

ALA Endowment Trustees Meeting

May 22, 2023: 9 am EST

ALA Headquarters

Chicago, IL

MINUTES

To accept the February 22nd and 23rd minutes as written

Motion passed.

Blackrock ESG Presentation

After an introduction by Raj Bhatia of Merrill Lynch a presentation by Blackrock on the subject of ESG. Tanvi Pradhan, Senior Product Strategist – U.S. iShares Sustainable Product Strategy, and Ken Zaugh, Vice President presented.

from phase 1. Phase 1 offers ALA the sustainable building blocks that provide market data correlated to lower cost and lower tracking error.

In terms of the future of ESG/Sustainable investing, it is a very broad question. However, it is being better understood and recognized as a good way to drive long-term risk and return rewards. ESG/Sustainable investing is becoming the standard outside of the US, but it will be a longer push for the US to catch up with the rest of the world. While regulation is currently slowing down the push for ESG/Sustainable investing, it will eventually become a boom as it will drive transparency, reduce greenwashing, provide greater disclosure, etc. In closing, Ken Zough stated that he will get the Trustee's information on Blackrock's position on Artificial Intelligence.

The Partners Group Presentation on Private Equity

After an introduction by Raj Bhatia of Merrill Lynch, a presentation by The Partners Group on the topic of Alternative investments was made. Rob Collins –Partner and Matt Frechette – Client Solutions, Private Wealth presented to the Trustees. Matt Frechette- began the discussion and introduced Rob Collins, a partner of the Partners Group (Partners) and creator of the fund in which ALA is invested. He provided some context to the private markets and why it would be a good investment for ALA. He wanted to provide some background before he talked about the organization. He noted that not much has changed at the firm, just a little larger with a few more employees than during our last visit. US headquarters in Denver and worldwide in

the maximization of new living, and sustainability. Partners believes that we are in an “operational improvement” era.

Partners is a private market-focused, independent organization looking for the most promising companies. Companies that can grow revenues and cash flow over the long term. Transformational investing is what they think about. They want to further grow the companies that they invest in – a good to great strategy. They are not looking to fix something that is broken or invest in anything that is deeply cyclical. They invest in compelling industries with fundamental growth. And seek to help them grow by applying their expertise and financial resources. Always looking for mid-double-digit i.e. 15% cash flow growth rates as a target.

Partners have been involved in ESG for decades. Partners was one of the earliest signatories to the United Nations principles of responsible investing in 2,008 and was the first one of the first 2 or 3 private equity firms to do so. In 2016 embedded ESG across their entire investment process. The portfolio has three major themes:

1. Digitization and Automation
2. New Living
3. Sustainability and Efficiency

Within these three themes, there are 50 + subsegments where ideas are generated, cultivated, and grown. ALA is invested in the firm's “Evergreen” fund – page 17, called the Partners Group private equity Master Fund. The fund operates very much like a mutual fund. The fund is registered with the SEC and was the first ever private equity fund to do so. No ongoing capital calls i.e. ALA invests when it wants to invest. Now with AUM of \$13.5+. The fund is invested primarily in equities (70% equity goal) because that's where they feel they can generate the highest and most sustainable returns. Will lend to other private equity funds via private debt and maintain a 10% goal in cash. The firm has maintained a 7% cash position for the last 12 months. The fund has had 13 consecutive years of positive returns. Up 2.1% through the first quarter of 2023 – see page 21 for historical returns.

In closing Jim Neal asked about the significance of using the term “Alternatives” as a descriptor. Taking all things into consideration Rob Collins felt that the term was antiquated and would eventually go by the wayside in terms of its use. This is part of the reason for the use of the term new traditional asset class.

Additional Discussion on Alternatives

As an extension of the Partners Group presentation on private equity, Mario Gonzalez asked Merrill Lynch about what other organizations of similar size to ALA are doing concerning asset allocations to Private Equity. Shen Li addressed the question by referring to some of the comments by Rob Collins. He noted that in large foundations/organizations i.e. Columbia University, 40% - 50% of the portfolio could be allocated to alternatives and private equity.

These organizations are better able to handle the sizable barriers to entry, as well as, can bring to bear the staffing size necessary- manage. Among those organizations, there is no set standard and can range from 0% - to 80%. As such there is no right allocation. However, taking a cue from the private wealth side of Merrill Lynch, they recently published a recommendation for portfolios of \$50 - \$100 million at 25% in alternatives. As such, an allocation of 25% for ALA would be deemed appropriate.

Currently, the allocation for alternatives is 11%. At the winter Endowment Trustees meeting, the range for alternatives was increased from a minimum, target, and maximum range of 0%/10%/20% to 5%/15%/25%. When asked if now was a good time to increase the target allocation, the response was " Let's get to the current target of 15%, then consider if another move is appropriate".

Merrill Lynch Portfolio Review

The discussion began by acknowledging and appreciating the level of engagement and questions from the Trustees to the presenters. This review was for the first quarter of 2023. The Trustees were referred to page 5 of the presentation, which is a three-year chart that highlights

investments. On a 3 and 5-year basis, the returns are in line with their respective benchmarks. It was noted that the alternatives are meeting our expectations by returning approximately 15%.

The following action was taken:

Motion: J. Neal, seconded by J. Welburn

By 2030 approximately \$16 trillion will be realized in net GDP economic impact. GDP growth is the fountainhead for all that is created in the economy. As a result, with 3% GDP growth, investment returns are expected to be 10%-12%. grow by an additional 3% due to the impact of AI.

AI will increase productivity across the economy and labor across the board.

AI is projected to contribute \$15.7 billion to the global economy by 2030.

Productivity can occur via population growth i.e., India or innovation (AI). While countries like India have people who can fill the void in productivity, places like Europe and to some degree the US must continually innovate. This is where AI steps in to fill the breach. When asked how and when to best invest in AI, the response was that it still might be too early to make any large bets on any specific companies. However, Open AI (a private company) and Microsoft on the software side are expected to be major beneficiaries of the AI movement.

In closing, Mario Gonzalez expressed his concern that the legislators in Washington are not yet current enough about AI to make prudent laws to safeguard those most interested in and affected by the expanded use of AI. It was noted that legislators are usually playing catchup when it comes to new, earth-shattering, and market disruptors i.e., cryptocurrency.

Endowment Trustee Applicant Review - ET #6.6

The Trustees went into a closed session to discuss the applicants (3) for the one open position on the committee. The results of their discussion and recommendation will be forwarded to F&A and the Executive Board at the June 2023 Annual Conference in Chicago.

Senior Endowment Trustee Discussion

Two candidates were nominated by the Trustees to be the next Senior Endowment Trustee – Janice Welburn and Jim Neal. Mario Gonzalez gave the Trustees a summary of the requirements of the position concerning the following:

- Reporting elements – Executive Board, F&A, Council, and the membership

- Interacting with members

- Interacting with staff

- Interacting with the Investment Advisor – Merrill Lynch

The candidates were asked to leave the room and discussions were had between the remaining Trustees. After some lengthy discussions and several voting rounds, the candidates were called in to reveal the results – a deadlock. After some additional discussion among the parties, Jim Neal withdrew his name from consideration and Janice Welburn accepted. As a result, the following motion was made:

Motion: Brett Bonfield, seconded by Rhea Lawson

Recommend that Trustee Janice Welburn serve as the next Senior Endowment Trustee

The motion passed with one abstention.

Endowment Fund Five-Year Spending/Payout History – ET #6.4

At their winter meeting in NYC earlier this year, the Endowment Trustees asked staff to provide a detailed five-year history of the spending in the endowment fund portfolio i.e., the approved amounts and the timing of the spending. Dina Tsourdinis, CFO, presented and discussed the findings. She noted that the request was slightly delayed due to some staffing changes i.e., the retirements of the personnel primarily responsible for maintaining this information.

The Trustees were then directed to a chart covering the five years from fiscal 2019 to fiscal 2023. The chart highlighted three items:

1. The approved spending/payout amount
2. The date approved.
3. The amount approved.

The approved spending/payout amount is used primarily for scholarships and awards, but also to support unit operations i.e., sending students to conferences, speaker fees, special initiatives, etc. She also noted that the full amount that has been approved is never spent.

The second chart detailed the timing of the withdrawals from the portfolio. It was noted that the Controller makes the transfer requests and that there are typically two drawdowns during a year. The number of drawdowns (2) made during the year was a bit of a surprise as one was thought to be the norm. The number of settlements between ALA and Merrill Lynch had varied throughout the years with only one being the historical norm. However, there have been efforts made to have the settlement done quarterly but staffing issues have made 2 times per year the norm.

Why is there a " True Up" between the portfolio and the General Fund.? During the year, units conduct their business as usual to correspond to their timelines for the use of endowment funds i.e., scholarships, awards, and operating. As opposed to going back and forth, back, and forth, in and out of the portfolio, the General Fund via the Controller reconciles the unit activities with the portfolio at Merrill Lynch. As a result, sizable withdrawals are made from the portfolio 1 time – 2 times per year.

Endowment Fund FY22 and FY23 Spending/Payout Timeline

During the winter meeting the CFO promised an accounting of the withdrawals scheduled for FY22 and FY23 i.e., a catch-up phase. For FY22 it was calculated that \$562,688 was scheduled to be withdrawn from the Merrill Lynch portfolio. Additionally, for FY23 \$1.6 million was scheduled to be withdrawn. Both scheduled withdrawals were made in May 2023.

Dina Tsourdinis also reminded the Trustees of a promise to have processed all unit transfers by August 30. After some additional consideration, it was determined that the August 30 deadline for FY23 transfers was not practical. As such, the new protocol for FY23 and going forward from FY24, the process will be as follows:

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Meeting called by: Mario Gonzalez Type of meeting: Endowment Trustees Spring Meeting

people who are already in the workforce but also those still finding their way and having to deal with long bouts of unemployment or underemployment.

First, the field seems to have moved away from library services regarding education. As an

The discussion began by noting the annual goals of the office and that they were pleased with the progress (bolded) made. The goals of the office in FY23 were as follows:

1. Achieved contributed revenue goal of \$4.5 million.
2. Identify individual, corporate, and institutional donors.
3. Expand the pool of donors beyond the traditional supporters.
4. Increased and improved donor communications.
5. Increase contributions through "Giving Tuesday" and year-end giving
6. Hire a new Director of Strategic Advancement & Partnerships
7. Increase A LA 's national profile
8. Completed feasibility study to support the 150th anniversary
9. Grow the 1876 Club & Legacy Society
10. Increase the endowment

The desired outcomes include the following

1. Increased national profile
2. Increased influence and reputation
3. Increased networks
4. An increased pool of donors
5. An increased presence in national conversations
6. The asks now include requests to support IT and membership

For the Development Office, it was pointed out that there has been a major shift from program-based grants to mission-based. While program-based grants have been the bread and butter of the Association, the current environment dictates that the office moves off that point. To support this effort the office is working closely with PPO and PLA to establish a baseline for overhead.

Among the strategic questions spelled out by the Executive Director, the Trustees were asked to consider the following for their next meeting:

1. Who might be interested in joining the search committee for the Advancement Officer?
2. How might we strategize specific approaches to fundraising around each of the 2 proposed areas which are the fund for social justice and general endowment growth?
3. How might we attract early career folks vis a vis endowment activities i.e. how do we get younger people and earlier career folks of any age to be more invested in the long-term sustainability of ALA based on our endowment and some of its goals?

As to the question of the recruitment of the Advancement Officer, the Executive Director asked who from the Endowment Trustees would be willing to serve on the search committee. The committee will be made up of one member from the Executive Board and one from the PAG. Trustee Jim Neal was offered as a volunteer and he graciously accepted.

