

BALDWIN LIBRARY BOARD
MINUTES, TRUST MEETING
September 21, 2009

1. Call to Order

The meeting was called to order by President Ann Conigliaro at 9:53pm.

Library Board present:

Ann Conigliaro
Michael Earl
Andrew Harris
Ileane Thal
David Underdown
Ronald VanderMolen

Absent and excused:
None

Library Staff:
Doug Koschik, Interim Director
Connie Ilmer
Josh Rouan

A quorum was established.

2. Approval of Minutes

Conigliaro called for a quick read of the minutes.

Motion to approve minutes.

1st Thal

2nd Earl

The motion was approved unanimously.

3. Acceptance/approval of gifts and disbursements

Conigliaro noted a significant contribution of \$15,000 and asked if there were any questions.

Motion to accept the gifts and disbursements.

1st Thal

2nd Earl

The motion was passed unanimously.

4. Miscellaneous and new business

Conigliaro noted that at the last Trust meeting there was significant discussion on trust management, and that Jim Suhay had been asked to speak on endowments.

Suhay introduced himself as a corporate finance professional, who has been doing pro bono work for non profits. He was asked to compare Baldwin to other non profits and make comparisons. Looking at Baldwin's investment policy, he noted several things. First, it was written in 1998. Second, the items in it should be revisited by the Board. He noted that the sixth paragraph beginning "Whereas" reflects a very conservative philosophy. He noted that the preservation of principal generally means money market funds and fixed income. He then indicated that paragraph H, which begins "investment policy to be carried..." has a very tight objective. He stated that paragraph H opens the door to the Board doing "whatever it wants." Suhay pointed out that there is a basic inconsistency in the policy, though he said

this may be a matter of interpretation. He indicated that the trust is currently managed consistent with paragraph H. Paragraph H is interpreted and then translated to the investment manager to mean that the funds can move up to 70% equities, and then get rebalanced to 50%. This is actually slightly more conservative than paragraph H. He noted that right now the endowment is at \$715,152 and the general fund is at \$47,078. Suhay noted the peak of \$778,526 was reached in May 2008. The trough of \$597,779 was on February 28, 2009. It's recovered to \$715,152. The bad news is that during the trough the portfolio lost 26%. However, the Dow Jones lost 48% during that time. The portfolio then recovered 14%, but it is still down 15% compared to the peak. The Dow Jones and SP were more volatile during this period. He concluded that the portfolio is less volatile than the market as a whole, which is good. Suhay noted that the Board may want to take a more conservative approach. Earl asked how many equities should be in the portfolio. Suhay responded that it was up to the Board.

Suhay noted that equities are allowed to grow to 70% then go back to 50%. The policy states an objective, and then this is translated by Raymond James. Suhay raised the question if section H is consistent with the objectives of the policy. He further asked if direction should be given to the portfolio manager to lessen risk. Suhay presented several options. The first option would be to make no changes. The investment manager believes that the diversification of equities within the mutual funds is adequate to manage the risk. The second option is to reduce the upper limit of the equities to less than 70%, perhaps 60% with a bottom of 50%. Or equities could be capped at 50%. The third option is to invest in lower-beta equity mutual funds. Beta mutual funds measure volatility and risk. A mutual fund with a beta higher than 1 is more volatile than the market average. VanderMolen asked if this rating was based on past performance. Suhay responded by saying that the rating is kept up to date. Earl notes that some brokers advertise portfolios with a beta of less than 1, but with returns higher than average. Suhay was skeptical of this. Earl suggested the return should have a correlation to the beta. Suhay summarized these three options as a way to revise the level of risk in the policy. He recommended sticking with mutual funds, rather than individual equities.

Suhay then noted that other nonprofits put a payout policy into their investment policy. For example, one has a payout of 5% on a 3-year average of the trust value. Suhay stated this practice was in keeping faith with the original endowers. Suhay indicates that now that the fund is above the principal the Board should be free to pay out some of the fund. VanderMolen asked if the principal was \$693,000. Suhay responded that it was \$693,214. Vander Molen asked how much could be paid out. Suhay indicated that the Board could pay out the difference between \$715,152 and \$693,214, and that most organizations would have a policy that would allow a payment of a percentage based on a certain value. Earl noted that when the market was returning 7%+ there would be a payout of up to 5%, which

would result in growth. Suhay noted this 5% figure came from when the market was averaging 7%+, but that the economy has changed. However, there is still an amount that can be paid out, so there should be a policy there. He suggested adding a qualification that the balance should stay above the principal amount. Underdown asked about choices of mutual funds under Raymond James. Conigliaro asked if there should be a statement about fund management thresholds. Suhay said there is usually a general statement but there should be a way to evaluate performance. Earl thanked Suhay for the presentation, as did the rest of the Board. Thal asked if the Board chose to redo the policy statement, who would help them do that. Suhay stated the investment manager would do this. VanderMolen asked if index funds were a more conservative way to do this. Suhay stated he only knew of one non-profit who used index funds.

Conigliaro stated that the Board must have a way to understand how much can be spent. Earl stated there should be a new policy, and said the Board had discretion on what to spend up to 5%. Harris asked whether any draw language in the policy was further restricted by the terms of specific funds. Conigliaro responded in the affirmative. Earl stated that most individual funds are for general charitable purposes of the library.

5. Adjournment

Motion to adjourn the meeting:

1st Earl

2nd Underdown

The motion was approved unanimously. The meeting was adjourned at 10:31pm.

Andrew Harris, Secretary

Date