

Financial Assets Oversight Committee Report for the Annual Meeting of the Alaska Chapter of the American Fisheries Society, Fairbanks, Alaska, 26 March 2020

Chairperson – Ray Hander

Members – Milo Adkison, Lee Ann Gardner, Tim Joyce, Trey Simmons

Chapter member Trent Dodson has been attending meetings in an unofficial capacity to gain knowledge about Treasurer involvement in the FAOC.

Guidance to the Financial Assets Oversight Committee (FAOC) is provided in the Chapter's Procedure Manual under the Chapter Financial Plan within the Chapter Investments section. The purpose of the FAOC is to oversee, advise, and make recommendations for directing the financial assets of the Chapter by way of tracking the Chapter's monetary holdings that are invested through financial or banking institutions.

In 2019 the FAOC met quarterly with the Chapter's Wells Fargo Advisors (WFA) representative, Todd Fletcher, to receive portfolio status updates, consider investment options, and conduct maintenance of accounts as needed to conduct Chapter business. Lee Ann Gardner, Treasurer, is in frequent contact with Mr. Fletcher as she conducts day-to-day Chapter business and informs FAOC members with information on an as-needed basis.

The Chapter's WFA portfolio is invested using a moderately conservative strategy with an investment horizon of 7 to 10 years as determined by the FAOC members in consultation with the WFA investment representative.

Endowments

All scholarships and awards from each endowment may only be paid out of interest earned. All contributions to individual endowments were added to their respective principals. The date when the balance of a fund is calculated for disbursement purposes is 30 June to match the end of a quarter. The following fund balances are rounded to the nearest \$100.

Wally Noerenberg Fund

The Wally Noerenberg Fund (WNF) principal amount is \$15,000 and the account balance as of 30 June 2019 was \$18,900 and as of 31 January 2020 it was \$20,100. The WNF's annual rate of return as of 22 January 2020 was approximately 17%.

Molly Ahlgren Scholarship Fund

The Molly Ahlgren Scholarship Fund (MASF) principal amount was approximately \$149,000 and the account balance as of 30 June 2019 was \$154,500 and the 31 January 2020 balance was \$157,200 (the 2020 MAS was recently disbursed) The MASF's annual rate of return as of 22 January 2020 was approximately 18%.

The Molly Ahlgren Scholarship fund principal may increase from additional contributions to the fund and 10% of the earnings each year calculated as of 30 June. The remaining earnings rounded down to the nearest \$1000 will be disbursed as a scholarship(s). The remaining earnings balance after rounding will be added to the fund's principal. Using these guidelines, a single scholarship amount for \$7,000 was available in 2019 for the 2020 Scholarship.

The Molly Ahlgren Scholarship Principles (Principles; 2013) have been under review regarding the MASF's long-term sustainability, inflation proofing and growth. Committee member M. Adkison modeled three realistic management method scenarios for the FAOC: 1) Our current 10% of annual interest earned retained for inflation proofing, 2) a 4 percent of total market value method, and 3) an inflation rate multiplied by the principal retained for inflation proofing. (Appendix 1.). The FAOC approved the percent of market value method and is tasked with revising the Principles incorporating the percent of market value method. The FAOC presented the concept to the Executive Committee on 30 October 2019.

Vanguard Investment

Cultural Diversity Fund

The Cultural Diversity Fund (CDF) principal amount is \$15,000 and the account balance as of 30 June 2019 was approximately \$16,200 and as of 22 January 2020 it was \$17,200 (Vanguard) As of 22 January 2020 the CDF's annual return rate was approximately 15%. The CDF may be spent down to the principal amount each year to support CDF recipients and is often augmented by Chapter general funds (Fund A).

At the March 2017 Chapter meeting in Fairbanks a motion by the FAOC was passed to initiate a pilot program using the CDF in a self-management (versus WFA investment advisor) investment with Vanguard. A moderate to conservative investment strategy remains with a potential benefit of reduced investment fees (~2.2% down to ~0.1%) and a subsequent increase in funds available to earn interest, thus increasing the ability to disburse more funds to awards. The initial investment with Vanguard was in September 2017. The FAOC has postponed a yield comparison between the CDF and the WNF to evaluate fund performance because a proposed one year time period is not adequate regarding the long-term investment strategy. If Vanguard performance meets or exceeds that of WFA a review of any additional investments that could benefit from self-management will occur including any additional work load for the Chapter treasurer and others.

Chapter Investment Fund A and General Funds (held at WFA)

Chapter Investment Fund A (Fund A) in June 2019 was valued at \$31,900 and the 31 January 2020 balance was \$33,600 and its annual rate of return as of 22 January 2020 was approximately 18%. Generally, annual Chapter income is from payments made from general funds such as earnings from the annual meeting, continuing education events, membership dues, and interest. Fund A may be used for expenditures such as travel, scholarship awards and special projects. Unexpended annual earnings from Fund A are reinvested into Fund A.

The interest-bearing money market checking (MMC) and 1st National Bank Alaska cash accounts (CA) fluctuate annually during January through June due to annual meeting and continuing education expenses and income. The CA houses petty cash and online income such as meeting registration and continuing education fees. Following the annual meeting, online sales from the CA are transferred to Fund A or the MMC while leaving a balance of approximately \$500 for petty cash during July to December.

Certificate of Deposit

At the FAOC's 16 October 2019 meeting the decision was made to invest \$4,000 in cash reserves from Fund A into a certificate of deposit at 1.85 % interest with a maturation date of 21 April 2020. The alternative was to invest in another holding but that was not considered a wise approach because of potentially needing to move the \$4,000 within a year's time and incurring WFA administrative costs associated to selling within one year.

Summary

The Chapter's portfolio experienced an approximate 17% return rate during calendar year 2019, while maintaining a moderately conservative investment strategy in the WFA and Vanguard holdings. The stock market improved in 2019 and Chapter investment returns reflected the improvement. Our investment strategy asset allocation, approximately 50% bonds and 50% equities, lessens volatility impact relative to greater equity exposure.

Recent stock market volatility because of COVID-19 is negatively affecting the Chapter's investment portfolio. The Chapter's moderately conservative investment strategy buffers against market volatility to some degree with holdings in less volatile bonds and by minimizing exposure to higher risk equity holdings. The investment strategy is coupled with a 7 to 10-year investment horizon whose intent is not to respond to market fluctuations. The portfolio has been negatively affected by past market downturns and it has rebounded over time. The FAOC recommends maintaining the current investment strategy and continue assessing the portfolio quarterly to determine if adjustments may be warranted.

Appendix 1—Change of internal management method for the Molly Ahlgren Scholarship Fund

Alaska Chapter of the American Fisheries Society, Executive Committee Meeting, 30 Oct. 2019

Introduction of change to the internal management method for the Molly Ahlgren Scholarship Fund.

Presented by Ray Hander, Financial Assets Oversight Committee Chair.

The Molly Ahlgren Scholarship Fund (MASF) is currently managed under the guidance of the Molly Ahlgren Scholarship Principles (Principles) established by the Executive Committee in 2005. Revisions to the Principles have addressed the suspension of operations of Sheldon Jackson College (2007) and the structure of monetary benchmarks to grow the MASF principal while providing Scholarships and inflation proofing its principal (2013).

Milo Adkison, a FAOC member, modeled three realistic management method scenarios for the FAOC: 1) Our current 10% of annual interest earned retained for inflation proofing, 2) a 4 percent of total market value method, and 3) an inflation rate multiplied by the principal retained for inflation proofing.

1. The current method for deriving the amount available for Scholarships is based on annual interest earned (PAIE). From that amount, 10% is reinvested into the MASF principal for inflation proofing. This PAIE has been found to be unsustainable over the long term because of the likelihood of failure to preserve the fund's value (i.e., does not grow the principal) and the likelihood of not paying out Scholarships on an annual basis. Also, annual interest can be quite variable which has created substantial disparity in the amount available for Scholarships.

2. The percent of market value method will derive the amount available for Scholarships based on 4% of MASFs total market value. This is also known as a percent of market value (POMV) method, not unlike the Alaska Permanent Fund Dividend, some retirement plans, and used frequently by university endowments. For example, the annual amount for the Scholarship is calculated on 30 June each year. The MASF's 30 June value is \$140,000, 4% of that is \$5,600 and rounded down to the nearest \$1,000 = \$5,000 available for a Scholarship. The benefits of the POMV are the high likelihood of paying an annual Scholarship and the smoothing of the year-to-year volatility of the amount available for Scholarships. The POMV strategy succeeds because it makes big reinvestments when the market does really well thus weathers the downturns better and it grows the principal. There will be variability in the year-to-year Scholarship amount based on market performance but, to date, our moderately conservative

investment approach (approximately 50:50 bond to stocks) has lessened our portfolio's volatility.

3. Same flaw as 1, when the market is down the fund loses value and is unable to fully recover and it would not pay out a Scholarship every year.

The goal is for the FAOC to revise the Principles to use for the 2021 Scholarship announcement.