 2005.
- Took Small Cap from an overweight of 9% to a neutral target weight of 5% in 2007.
- Kept Large Cap near its target weight but shifted the overweight in Large Cap Value to the current overweight in Large Cap Growth in 2006 & 2007.

Market and Book Value

@ 5-31-08

(\$000's)

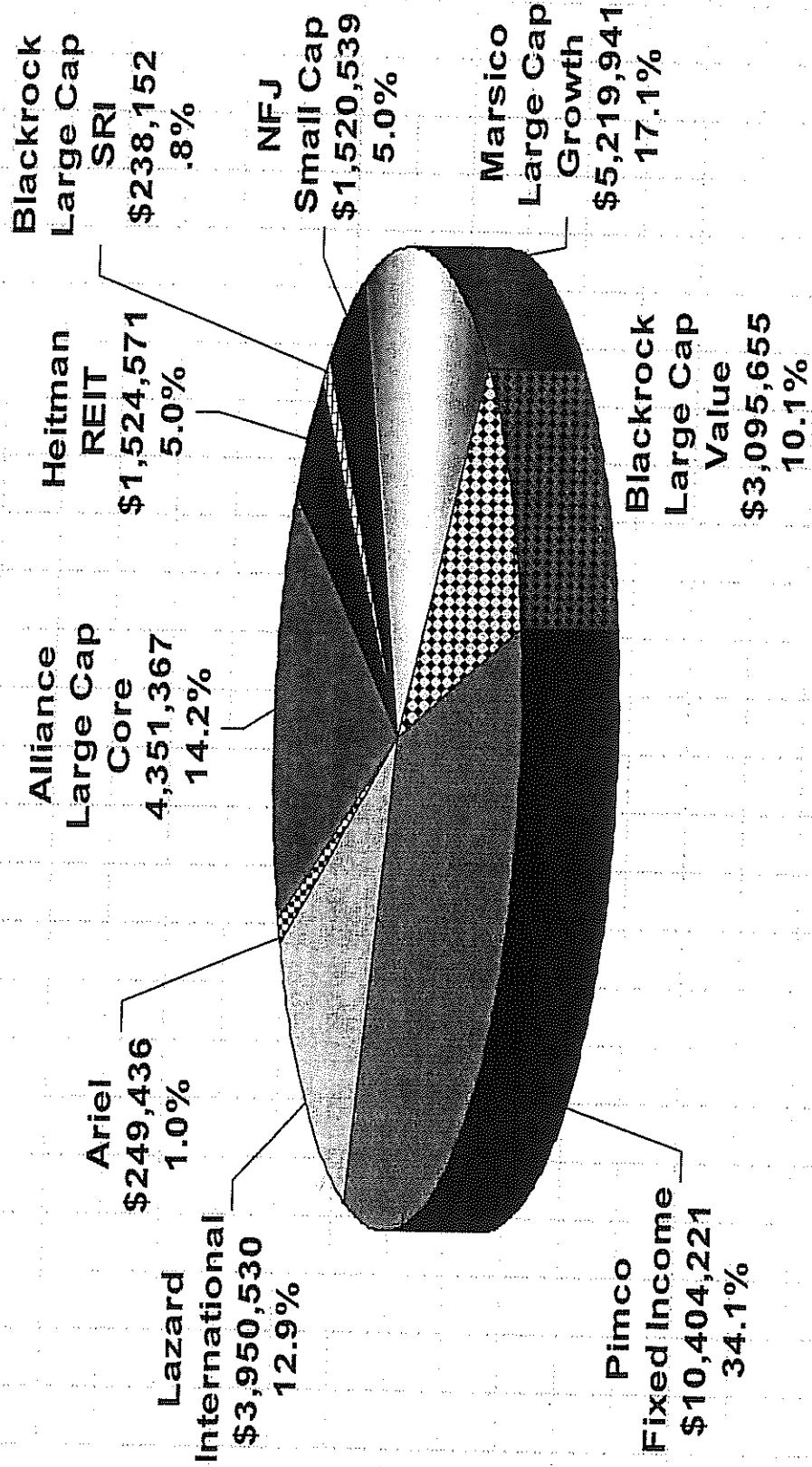


* Millions

Endowment Fund Manager Allocation & Style @ 5-31-08

Exhibit #5

\$30,554,412



Asset Allocation Strategy

ASSET ALLOCATION STRATEGY		POLICY GUIDELINES @ 5-31-08				
		Min	Target	Actual	Max	
			12/31/2006			
Domestic Large/Medium Cap Stocks			43%			
	Alliance Bernstein - Core	40%	45%	43%	50%	
	Ariel Capital			14.2%		
	Marsico - Large Cap Growth			0.8%		
	Blackrock - Large Cap SRI			17.1%		
	Blackrock - Large Cap Value			0.8%		
				10.1%		
Domestic Small/Medium Cap Stocks			9%			
	NFJ - Small Cap Value	0%	5%	5%	10%	
			9%			
International Equity			13%			
	Lazard - International	5%	10%	13%	15%	
			13%			
Real Estate Investment Trust (REIT)			6%			
	Heitman	5%	10%	5%	15%	
			6%			
Investment Grade Fixed Income			29%			
	PIMCO - Bonds	22.5%	30%	34%	37.5%	
			29%			
				34.1%		
Cash and Cash Equivalents			0%			
		0%	0%	0%	5%	

Performance – 5/31/08 (YTD Returns)

<u>Managers</u>	<u>Market Value</u>	<u>Returns</u>	<u>Index</u>
Alliance	\$ 4,351,367	-4.7%	-3.8%
Marsico	\$ 5,219,941	-6.3%	-2.0%
Blackrock LCV	\$ 3,095,655	-7.9%	-5.4%
NFJ	\$ 1,520,539	6.2%	-0.3%
Blackrock SRI	\$ 238,152	-7.0%	-4.3%
Lazard	\$ 3,950,530	-2.6%	-4.8%
Heitman	\$ 1,524,571	9.0%	8.6%
PIMCO	\$ 10,404,221	2.0%	1.0%
Merrill Lynch	\$ 30,304,976		
Ariel Capital	\$ 249,436	-3.6%	0.4%/-3.6%/-9.5%
Composite	\$ 30,554,412	-1.7%	-1.7%

*Returns for Russell 1000 Mid Cap value – Ariel Mgt. choice, KLD Social Select and Domini 400 Social Indexes, respectively

**These returns are unaudited. Composite benchmark is 55% Russell 3000, 10% MSCI EAFE and 35% ML Domestic Master

Long-Term Investment

Manager Performance @ 3-31-08 (Annualized)

Exhibit #8

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Alliance Bernstein	-0.5%	6.8%	13.8%
S&P 500	-5.1%	5.9%	11.3%
Marsico	-1.5%	5.9%	11.3%
Russell 1000 Growth	-0.8%	6.3%	10.0%
Blackrock*	-7.4%	4.2%	10.7%
Russell 1000 Value	-5.9%	4.7%	10.0%
ALA Endowment	8.4%	9.0%	11.8%
ALA Benchmark	6.6%	8.3%	11.2%

*12/31/07 information not yet available.

Long-Term Investment

Manager Performance @ 3-31-08

(Annualized)

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
NFJ	-2.5%	12.0%	19.4%
Russell 2000 Value	-16.9%	4.3%	15.4%
Lazard	-2.0%	10.9%	17.5%
MSCIEAFE	-2.7%	13.3%	21.4%
Heitman	-17.9%	11.2%	18.9%
DJ Wilshire RESI	-18.9%	11.6%	18.9%
Pimco	11.0%	6.7%	5.6%
ML US Broad Mkt	7.6%	5.5%	4.6%

Long-Term Investment Manager Performance – SRI @ 3-31-08

(Annualized)

Exhibit #10

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Blackrock SRI	-7.4%	4.2%	10.7%
Ariel Capital Appreciation	-12.2%	1.7%	10.3%
Russell 1000 Mid Cap Value*	-14.1%	6.6%	16.8%
Domini 400 Social Index**	-5.9%	4.7%	10.0%
KLD Social Select Index***	-3.7%	5.6%	NA
*Investment Industry Specific Index - this is Ariel's choice to measure their performance. This index is not SRI centered			
**Most commonly known SRI index in the industry - equivalent to S&P 500			
***SRI Investment Industry Specific Index - KLD developed an asset category specific index, which tracks the Russell 1000			

Thank You for Your Attention

