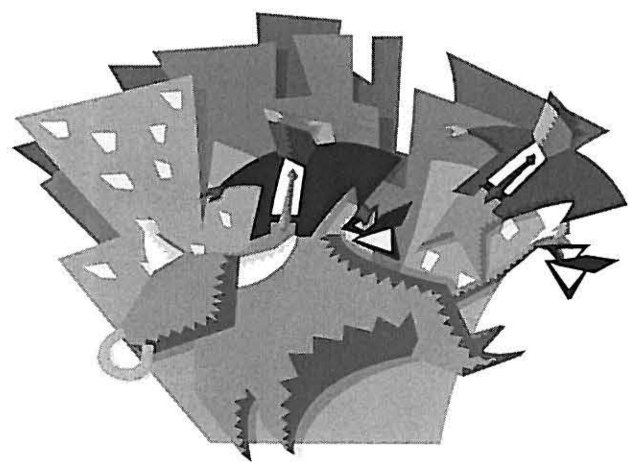
2010 - 11 CD #16.1
2010 - 11 ET #6.9
2010 – 11 EBD #13.3
(2010 – 11 Annual Conference)

Endowment Trustees Report to Executive Board

(Long-Term Investment Fund)



Dan Bradbury – Senior Trustee

Sunday – June 26, 2011

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)

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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

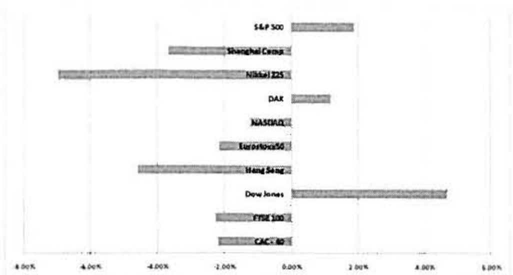
	ACTUAL 2010	Forecast 2011	Forecast 2012
Global Growth	5.1%	4.3%	4.5%
Advanced economies	3.0%	2.2%	2.6%
United States	2.9%	2.5%	2.7%
Euro Zone	1.8%	2.0%	1.7%
United Kingdom	1.3%	1.5%	2.3%
Japan	4.0%	-0.7%	2.9%
Emerging Economies	7.4%	6.6%	6.4%
China	10.3%	9.6%	9.5%
India	10.4%	8.2%	7.8%
Russia	4.0%	4.8%	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

B

World Market Performance*

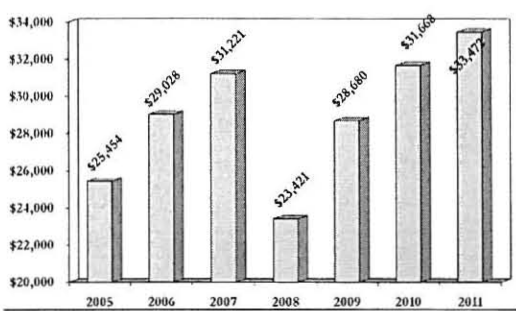
Exhibit #3



*Six months through 6-20-11

Market Value @ 5-31-11

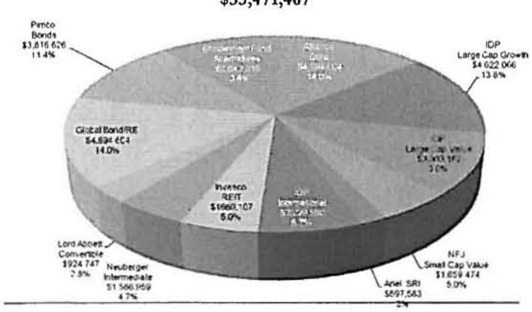
Exhibit #4



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

Exhibit #5

$33,471,467



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

Exhibit #6

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%

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Asset Allocation Strategy

Exhibit #7

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%	

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Exhibit #8

Recent Tactical Moves in the Portfolio

Actions

- 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.

Rational

- 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.

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

Actions

- 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

- 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)

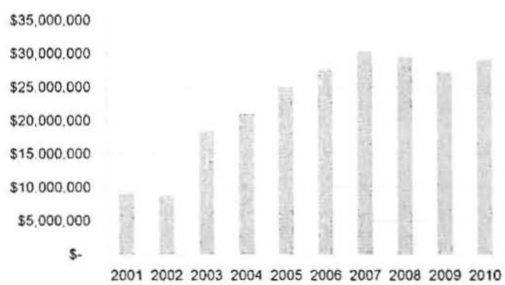
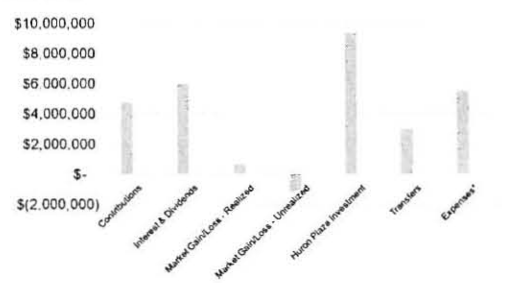


Exhibit #11

Cumulative Revenue Sources and Expenses

2001 – 2010



*Includes scholarships, awards and bank fees

Exhibit #12

EBD # 4.11
ET #16.8

TO: Finance and Audit Committee

RE: ALA Endowment Fund Spending Policy

ACTION REQUESTED/INFORMATION/REPORT:

Revision to ALA Endowment Fund Policy (Spending) 8.5.1[1].

ACTION REQUESTED BY:

ALA Endowment Trustees

DRAFT OF MOTION:

1. The Endowment Trustees recommend to the Finance and Audit Committee approval to revise the annual spending formula in ALA policy 8.5.1 to a range of **"3% to 5% of the trailing five-year quarterly (20) rolling average of each funds calendar year-end net asset balance."**

Note: The annual spending rate will be subject to an annual review and assessment by the ALA Endowment Trustees and the Finance and Audit committee of the ALA Executive Board.

2. The initial recommended rate for application is 4%.

PURPOSE OF RECOMMENDATIONS:

1. Provide certainty from a budget and planning perspective, on the amount of funds from the Endowment fund to support scholarships, awards and other programs of the Association.

2. To increase the amount of dollars available for scholarships, awards, program initiatives and general expenses.

DATE: April 9, 2011

BACKGROUND:

The American Library Association (ALA), through its senior management, Divisions, Roundtables, units, various interest groups and member leaders, has had a long history of supporting the granting of scholarships and awards for various purposes from earnings generated from the Long-Term Investment Fund (Endowment Fund). The Endowment Trustees and the Executive Director have supported this use and have explored numerous ways to prudently

[1] ALA policy 8.5.1 – ~~see Exhibit X~~

increase the number of scholarships and awards given each year. Additionally, in view of the endowment's growth, which has increased from approximately $3.0 million in 1990 to $32.1 million today (1-31-11), there is the opportunity to utilize a greater portion of the earnings generated by the Endowment Fund. The current spending policy has been reviewed and modifications are recommended in light of available current "Best Practices." The amount of funds available for scholarships, awards, program support, initiatives and general operations is of critical importance. These policy adjustments are being contemplated within the context of not negatively impacting the overall return of the portfolio and its future sustainability.

***Why the Change in Policy*?** By way of ALA Policy 8.5.1, stewards[2] of all scholarships, awards and related operating projects can budgeted net interest have two options with respect to utilizing gains from the endowment. These options are as follows:

- Net Interest – total interest and dividend income less total expenses or
- Five Year Moving Average of total market value[3] (50%) – includes capital appreciation and interest & dividends

The net interest approach currently used by ALA has served the Association well as demonstrated by the growth in the Endowment over the last ten years. Interest over the last five years has averaged approximately 2.7% ($778,321) of the beginning net asset fund balance. Note: project expenses and awards have been 1.0% ($270,934). Additional reasons for a change in the spending policy include the following:

- Certainty in budget planning in that management needs a more manageable draw down calculation – the calculation resulting from policy 8.5.1 is limited in the amount of earnings available for primary activities (scholarships/awards & some operating) and difficult to predict as it is based on an estimate of future earning (net interest) activity

- Recently instituted changes in ALA's endowment reporting structure – principal and spending accounts for reporting endowment activity has been replaced with a new reporting structure to comply with endowment related FASB requirements i.e. standard auditing requirements

- Closely related to the above is the timing. Budgeting for expected net interest for the upcoming year is captive to how the market performs. As such, there is no good way to accurately estimate what the net interest will be.

- Need to contemporize the draw down policy for maximum programmatic benefit – making more funds available expands the potential uses for a broader base of programmatic efforts and benefit to the Association

Spending Policy Considerations - Spending and investment policies generally operate with conflicting goals. As such, the first order of business is to devise a spending policy that will balance the competing objectives of supporting programs and the need to preserve the endowment's purchasing power for future generations.

In order to achieve a balance between the two policies and develop a strong spending policy the following objectives are considered:

[2] Includes the ALA Executive Director, Division Executive Directors and Round Table/Unit liaisons.
[3] This is for each individual endowment or area of responsibility

1. Maintaining the purchasing power to ensure that endowment distributions keep pace with inflation.
2. Maximizing total investment return within appropriate risk constraints
3. Achieving smooth and predictable spending distributions
4. Maintaining a fair distribution of intergenerational equity and recognize the sensitivity to donor wishes.

ALA's spending policy should both be responsive to changes in endowment value and minimize year-over-year fluctuations in spending. The ideal spending policy will act as a shock absorber, providing short-term spending stability while gradually allowing changes in endowment values to filter into changes in spending. A properly functioning shock absorber will allow ALA to pursue investment strategies that generate positive returns over the long term.

Spending Option considerations - There are generally four types of spending based policies – income, total market return, inflation adjusted and or a hybrid. Below are a number of spending options initially considered by the Endowment Trustees:

- No more than 5% of the annual market value of the Endowment @ 12-31-XX as determined by (Trustees, Executive Board or Management)
- 4% of the annual market value of the Endowment @ 12-31-XX
- 4% of the three moving average of the Endowment @ 12-31-XX
- 4.5% of the five year moving average of the Endowment @ 12-31-XX
- Prior year's spending adjusted for inflation with a floor (3%) and ceiling (4.5%)
- Weighted average of the prior year's spending adjusted for inflation (70%), and the trailing four quarter average market value of the endowment (30%) multiplied by a target percentage (4%)

Note: Adopting any of the options above may require a review of the recently approved performance requirement, which is currently 4% + inflation. Additionally, whatever the rate or options chosen it should be applied on a one year lag basis, similar to how the indirect cost rate is applied. Example – the FY11 or calendar year 2011 results will be applied to the FY13 budget.

Other Spending Options – Alternatives to the above mentioned spending solutions could include things like spending based off of the interest generated, historical spending in relation to endowment balance etc. They are as follows:

- Use of rolling averages – generally 3-5 years
- Use of a 5 year average of CPI's to calculate inflation and maintain purchasing power
- To project inflation use an applicable index i.e. CPI from the US Dept. of Labor
- Under UPMIFA you can have losses in assets during the individual quarters and still spend endowment earnings as long as the fund's purchasing power is prudently maintained

Recommendations

After consideration of the options listed, as well as, some internal financial modeling, the following recommendation was deemed the optimal solution for meeting the goals of providing greater access to the gains realized from the long-term growth in the endowment:

Action

To revise the annual spending formula in ALA policy 8.5.1 to a range of **"3% to 5% of the trailing five-year quarterly (20) rolling average of each funds calendar year end net asset balance."**

Additionally, the following conditions will also apply:

- The spending rate will be subject to an annual review by the ALA Endowment Trustees and the Finance and Audit committee of the ALA Executive Board.
- Withdrawals will still be limited by any current or future imposed donor restrictions where applicable.
- The first use of this recommendation will be applied to the FY 2013 budget starting with the calculated FY 2011 year end results. Additionally, the draw down rate needs to be reviewed and recommended by the ALA Endowment Trustees annually for budgeting.
- The determined 4% factor will be transferred into the appropriate operating accounts at the end of each fiscal year during the year end closing process, as an offset against expenses. This will occur after notification from the finance department and the responsible manager notifies the Controller of the amount to be transferred – up to 4% of the calculated figure.
- There will be no "Clawback" provision. At the end of each fiscal year all endowment fund stakeholders will have the opportunity to determine the disposition of funds available for withdrawal:

  1) Transfer to the operating net asset balance
  2) Remain in the respective endowment fund's net asset balance.

  As a result, stakeholders will have the opportunity to use all, none or some percentage of the designated funds available for withdrawal/expenditure.

Benefits of Recommended Changes - Each of these recommendations will do two very important things from the perspective of senior management and the unit managers:

1. It will provide a degree of clarity and certainty from a planning perspective that has been difficult to realize with the endowment as a revenue source. The volatility of the market is accounted for and neutralized.

2. It will make available more dollars for awards and scholarships, special projects and initiatives, as well as, general day to day operations

Other Endowment Operating Practices – Although the recommendations will fundamentally change the mechanism used for spending out of the endowment fund, current operating practices need to be reaffirmed. This involves the use of total return for the Spectrum fund and the discretionary uses for the ALA General Scholarship funds.

In the spring of 2002 the Executive Board approved the use of earnings (interest) from the Leo Albert fund and the Giles fund as an additional supplement to the funds provided for scholarships by the Spectrum fund. In view of the growing importance of the goals of the Spectrum program, its growing national attention and its ground level support, it is management's belief that this relationship needs to be maintained.

ALA's General Scholarship is one of the Association's primary stopping points for members to make small donations, particularly at dues renewal time. Over the past six years certain named ALA scholarships i.e. Gavers, Hornback, Leisner, Clift, Drewes etc. have not on a standalone basis been able to consistently cover their stated annual award ($3,000) commitment. As a result of the long time relationship with these funds, it was decided that funds from the ALA General Scholarship fund would be used to cover any shortfall in the ALA named scholarships. This relationship should also be continued.

Exhibit #13
ET #6.9
2010 -11 CD #16.1
2010 -11 EBD #13.1

Revised Policy

(Changes are bolded and enlarged)

American Library Association
Endowment[1] Policy 8.5.1
(Payout/Distribution/Withdrawal)

[1] AKA Long-Term Investment Fund

Endowment – Long Term Investment - Fund Payout/Withdrawal Policy

Use in Budget Preparation

In the preparation of the ALA annual budget, the ALA Executive Director is authorized to **include a payout rate of 3% - 5% of the five-year trailing calendar quarterly (20) rolling average of the net asset balance of the ALA Future Fund. Additionally, the Executive Directors of the Divisions and the liaisons for the Round Tables and others responsible for endowment funds are authorized to include in the preparation of their annual budgets, the anticipated payout value as provided by the Finance department. The payouts will be subject to any donor restrictions related to a particular fund and will be made from allowable temporarily restricted and unrestricted net assets. Additionally, the annual payout rate (3% - 5%) will be reviewed, determined and recommended by the ALA Endowment Trustees and the Finance and Audit committee of the ALA Executive Board, with final approval by the ALA Executive Board.**

Use of Fund

Listed below are the primary instances whereby **additional funds may be withdrawn** from the Long-Term Investment Fund can be made.

A. **Program Support**
The General Fund, Divisions and Round Tables can request funds from their respective long- term investment funds to support one-time programs.

B. **Emergencies**
Emergencies will include financial disaster due to a major revenue shortfall, act of God, building catastrophe, major lawsuit, etc.

C. **New Initiatives**
New Initiatives will include projects or programs that are multi-year in nature and deemed important to the future of the Association, Divisions, Round Tables or units.

Amounts requested to be withdrawn in excess of **the determined payout rate** will require repayment with interest.

D. **Scholarships & Awards**
Allowable withdrawals from temporarily restricted and unrestricted Long-Term Investment funds designated for named scholarships and awards will be made to the extent necessary to support the award or scholarship according to its stipulations and requirements. If the **funds available from the annually determined payout rate of 3% - 5% of a named** scholarship or award is not adequate, the amount in the temporary restricted and unrestricted investments designated for named scholarships may be used up to the limits of any permanent or donor restrictions.

E. Life Membership Funds

Allowable withdrawals from temporarily restricted and unrestricted Long-Term Investment funds designated for Life Membership, will be made from the Life Membership Fund to the extent necessary to support the annual membership fee for the participants.

F. Transfer of Existing Funds

It is allowable to make a transfer from an existing unrestricted funds for the establishment of a new and or in support of an existing scholarship fund, program or initiative fund within the Long-Term Investment Fund.

Withdrawal-Transfer-Repayment

Each withdrawal for any of the purposes referenced in A, B, C and the **annually determined payout rate of 3% - 5% of the five-year trailing calendar quarterly (20) rolling average net asset balance** must be approved by the Executive Board.

Withdrawals from the Long-Term Investment Fund **above and beyond the annually determined payout rate of 3% - 5% of the five-year trailing calendar quarterly (20) rolling average net asset balance,** for any of the following events:

a. Program Support
b. Emergencies
c. New Initiatives

will require repayment at the prevailing ALA borrowing rate with the term to be recommended by management and approved by the Executive Board.

The annual withdrawal of interest and or dividends from the Long-Term Investment Fund will not require repayment.

Current Policy

American Library Association
Endowment[2] Policy 8.5.1
(Spending)

[2] AKA Long-Term Investment Fund

<u>Long-Term Investment Funds</u>: Association's Use/Withdrawal and Repayment

In the preparation of the ALA annual budget the ALA Executive Director is authorized to include a) interest and dividend income generated annually in the ALA Future Fund or b) up to but not to exceed 50% of the five year moving average of the appreciation realized in the ALA Future Fund less any interest and dividend income previously transferred to the operating fund. Additionally, the Executive Directors of the Divisions and the liaisons for the Round Tables are authorized to include in the preparation of their annual budgets a) interest and dividend income generated annually or b) up to but not to exceed 50% of the five year moving average of the appreciation realized in their respective unrestricted funds. The 50% five-year moving average shall be calculated by averaging the interest, dividends and market gains (realized/unrealized) less bank fees, other investment related expenses and any interest and dividends that have been transferred to the operating budget during the prior five years. This calculation excludes any contributions or withdrawals made over the trailing five-year period. Withdrawals using the net 50% five-year moving average do not require repayment.

<u>Use of Fund</u>

Listed below are the primary instances whereby withdrawals from the Long-Term Investment Fund can be made.

A. Program Support

The General Fund, Divisions and Round Tables can request funds from their respective Long- Term Investment funds to support one-time programs.

G. Emergencies

Emergencies will include financial disaster due to a major revenue shortfall, act of God, building catastrophe, major lawsuit, etc.

H. New Initiatives

New Initiatives will include projects or programs that are multi-year in nature and deemed important to the future of the Association, Divisions, Round Tables or units.

Withdrawal of the investment funds for uses stated above may be supported by interest and dividends or the 50% moving average. Amounts requested to be withdrawn in excess of the greater of interest and dividends or the 50% moving average will require repayment with interest.

I. Scholarships & Awards

Allowable withdrawals from temporarily restricted and unrestricted Long-Term Investment funds designated for named scholarships and awards will be made to the extent necessary to support the award or scholarship according to its stipulations and requirements. If the interest and dividends of a scholarship or award is not adequate, the amount in the temporary restricted and unrestricted investments designated for named scholarships may be used up to the limits of any permanent or donor restrictions.

J. Life Membership Funds

Allowable withdrawals from temporarily restricted and unrestricted Long-Term Investment funds designated for Life Membership, will be made from the Life Membership Fund to the extent necessary to support the annual membership fee for the participants.

K. Transfer of Existing Funds

It is allowable to make a transfer from an existing unrestricted funds for the establishment of a new and or in support of an existing scholarship fund, program or initiative fund within the Long-Term Investment Fund.

Withdrawal/Transfer/Repayment

Each withdrawal for any of the purposes referenced in A, B, C and the 50% five year moving average must be approved by the Executive Board.

Withdrawals from the Long-Term Investment Fund for any of the following events:

d. Program Support
e. Emergencies
f. New Initiatives

will require repayment at the prevailing ALA borrowing rate with the term to be recommended by management and approved by the Executive Board.

The annual withdrawal of interest and or dividends from the Long-Term Investment Fund will not require repayment.