CAPITAL DISTRICT KIWANIS INTERNATIONAL

Quarterly Committee Report & Committee Evaluation

Committee: **Finance** **Date:** February 13, 2021

Chairperson: Bob Wright

To be completed by the Committee Chairperson and submitted to the District Secretary and supervising District Trustee no later than 21 days before each quarterly District Board Meeting.

1. COMMITTEE MEMBERSHIP

Committee fully staffed: Yes ☑ No ☐ [Note: Regions without representation below.]

All members informed that they now have the right to vote following the Board's August 21, 2020 meeting that changed policy.

2. KIWANIS YEAR GOALS (list all committee's annual goals)

GOAL	% Complete
1. Prepare with the District Secretary-Treasurer, review, amend as necessary, and submit to the Board the recommended annual budget. *The committee met on August 31, 2020 (6 of 10 members present and met quorum of 5) to review all CapDist K Family budgets for 2020-2021 and unanimously recommend the approval of all as submitted.*	100%
2. Review the proposed budgets for all Kiwanis family district conventions and conferences (CDKI DCON, Midyear; CDCKI DCON; CDKCI DCON) and submit recommendations to the Board. *Same as #1 above.*	100%
3. Review the proposed annual budget for Service Leadership Programs (i.e., CDCKI, CDKCI) and their Administrators and submit recommendations to the Board. *Same as #1 above.*	100%
4. Review recommendations with financial implications from any committee, especially Long-Range Planning, and provide recommendations to the Board. Review recommendations with financial implications for Board actions and provide recommendations to the Board. *The committee is formulating district investment strategy that will align policy and practice.*	Ongoing
5. Monitor and review investment activities and report to the Board quarterly. *Prepared a summary of investments as of January 29, 2021.*	50%

3. **CHALLENGES OR ASSISTANCE NEEDED** (use continuation sheet if necessary):

The committee reviewed district investment strategy in October, 2020. A subcommittee of 3 developed recommendations to bring it more in line with current thinking about maintaining and growing reserves. The full committee will review it soon.

4. **COMMENTS** (use continuation sheet if necessary):

On October 22, the committee discussed district investment strategy. As an outgrowth of the discussion the Secretary-Treasurer contacted the district's investment manager on October 23 about rebalancing investments in line with current policy. December 2-5 the subcommittee reviewed the investment manager's account rebalancing proposal and submitting its recommendation. As of the January, 2021 statement no rebalancing has occurred! [With regard to the mandatory reserve in an amount equal to the annual operating budget, the Secretary-Treasurer had an appointment with Edward Jones during the week of February 8 to address transferring funds into it.]

At that meeting, the committee also created a subcommittee of 3 members--Dave Heppner, Tim Gillette, and Bob Wright--to review Policy language and make recommendations to the full committee. The subcommittee met November 17 and formulated a recommendation to update and simplify guidance. The subcommittee will brief the full committee on February 15, 2021 so it may consider that recommendation. The approved recommendation will be submitted to the full board at its March, 2021 meeting.

The subcommittee also found some issues with the investment account that goes beyond rebalancing and updating guidance: the size of the mandatory reserve, inclusion of tax-exempt bonds, and monitoring the accounts to cull any long underperforming funds. Re. the latter, the district already has tax-exempt status so investment revenue is already exempt from taxes. The subcommittee will make appropriate recommendtions to the finance committee in the coming months.

SIGNED: __ Robert C Wright

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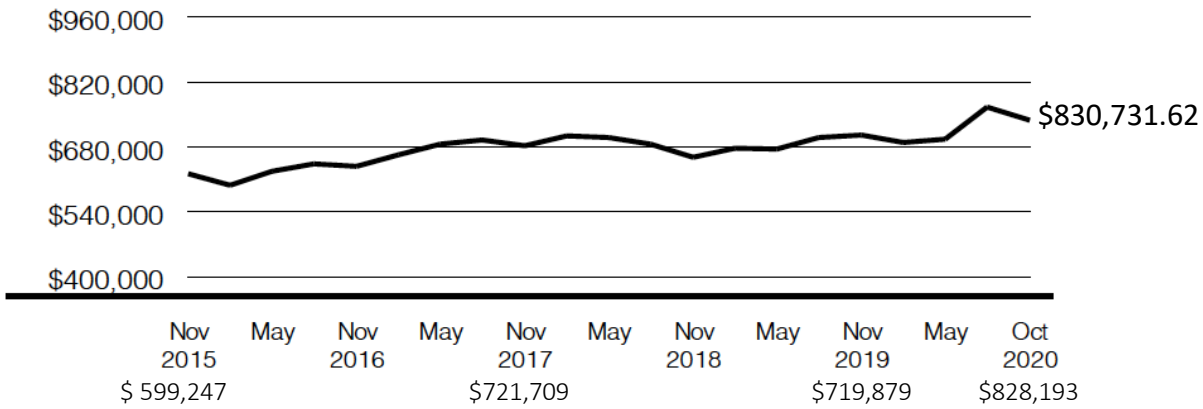
February 8, 2012

CDKI Edward Jones Account Overview

Value of Your Account — as of January 29, 2021



Assets

Cash, *Insured* Deposits,		Share
Money Market Funds[1]	$ 55,869.67	6.7 %
Exchanges, Closed End Funds	$ 5,693.43	0.7 %
Mutual Funds	$ 768,808.52	92.6%
> Equities	*$610,982.94*	*79.5%*
> Fixed Income (CDs, bonds)	*$157,825.58*	*20.5%*
	$ 830,371.62	100.0 %

Income

	Interest	Dividends[2]
2021	$ 0.42[3]	
2020	$ 49.44	$ 19,018.25
2019	$ 21.60	$ 18,735.84
2018	$ 210.96	
2017	$ 1,469.75	

[1] Insured portion not broken down on statement
[2] Includes year-end dividends reinvested in subsequent year
[3] Year-to-date

Investment of Reserves	Per Policy	Reality
Insured Fixed Income	$ 150,000	< $ 55,869.67 **low**
Equivalent of adjusted annual operating expenses (estimated)		
Income	$ 347,393	$ 163,519.01 **low**
Equities	$ 332,979	$ 610,982.94 **high**
Up to 50% of remaining investments		$ 830,371.62
Maximum in any industry group/sector	10%	**up to 20%**
Average security maturity	5 years	**7 years**
Maximum security maturity	10 years	**12 years**

Analysis: Slight increases in cash, exchanges in the past 2 months. Equities remain a disproportionate share of investments compared to what policy stipulates, continuing to be an increasing share of this account. As a result, equities now comprise 92.6% of the account rather than the 40.1% it should be per policy.
The Finance Committee commented on the investment manager's proposed account rebalancing in December, 2020 (not implemented yet) and is revisiting district investment strategy policy.

Kiwanis
CAPITAL DISTRICT

Information for Board
Updating Capital District Investment Strategy
for the Board Meeting on March 6, 2021

Background

In the Spring of 2020 the Finance Committee noticed that district investments with Edward Jones were not consistent with district Policy *Statements* in Section 11.

- The mandatory reserve in an amount equal to the annual operating budget less revenue from self-supporting events was only a third of what it is supposed to be.
- A max of 50% of remaining investments are to be in equities but in fact are over 70%.

On July 20, 2020, the committee chair and incumbent and incoming district secretary-treasurers talked with the district's investment manager, who confirmed our analysis, and also stated that

- Though policy set a 10% limit on the amount in any industrial sector, that percentage was higher for the Technology sector; and,
- Actual average bond maturities are a couple of years longer than specified.

On August 5, 2020, a joint meeting of Finance Committees for 2019-2020 (that identified the problem) and 2020-2021 (that would be responsible for seeing the matter through to a conclusion) met to discuss the matter. With the end of the Kiwanis year less than two months away, the consensus was to pursue this in the coming Kiwanis year.

On October 22, 2020, once the 2020-2021 Finance Committee was officially in place, it met and discussed this matter. The committee named a subcommittee of three members—chair, Bob Wright; PG David Heppner (also a financial advisor), and Trustee Tim Gillette—to investigate further and make a recommendation to the full Finance Committee that would go to the board.

On November 17, 2020, the subcommittee met and developed the following recommendation.

Recommendation

On February 15, 2021, following the Thanksgiving, Christmas, and New Year's Day holidays, the full committee again met and unanimously approved (7-0-3 absent) the subcommittee's recommendation:

- *Recommend to the Bylaws and Policy Committee* ~~Change~~ *changing the* investment strategy [Policy Statements, Section 11, B.e] to manage, through an active advisory relationship, investments of 60% equities and 40% fixed income against a blended benchmark using 60% of the Russell 1000 Index and 40% of the Bloomberg Barclays Intermediate Government/Credit TR Index.
- *Recommend to the Bylaws and Policy Committee* ~~Delete~~ *the deletion of* all guidance in Policy Statements, Section 11, B.g, subsections ii and iii. [These set a different investment mix, limit sector investment, and specify average bond maturities.]

Impact

Of current policy

The smaller mandatory reserve was of little consequence since district dues are roughly the same amount. [Note: Prior to this meeting, the investment manager put $143,000 into a separate account designated for the mandatory reserve.]

The current portfolio's greater emphasis on equity funds (growth, or growth and income) is yielding a greater return in the current market, while putting the overall portfolio at greater risk.

Specific sector and bond targets limit the investment manager's flexibility meeting the district's goal of "striv[ing] (IS THIS A TYPO?) for the highest rate of return consistent with minimal risk and volatility of results." [Reference: Policy Statements, Section 11.B.d]

Of recommended change to policy

A more broadly defined district investment strategy gives the investment manager the necessary flexibility regarding how to invest the district's assets.

The proposed update

- Makes risk tolerance totally a function of the 60% equities-40% fixed income investment mix and quality of the investments;
- Sets a blended benchmark to gauge performance against the market;
- Gives the investment manager greater flexibility among investments to choose; and
- Establishes an active advisory relationship between the district and investment manager.

Required Board Action ***– NO ACTION NECESSARY. This is for information only.***

~~Support the proposed change to investment policy (see Recommendation above) and send it to the Bylaws and Policy Committee to be put into specific policy language to be presented to the board for approval at its May, 2021 meeting.~~

Submitted by the Capital District Finance Committee, February 16, 2021