

ALA CD #16

(2019 Midwinter Meeting)

Endowment Trustees Report

(Long-Term Investment / Endowment Fund)

Rod Hersberger – Senior Endowment Trustee

Patricia Wand – Endowment Trustee

Saturday – January 26, 2019

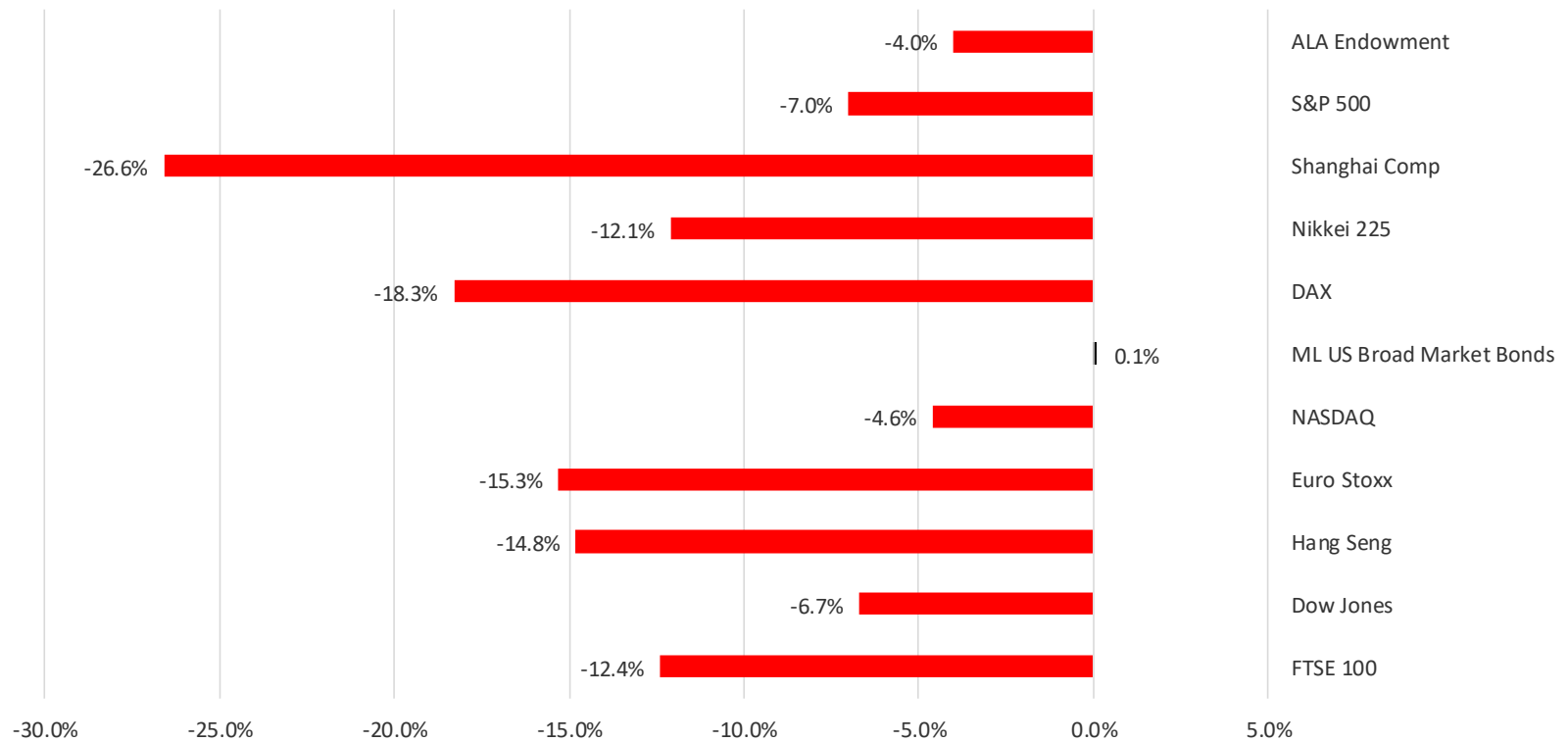


Diversity Among Asset Classes

- With the possible exception of private equity, no single asset class will outperform the broad market indexes over a long period of time.
- This is why ALA's portfolio must remain fully diversified, It is just as important to have cover in down markets as it is to ride the cresting waves in up markets.
- Part of the Endowment Trustee's fiduciary responsibility includes preparing for the inevitable market fluctuations that will occur.

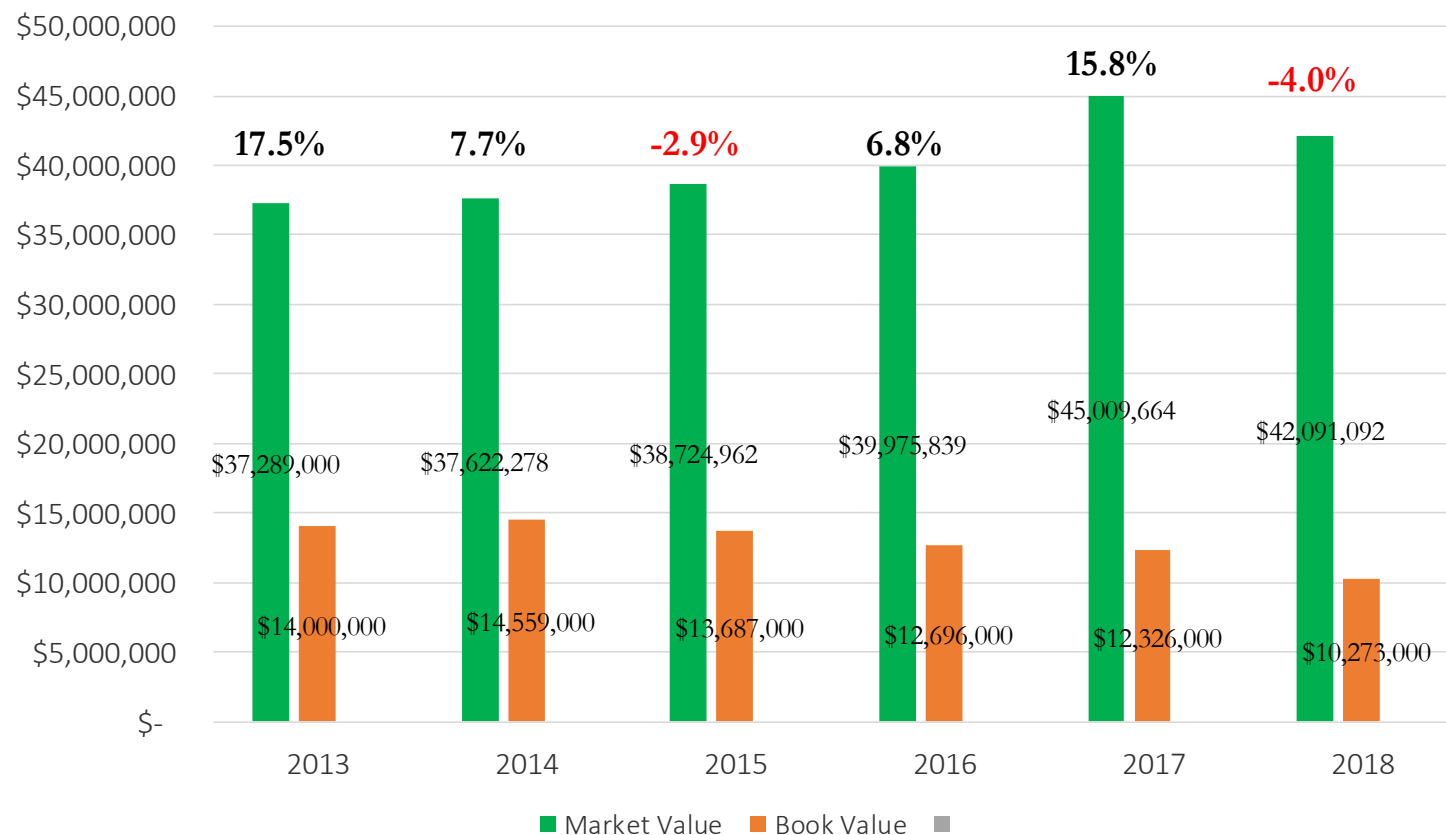
World Market Performance

- Calendar Year Market Returns @ 12-31-18



Market/Book Value and Return* @ 12-31-18

\$42,091,092



*Calendar year to date through 12-31-18

2018 Alternative Investment Cash Flow

PMF TEI* Fund, LP

| Settle Date | Type | Description | Contribution Amount | Distribution Amount |
|---------------------|-----------------|--------------|---------------------|---------------------|
| 11/05/2018 | Security Trans. | Distribution | \$ - | \$ 32,008 |
| 08/02/2018 | Security Trans. | Distribution | \$ - | \$ 37,164 |
| 05/02/2018 | Security Trans. | Distribution | \$ - | \$ 28,260 |
| 03/08/2018 | Security Trans. | Distribution | \$ - | \$ 38,647 |
| | | | | <u>\$ 136,079</u> |
| *The Endowment Fund | | | Net Total | <u>\$ 136,079</u> |

KKR Custom Equity Opportunities Cayman Fund

| Settle Date | Type | Description | Contribution Amount | Distribution Amount |
|-------------|--------------------|--------------|---------------------|---------------------|
| 10/29/2018 | Security Trans. | Contribution | \$ (45,000) | \$ - |
| 09/27/2018 | Security Trans. | Contribution | \$ (56,250) | \$ - |
| 07/31/2018 | Security Trans. | Contribution | \$ (30,000) | \$ - |
| 07/18/2018 | Dividends/Interest | Distribution | \$ - | \$ 1,804 |
| 06/22/2018 | Security Trans. | Contribution | \$ (22,500) | \$ - |
| 04/27/2018 | Security Trans. | Contribution | \$ (33,750) | \$ - |
| 02/23/2018 | Security Trans. | Contribution | \$ (18,750) | \$ - |
| 01/18/2018 | Dividends/Interest | Distribution | \$ - | \$ 1,834 |
| | | | <u>\$ (206,250)</u> | <u>\$ 3,638</u> |
| | | | Net Total | <u>\$ (202,613)</u> |

Blackstone Alternatives Solution 2015

| Settle Date | Type | Description | Contribution Amount | Distribution Amount |
|-------------|--------------------|--------------|---------------------|---------------------|
| 10/17/2018 | Dividends/Interest | Distribution | \$ - | \$ 30,210 |
| 07/17/2018 | Dividends/Interest | Distribution | \$ - | \$ 1,651 |
| 07/16/2018 | Dividends/Interest | Distribution | \$ - | \$ 47,700 |
| 03/26/2018 | Dividends/Interest | Distribution | \$ - | \$ 54,060 |
| 02/12/2018 | Security Trans. | Contribution | \$ (90,000) | \$ - |
| 01/16/2018 | Dividends/Interest | Distribution | \$ - | \$ 2,394 |
| | | | <u>\$ (90,000)</u> | <u>\$ 136,015</u> |
| | | | Net Total | <u>\$ 46,015</u> |

Market Impacts of 2018

- Federal Reserve raising interest rates
- Quantitative tightening
- Federal Reserve policy mistake
- Liquidity recession not an economic recession
- Program trading
- Geopolitical concerns including tariffs and trade war with China plus Brexit

Outlook for 2019

- A global recession is unlikely
- The US economy predicted to grow at a 4.5%
- The Government shutdown will have a -.25% impact on the economy per month
- Bear markets last on average 14 months with market declines of 40%
- Bull markets last on average 9 years with market gains of 500%

Manager Allocation and Style

| | | | |
|------------------------------------|----|------------|--------|
| Clearbridge Large Cap ESG | \$ | 8,923,181 | 21.2% |
| Principal Mid Cap | \$ | 1,865,043 | 4.4% |
| Schwab US Small Cap EFT | \$ | 1,162,447 | 2.8% |
| Domini International ESG | \$ | 874,658 | 2.1% |
| Lazard International Strategy | \$ | 953,460 | 2.3% |
| Oakmark International | \$ | 919,220 | 2.2% |
| Vanguard US REIT ETF | \$ | 1,000,729 | 2.4% |
| Nuveen Real Asset Income | \$ | 1,062,697 | 2.5% |
| PIMCO Income | \$ | 1,860,000 | 4.4% |
| Double Line Total Return | \$ | 1,973,638 | 4.7% |
| Calvert ESG Short Duration | \$ | 2,138,206 | 5.1% |
| Guggenheim Total Return | \$ | 1,943,253 | 4.6% |
| Lord Abbott Short Duration | \$ | 2,574,460 | 6.1% |
| Capital Group International | \$ | 1,892,609 | 4.5% |
| Equity Income & Growth - EFT | \$ | 7,589,864 | 18.0% |
| The Endowment Fund | \$ | 650,458 | 1.5% |
| AQR Long Short Equity Fund | \$ | 1,412,421 | 3.4% |
| JLL Income Property Trust | \$ | 1,075,355 | 2.6% |
| Blackstone 2015 Alts Trust | \$ | 1,706,533 | 4.1% |
| KKR 2016 Custom Equity Opportunity | \$ | 512,860 | 1.2% |
| Total | \$ | 42,091,092 | 100.0% |

Time Weighted Rate of Return

| | <u>Opening</u> <u>Balance</u> | <u>Contributions</u> <u>(Withdrawals)</u> | <u>Interest</u> <u>Dividends</u> | <u>Appreciation</u> <u>(Depreciation)</u> | <u>Closing</u> <u>Balance</u> | <u>ROR*</u> <u>Period</u> | <u>ROR*</u> <u>Cumulative</u> |
|-------------------------|----------------------------------|--|-------------------------------------|--|----------------------------------|------------------------------|----------------------------------|
| December - 2018 | \$ 44,262,213 | \$ 21,827 | \$ 683,635 | \$ (2,876,583) | \$ 42,091,092 | (4.95) | (4.00) |
| November - 2018 | \$ 44,826,235 | \$ (1,217,642) | \$ 44,764 | \$ 608,856 | \$ 44,262,213 | 1.48 | 0.96 |
| October - 2018 | \$ 47,322,251 | \$ 0 | \$ 86,608 | \$ (2,582,624) | \$ 44,826,235 | (5.27) | (0.51) |
| September - 2018 | \$ 47,357,522 | \$ 0 | \$ 114,956 | \$ (150,226) | \$ 47,322,251 | (0.07) | 5.03 |
| August - 2018 | \$ 46,643,361 | \$ 0 | \$ 48,456 | \$ 665,705 | \$ 47,357,522 | 1.53 | 5.11 |
| July - 2018 | \$ 45,615,049 | \$ 0 | \$ 121,768 | \$ 906,544 | \$ 46,643,361 | 2.25 | 3.53 |
| June - 2018 | \$ 45,673,395 | \$ 0 | \$ 92,365 | \$ (150,771) | \$ 45,615,049 | (0.13) | 1.24 |
| May - 2018 | \$ 45,028,467 | \$ 0 | \$ 52,272 | \$ 592,657 | \$ 45,673,395 | 1.43 | 1.37 |
| April - 2018 | \$ 44,821,221 | \$ 0 | \$ 58,136 | \$ 149,110 | \$ 45,028,467 | 0.46 | (0.06%) |
| March - 2018 | \$ 45,204,025 | \$ 3 | \$ 150,110 | \$ (532,917) | \$ 44,821,221 | (0.85%) | (0.52%) |
| February - 2018 | \$ 47,438,334 | \$ (857,245) | \$ 41,803 | \$ (1,418,867) | \$ 45,204,025 | (2.92%) | 0.33% |
| January - 2018 | \$ 45,900,664 | \$ 0 | \$ 33,734 | \$ 1,503,935 | \$ 47,438,334 | 3.35% | 3.35% |
| Total | \$ 45,900,664 | \$ (2,074,884) | \$ 844,971 | \$ (408,538) | \$ 44,262,213 | NA | 0.96% |

*Rate of Return

The Work of the Endowment Trustees

Recent Trustee Actions

- The Trustees held their fall meeting at the ALA headquarters in Chicago (September 18th)
- Received an update from the Executive Director on the major revenue change streams projects taking place across the Association, in conjunction with the 3-Year investment plan
- Trustee's held a "Strategic Review" on all aspects of the endowment operation on November 8th & 9th with Geoffrey Wilson, consultant from Mercer Investment Consulting
- Formalized a policy framework and process for handling small endowments with less than and or drop below \$50,000
- No asset allocation changes to the portfolio
- Reduced the international equity allocation by reducing of Lazard International Strategy (1.1%) and Oakmark International (1.1%) for a total of \$1.0 million
- Hired and applied the reallocated international funds to Domini Impact International Equity (2.2%), an ESG* portfolio

*Environmental, Social and Governance



Endowment Valuation and Asset Allocation

| | <u>Value</u> | <u>%</u> | <u>% Allocated to Energy</u> |
|---------------------------------------|----------------------|---------------|------------------------------|
| Total Equity & Real Assets | \$ 26,243,908 | 62.4% | 1.7% |
| Domestic Large/Mid Cap | \$ 19,540,535 | 48.4% | |
| Equity Income & Growth - EFT | \$ 7,589,864 | 18.0% | 0.5% |
| Clearbridge Large Cap ESG | \$ 8,923,181 | 21.2% | 0.5% |
| Principal Mid Cap | \$ 1,865,043 | 4.4% | |
| Schwab US Small Cap EFT | \$ 1,162,447 | 2.8% | 0.3% |
| International Equity | \$ 4,639,947 | 11.0% | |
| Capital Group International | \$ 1,892,609 | 4.5% | 0.1% |
| Domini International ESG | \$ 874,658 | 2.1% | |
| Lazard International Strategy | \$ 953,460 | 2.3% | 0.1% |
| Oakmark International | \$ 919,220 | 2.2% | |
| Real Assets | \$ 2,063,426 | 4.9% | |
| Vanguard US REIT ETF | \$ 1,000,729 | 2.4% | |
| Nuveen Real Asset Income | \$ 1,062,697 | 2.5% | 0.2% |
| Total Fixed Income | \$ 10,489,557 | 24.9% | |
| Domestic Fixed Income | \$ 10,489,557 | 24.9% | |
| PIMCO Income | \$ 1,860,000 | 4.4% | |
| Double Line Total Return | \$ 1,973,638 | 4.7% | |
| Calvert ESG Short Duration | \$ 2,138,206 | 5.1% | |
| Guggenheim Total Return | \$ 1,943,253 | 4.6% | |
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| Total Alternatives | \$ 5,357,627 | 12.7% | |
| AQR Long Short Equity Fund | \$ 1,412,421 | 3.4% | |
| JLL Income Property Trust* | \$ 1,075,355 | 2.6% | |
| Blackstone 2015 Alts Trust | \$ 1,706,533 | 4.1% | |
| The Endowment Fund* | \$ 650,458 | 1.5% | |
| KKR 2016 Custom Equity Opportunity | \$ 512,860 | <u>1.2%</u> | |
| Total | <u>\$ 42,091,092</u> | <u>160.4%</u> | <u>1.7%</u> |