From: Gandrud, Michael [mailto:Michael.Gandrud@associatedbank.com]
Sent: Tuesday, May 31, 2016 9:17 AM
To: Barbara Blickle <bblickle@johnsonbank.com>
Subject: Comments on LCR's EF

Barbara:

Sorry, again, for the delay in my comments—I knew we had some time, so put this aside—neglecting to come back to it in a timely manner.

First, a couple of comments on the Fidelity Statement: You mention Fidelity doesn't have a fee as it's not in a managed account—that's correct; it appears as if the trustees decided to put it in a target date mutual fund, which- if you consider cash and bonds combined in the cash portion- works for now, it won't in the very near future. What do I mean by this? If you look at paragraph IV of the Investment and Spending Policy, you'll note an asset allocation of 60-70% equities, 30-40% bonds. The first chart below gives the current asset allocation for this target date fund as of the end of April: bonds are only ~25% of holdings... on the surface, a violation of the policy, but one could argue cash + bonds gets you over the 30% floor.

More to the point, however, is that the investment choice is a 'target date' retirement fund. Fidelity has a "glide path"- meaning, it will purposefully be rebalanced to reduce equity risk in the portfolio, as depicted in the second chart below. You'll note you are within a couple of years of crossing over to a point where you'll be in violation of your 60% floor in equities (see what is labeled, on the horizontal axis, as 5 years from retirement (in this case, given this is a 2025 fund, in 2020)—at that point, domestic and international equities will combine to be at the 60% minimum, headed towards a lower level of holding.

So, this is a 'set it and forget it' fund—nothing wrong with that for a retiree, but probably not the best choice for an endowment. There are several 'balanced' funds with a 60/40 allocation which would be better suited to the perpetuity needs of an endowment, or you could even put together some individual funds on a Vanguard platform to get you to that allocation. Doing the latter would require more 'hands-on' activity and if done right could be constructed with an eye towards downside protection; doing the former would be easier, more cost effective, albeit with the downside of being somewhat exposed to market fluctuations—not the worst of things as by its very nature, a diversified 60/40 allocation is a decent allocation from a risk perspective.

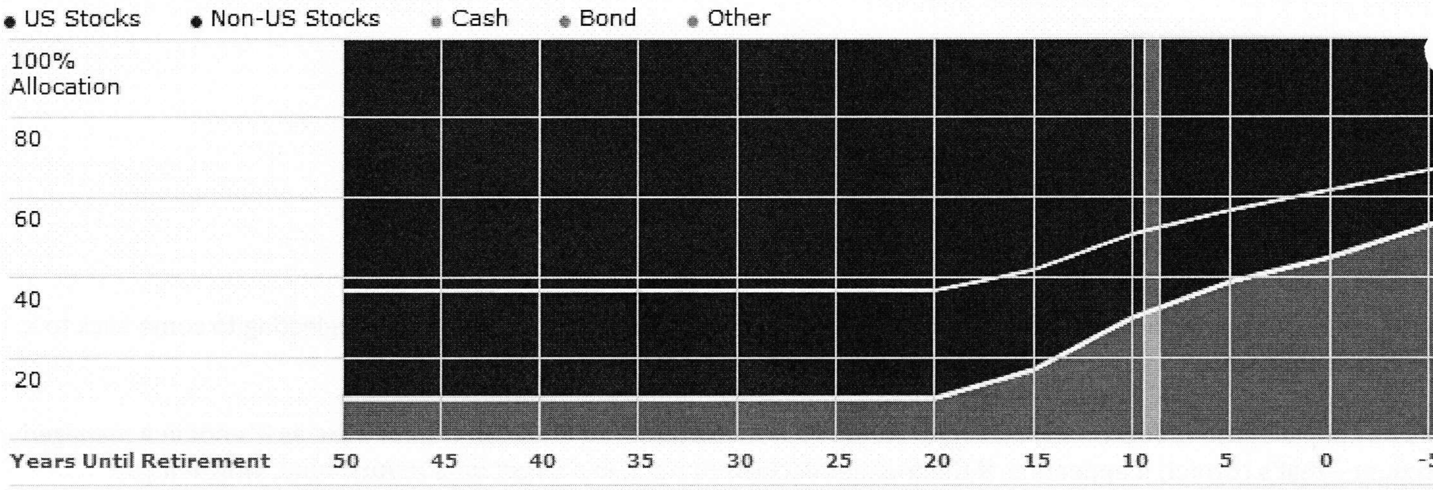
Asset Allocation FFTWX   More...

Type	% Net	% Short	% Long
Cash	7.09	0.02	7.11
US Stocks	44.49	0.02	44.51
Non US Stocks	23.12	0.00	23.12
Bonds	24.73	0.00	24.73
Other	0.57	0.00	0.57

Note: Contains derivatives or short positions

As of 04/30/2016

Glide Path FFTWX



*Grey bar reflects the selected investment's target asset allocation.

In terms of the IPS, it's pretty sparse, which isn't a huge deal given the amount of money under consideration here. Were a re-write to be in the cards, I'd really try to strike the target return paragraph under paragraph II—the target return really depends upon the market conditions…. Think back a couple of years ago when equities were screaming, vs the last twelve months when the S&P was flat and bonds offered only a slightly better return… matched against that backdrop, any fund or manager would have failed the return target.

I'd also work a bit on the spending policy—I'd consider putting in some sort of a rolling- 20 quarter average spend, which gives the trustees the ability to make grants on a smoothed basis—allowing for distributions in years where the markets didn't cooperate, yet not allowing an overspend on a year in which the markets did extremely well. I do like the total-return approach considered in the document, and believe that approach to be appropriate.

In terms of Investment Vehicles, I will be candid in saying I have no idea what "securities of a portfolio manager" refer to, as portfolio manager isn't defined (nor capitalized as a defined term, so it doesn't need to be defined, but in my opinion is pretty nebulous and open to interpretation). In a rewrite, I might suggest some sort of quality and duration language on the bond funds—as of now, the bond fund component could be 100% invested in high yield (junk) bonds and be completely compliant….the intro statement to the section gives some ink to "low risk positioning", but without a bit more to work from, low risk to a Vegas gambler or small business owner could be quite different from 'low-risk' to a trust officer! Regardless, the document has an open parenthesis in the last paragraph under investment vehicles, which should be an easy clean-up in any rewrite.

In the spending policy section, I'm not clear what the sub funds being contemplated reference; also, I would again suggest a rolling 20 quarter policy to smooth distributions, unless the true intent is that grants can be made up to the complete amount of all prior income and capital appreciation not heretofore distributed.

Those are some initial thoughts… please let me know if you have any questions or would like to discuss further.

Best,

Mike

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