Brooks Memorial Library
Finance Committee
Minutes
February 21, 2017 4:30-5:30 PM
Local History Room - Brooks Library
224 Main St.

1) Call to Order / 4:30 PM

2) Agenda/Changes or additions - none

3) Public Comment - none

4) Old Business (Order in meeting changed to accommodate Peter Sherlock, visiting consultant)

* Progress report on building project and expenditures

We are down to the last $2,800.00 in extra funds but expect that this will be sufficient. The only major components left to do for the work is the main floor carpet, the tiling for the cafe area and the vestibule.

Jenny Rowe will check on the contract with Greenberg to investigate what components include the 9% on commission. The particular question is whether we pay the commission on portions of work that were planned but then not completed. We do pay the commission on work that ends up new or more expensive, increasing the commission.

Other Note: There is substantial carpet left from the children's room, Starr is considering using that carpet for the staff room, since that room really needs help and this is high quality carpet. The committee felt this was a good idea and supports any changes to improve the look and feel of the staff room. Since we already have the carpet and the carpet should be easy to take up, this could be fairly inexpensive.

Next Steps: Jenny Rowe will look at the commission costs, all other next steps continue to be completion of the project - more notes available from buildings and grounds committee.

5) New Business

* Conversation with consultant Peter Sherlock regarding investment

Questions about our general management guidelines (yearly draw and portfolio balance):

Peter Sherlock's description of the importance of a 4% yearly draw:

This is how much you can take and maintain the purchasing power of the original - this accounts for the same amount given inflation (hence purchasing power, not dollar amount.) He feels that 4% remains reasonable. This really matches the 6% goal with a small percent for the manager fee and a percent or two for inflation. He says in more pessimistic moments, even 4% seems high, but he still supports it.

He strongly recommends specifically to keep any money that is soon to be used (which is currently around 96K) be kept out of the actual endowment and not even be included in the 10% holdings in cash. In large part this is because you don't want that amount to suddenly be less than what you planned. Endowment should be considered more fixed.

Portfolio Balance: Our current advice on portfolio balance (60 stock/30 bond or equivalent/10 cash) is also a reasonable and standard balance.

Questions about General Management:

What are the reasons to maintain our portfolio through a manger rather than use a large ETF or Vanguard balanced account? What do we lose if we do not have an advisor? Currently, this is how our small accounts (like Loud, Calista, Shorling) are handled, rather than by Prentiss.

Peter Sherlock notes that the only real advantage or gain is fees - the roughly 8,000 we pay each year to the advisor. In particular, the fees for mutual funds have come down a lot in recent years, making the fee difference with a maager greater. However, Vanguard does also charge fees that often come out prior to the actual payment of income, so it feels less obvious. These fees would be at least a few thousand a year as well, so we could never save the full amount. We would also lose a relationship and a guard against imprudence - he feels that the best value a manager supplies is in acting against instinct. When the market is crashing or booming, the manager can keep us from making decisions that are either too fearful or too risky that can result in unnecessary losses.

Right now, when we've had a few years of stable market conditions, is exactly when it feels that managers are doing the least (which is in part true), so it's tempting to see it as less necessary. The real value is at market extremes - very high and very low that keep the client from selling out at the extreme of market swings or drops or from going in too heavily when there is a bubble. It takes a certain amount of fortitude to go against the psyche of the moment and the disinterested party (the investment manager, the person one step removed) is usually better able to do so. We are also buying the possibility for more constant education and continuity as the board changes - we can consider education and advice to the board part of our contract. This becomes especially important when there are large changes in board membership. For the fee itself, under 1% (we pay 0.5%) is also quite reasonable.

Question: What is a good ratio of legacy stocks with dividends to growth stocks without dividends? What should we as a board prefer?

According to Peter, dividends versus growth funds is often a stylistic bias based on the manager's ideas about the market - some won't buy a stock that doesn't pay a dividend, but not every manager will do this - Sherlock's own stock balanced out with some dividend, some non-dividend. The beauty of dividends is that some of the portfolio then generates cash - this is a direct payment into the 4% that we can access without ever needing to sell stock. This can be a very rational approach, especially since we are interested in generating cash rather than specific growth (this would be true of a retirement fund in its early stages, say). Mature companies often give back this profit in a useful way to generate our needed funds every year. However, some companies like Bershire Hathaway can make more money by keeping what would be their dividend, so it makes perfect sense to not expect one, but still invest in that sort of company. He also believes it would be very difficult to reach 4% just on dividends, so a balance will always be appropriate. Currently, our portfolio generates around $30,000.00 in dividends per year, which is below our cash draw, but is a decent quantity (and follows the balance described by Sherlock.)

When we receive another 200K what can we do with that money? How much should we take to a new account? How much should we simply drop into the main endowment? How much is appropriate to leave as cash to use?

Some endowments use a second manager who is stylistically different, but still with a prudent approach - this can help balance out the approach and give you a more uniform income. However, this would involve having two managers with very different approachs to the market and differing tactics. The disadvantage is that the fees are often lower as you increase the amount of the managed fund. This starts to become possible at perhaps two million - splitting the endowment between two managers, 1 million each - but is less advisable at lower amounts. This does then create extra work to do, but is a common practice, especially with larger endowments.

For what to do with new endowment gifts (especially large ones as we are expecting in a couple of years from the high school scholarship fund): there is ultimately no right answer to this. Reinvestment in building and material is always important - “the mission is not to grow the endowment but to provide services.” Hence, taking a large chunk out for building improvements as we did can be a very good decision. Placing the money in the permanent endowment is a little like asking, do we want to buy an annuity over a long period of time or do we need to actually do a long-term project now? Will we be losing money by not improving some capital need or do we want to provide long term funds for repeating services? The balance needs to be decided at the time based on needs and can change even from year to year. Our current decision from the Reed account (a roughly 70/30 split between investment and capital improvement) is a perfectly reasonable decision given the building’s needs.

Next Steps: Adam will compile some new data about the endowment for next month’s treasurer’s report and have that ready to accompany the thoughts from Peter Sherlock when we talk about that in the full meeting.

6) Adjourn

Next Meeting TBA