

Investment Minutes

July 24th, 2024

LPSDO 203

Call to Order: 10:05

**Attendance:**

Mike Tavlin, Bryan Schneider, Ed Schulenberg, Steve Schmidt, Tina Udell, Angelina Cunning, Wendy Van, Parker Dushan

**Welcome:**

Mike informed the committee that Krystal Siedbrandt would not be attending today's meeting, as she has no updates to report.

**Consent Agenda:**

Mike called for a motion to approve the previous meeting's minutes. Steve moved, and Ed seconded. As a result, both the minutes and the consent agenda were approved.

**Investment Account Performance Review:**

Bryan Schneider began his presentation by discussing the current state of domestic and foreign investment. He followed with an analysis of an inflation graph, highlighting both CPI and core CPI. Bryan outlined the potential reasons for the current decline in the bond market and examined the key components driving the current state of CPI. He then shifted focus to the job market, noting its close return to normal levels and its relationship to inflation. He concluded by discussing the economy's trend growth of 2% and provided insights on the federal funds rate.

Bryan then proceeded to discuss the performance report and provided an account overview, covering equity, international equity, fixed income, and cash. He offered a detailed breakdown of recent account activity. Mike inquired about withdrawals, specifically asking where the funds come from when checks are written, to which Bryan provided clarification. With no further questions, Bryan moved on to the ‘executive summary’ of the account and reviewed the funds watchlist, focusing on volatility. Mike questioned how an index fund could be placed on the watchlist. Bryan explained that market growth, rather than active management, had caused the fund to become weighted more heavily on the growth side.

Bryan then reviewed the portfolio balance, confirming that it remains well-balanced. He discussed the asset class targets and explained the degree to which they allow these targets to drift before rebalancing. He proceeded to outline the primary criteria used to assess both active and passive managers. Steve asked about the protocol for handling consecutive quarters of underperformance, to which Bryan responded that there is no strict protocol in place. Ed commented that he appreciated Bryan's approach to evaluating active and passive managers and asked if the passive criteria ever lead Bryan to consider switching from passive to active management. Bryan affirmed that if the data showed active managers were outperforming, he would absolutely consider making the switch.

Bryan then reviewed the Due Diligence Monitoring Report, focusing on BlackRock and outlining four main concerns. In 2022, they were over-allocated to Russia, followed by over-allocation to China in 2023. This year, they are positioned for emerging markets to decline more quickly, but the challenge is that emerging markets won’t lower their rates until the U.S. does. The overarching issue over the past three years has been poor security selection. Bryan noted that BlackRock has recently hired a portfolio manager to address this, though his confidence in the team is beginning to wane. He then discussed emerging markets in general, specifically the risks and factors involved in investing in China’s market. Bryan also examined global trade trends and U.S. exports by country, highlighting the downtrend with China on the graph. Despite these issues, he believes emerging markets remain a valuable asset class, with allocations of roughly 6-7%. He then opened the floor for questions, but none were raised by the committee.

Bryan moved on to discuss asset allocation, continuing from the previous meeting. He addressed the shift to a 70%/30% allocation and broke down the current versus potential allocations. He highlighted the potential benefits of increasing foreign investments due to the significant valuation gap between U.S. and foreign markets, as well as the absence of negative interest rates in foreign markets, making them more favorable. Steve inquired about the reasoning behind a 75%/25% allocation. Bryan explained that they use a basic formula to determine the optimal allocation and that a 70%/30% split may not yield the desired returns. Wendy mentioned that the Finance Committee discussed payout options but would like more time to decide. Bryan wrapped up by asking if anyone had any remaining questions. Everyone expressed satisfaction with the presentation, and Bryan thanked the group for their time before concluding.

**Investment Account Performance Review & Relationship Discussion:**

Mike began by discussing the possibility of shifting UBT's portfolio from a 60%/40% allocation to a 70%/30% allocation. He noted that the Foundation has been struggling to achieve sufficient returns with the current 60%/40% structure. He then compared UBT's portfolio to DA Davidson's, highlighting the difference between UBT's 60%/40% and DA Davidson's 70%/30% approach. Mike asked the committee if they were satisfied with the structure of today's meeting. Steve responded positively, saying he appreciated the time given to Bryan for his presentation. Tina and Ed both agreed that the format worked well.

Mike then emphasized the importance of evaluating relationships and raised the idea of issuing an RFP (Request for Proposal) for investment management services. Tina agreed, stating it would help ensure the committee is conducting its due diligence. Ed added that, as an investment committee, they are capable of objectively assessing outside managers. A discussion followed about who could provide valuable input for the RFP process, and the group decided that Pat Beans and John Laflin would be helpful contributors. Steve inquired if Ameritas would be interested in participating, and Tina said she wasn't certain but believed it was possible.

Mike then suggested making a motion to recommend to the Finance Committee that an RFP be issued for investment management services. Ed moved, and Steve seconded the motion.

**Adjourn:**

Mike adjourned the meeting at 11:47