

Friday, January 29, 2016  
Chemeketa Eola Northwest Wine Studies Center

*OSBA Finance Committee members in attendance at meeting start:* OSBA President Doug Nelson, OSBA President-elect Betty Reynolds, OSBA Vice President LeeAnn Larsen, OSBA Secretary-Treasurer Don Cruise, OSBA Past president Dave Krumbein, Nori Juba, Board Member, Bend-La Pine School District

*OSBA staff in attendance at meeting start:* Executive Director Betsy Miller-Jones, Director of Operations and Finance Mike Robison, and Administrative Assistant Vicky Black

*OSBA Finance Committe members in attendance via conference call:* Cliff Kuhlman, Board Member, Grants Pass

*OSBA Guests in attendance at meeting start:* Brent Peterson, Royal Bank of Canada (RBC)

*OSBA Guests in attendance via conference call:* Bill Dicky, RBC and Sam Lee

**OSBA President Doug Nelson called the meeting to order at 2:29 p.m.**

- I. Welcome and Introductions
- II. Selection of Committee Chair

**Motion: OSBA Past president Dave Krumbein nominated Don Cruise for chair of the Finance Committee; seconded by LeeAnn Larsen.**

**The committee voted on the nomination and it was passed unanimously.**

- III. Approval of minutes
  - A. September 18, 2015 meeting

*\*\*Sam Lee joined the meeting via conference call\*\**

**Motion: OSBA Past president Dave Krumbein moved the committee to approve the March 13, 2015 Finance Committee meeting minutes; seconded by LeeAnn Larsen.**

**The committee voted on the motion and it passed unanimously.**

- IV. OSBA Investment
  - A. Investment portfolio and performance

Michael Robison introduced Brent Peterson from Royal Bank of Canada as our investment advisor. Mike said that he and Betsy had been talking about a “stop loss” if some of OSBA’s equities went down.

*\*\*RBC Technical Strategist, Bob Dicky, joined the meeting via conference call at 2:42 p.m.\*\**

*\*\*Craig Prewitt entered the meeting at 2:42 p.m.\*\**

Brent introduced Bob and explained his role in RBC. Bob explained that the most important thing in your stock portfolio is managing the risk. He said that his philosophy is if a stock isn’t working then maybe it should be removed and switched to something else with better prospects. He used the example of oil stocks being held until they got very low. Bob explained that he is a technical analyst and looks at money flow to determine which stocks might be good and which might be a problem. He said his philosophy is when he calls a stock a “buy” he is expecting a 20% or more upward movement. When he calls a stock a “sell” he expects a 20% or more loss. He said he uses charts to determine where the price floors are for particular stocks and then puts “stop loss” points underneath those floors. If the stocks break those floors, the risk is 20% or higher. The purpose is to occasionally take a small loss but over all avoid a major disaster. He said once you develop a “sell discipline” you take control over your portfolio performance.

Brent passed out a spreadsheet titled “Guided Portfolio: Dividend Growth Mark to Market.” He explained that the last three columns contain the data that Bob had compiled on the OSBA portfolio. Bob went on to say that his only concern is price performance. He explained that on the spreadsheet he put ratings beside OSBA’s stocks to buy, hold or sell. Sell ratings mean that he expects them to drop by 20% or more. He said that had we been doing his method a year or more ago, we would have been sold out of some of what OSBA is holding today before they came down so much, energy stocks especially. Bob went on to say the six to twelve month target column is the upside potential. He said that the last column lists his stop-loss prices, which represent where the floor might be for that particular stock. If the stocks hit those stop points, the risk is at least another 10% and more like 20%. He explained that if the stocks go up then those stop loss amounts would be increased. He said few people practice this method but he believes it provides a better degree of safety for the portfolio.

There was a question about dividends and Bob said his method does not take dividends into consideration. He is interested in capital gains, not yields.

Betsy brought up that if we followed this method that OSBA would be out of sync with the recommended portfolio that was designed to produce income. Brent agreed but Bob brought up that OSBA could increase the amount of stock that we already own. Bob did agree that foundations need to keep the income coming in. Nori asked how often the stop loss numbers were evaluated and Bob said about every two to six months.

*\*\*Bob Dicky exited the meeting via conference call at 2:51 p.m.\*\**

Brent continued that there are really two sides to the equation. We are buying stocks for the cash flow but we also want to mitigate losses. Betsy said that it would impact us in that sometimes it locks in a loss and sometimes a gain. Brent said that it would be good to have the conversation and see if we might want to implement this process in some form or fashion. Brent also pointed out that Bob is looking at these stocks mid-stream, not at when we bought them. Brent said that in the future he is going to type up a rationale when RBC has a recommendation to buy or sell and how its going to impact our income, for better or worse. He said some stocks we held onto because they were producing income, but are a mark to market loss and some, in retrospect, we would have been better off to sell. Brent said that when recommendations come to change the portfolio come up in the future, Bob said to call him first and he will tell him what the technical numbers are at that time. He added that OSBA will have more information to make their decision.

*\*\*Betsy exited the meeting at 2.57 p.m.\*\**

Brent said that Chevron took it's first loss since 2003, which brought up the question if they will cut their dividend, and if they do will others follow suit. He said that is the difference between fundamentals and technicals. Technicals work strictly from charts. Mike asked if there was interest in the Finance Committee to look into this different strategy. Craig asked if they could see a comparative model and Brent said he would research that. Brent also gave an example of a stock that OSBA holds, Seagate, that Bob had recommended selling but has recently had gains which shows how quickly things can move. Nori said we should see if we can meet our goals with just dividends alone or do we need capital gains. He said that if we do need capital gains we might need to look at this new strategy. Betty asked what the implication would be if we adopted this strategy and Mike said we would make changes to the investment policy. Sam suggested that we get more information and not to make sudden changes because it is a down market at present.

Brent then gave an overview of 2015. He said in 2015 the S & P returned with 1.38%, but when you take out the top ten performers the return would have been a negative 1.93%. The Dow was up 0.21% and the NASDAQ was up 6.96% for the year which shows how small the returns were for the year. The ten year treasury currently sits at 1.91% and that is down 38 basis points this month alone; It started the year at 2.2%. He said the Bank of Japan has adopted negative interest rates, and Europe has been like this for a year or more. This indicates the Fed probably won't raise interest rates. Brent went on to say that \$5.5 trillion worth of government bonds around the world now have negative yields. He said OSBA is holding predominantly corporate stocks and yields on corporate debt have actually gone up. When a yield goes up the value drops. Our income has stayed exactly the same, but the value of our bonds has dropped so from a mark to market perspective we have an unrealized loss in the portfolio currently.

Brent then went over the highlights of the Consolidated Report and said we are right at benchmark. He said year to date we lagged the index but in our three year comparison we are up 84 basis points. He predicts fiscal year income of roughly \$3.7 million. He said that even though we have stocks that show losses, our income has not changed. Of all the

equities OSBA holds there has only been one that terminated its dividend, Baytex Energy.

There was a lengthy discussion if there was enough revenue to cover yearly operating costs. Nori mentioned that we would have to dip into the capital to operate. Dave pointed out that we don't normally have a large capital project like we do this year and that we have had gains above operating costs in previous years. Brent said this was a great discussion of fine tuning what component of income and capital gains type strategy we want to use.

*\*\*Sam Lee exited the meeting via conference call at 3:23 p.m.\*\**

Brent directed the committee to look at the page "Equity Analysis"- He pointed out the ALPS ETF TR ALERIAN MLP (master limited partnership), which is an exchange traded fund that has 25 different stocks in it. MLPs invest in energy infrastructure. It is one of our larger holdings and unrealized losses.

Nori said that it looks like there is under performance on the equities side against the benchmark. Brent explained that the S&P 500 has 500 stocks but OSBA only has 22 and the benchmark is due to concentrations. Brent said the dividend yield is 3.85 % and Prime Income is 4.85%, so from a cash flow standpoint our cash flow exceeds the cash flow of the S&P 500. We are taking the cash, but S&P assumes we are reinvesting the returns.

Moving on to Fixed Income Analysis, Brent explained that even though it appears we are heavily weighted in the 5-10 year maturity distribution, they are spread out over that time period. He also said that if interest rates continue to fall it may be to our benefit. He then explained there was a little erosion in our credit quality due to downgrades by S&P.

Nori asked in fixed income what is considered high yield or junk and Brent answered anything below Baa3, which would be about 10% of OSBA's bonds. Nori also asked about diversification and international markets but, with the way international markets are performing, Brent advised against it and pointed out that each country also has a foreign withholding tax which non-profits have no way to recover.

*\*\*Brent exited the meeting at 3:35 p.m.\*\**

## V. Finances

### A. Current financial report

Mike began by saying that through November we had \$1,167,000 in revenue greater than expenses. Our revenue was almost \$4,173,000 and our expenses are roughly \$3 million through November. He said we are ahead of budget for revenue and slightly ahead for expenses. Our current market value is \$77.5 million and a year ago was \$78.9 million.

*The committee took a break at 3:40 p.m.*

*The committee reconvened at 3:45 p.m.*

VI. Audit Reports

A. OSBA

Fritz Duncan said all three audits went very well. He complimented the accounting department. Sarah Fantzia said everything went very smooth and they did not have any audit adjustments or any findings or issues. Fritz said OSBA has good liquid reserves and very good long term reserves. He mentioned we have a lot of good revenue streams and not just using dues, which is really positive. He said we have a positive cash flow from operations every year. Doug asked if the auditors saw good internal controls and Sarah said there was good segregation of duties and everything was pretty strong. Betty asked if the PERS unfunded actuarial liability raised any issues and Fritz said that it didn't.

B. LGC Trust

Fritz commented that LGC has about \$700,000 in cash reserves and the building is valued at about \$2.6 million and there is very little liability so the trust has about \$3 million in equity. Dave asked if the audit was before the roof and HVAC and Mike said it was. Fritz spoke about \$30,000 a year depreciation but said it wasn't a loss because LGC has good cash flow. He said everything checked out fine.

C. LAT

Fritz mentioned that there is \$900,000 in cash reserves in the fund and not very many liabilities. He said the net income is going to go up and down from year to year depending on legal expenses. He pointed out there was a large expense this year and Mike said it was for PERS legal expenses.

Fritz reiterated that all three of the audits went well. He said that in both accounting and financial policy we are in good shape health-wise.

VII. Spending policy

Mike said we have been doing research to come up with a best practice for a spending policy on how we use the endowment. He said we have not had a formal policy and for the last two years he has used all of the interest and dividends and 50% of the realized gains to use for budgeting. He referred to pages 104 and 105 for examples of spending policies. He said they can be very simple or very complex. He asked for the committee to review the examples and said we can discuss them today. Then he could bring back a formal policy in March to go over so a final one can be presented to the policy committee in June and then the full board.

He then referred to the italicized text in the example on page 104 and said when the example says "average fund value" it refers to "real market value." He then went on to

show how the three steps in that example are a possibility to use as a spending policy.

He pointed out paragraph two in the next example on page 105, which shows a possible range of percentages. Mike said it was important to have a spending policy so we don't spend down the endowment too far. He said we are not looking for a policy on large items, such as the remodel, those things will still go before the board; we want a methodology for developing the budget.

Mike asked if there were questions about a spending policy. Craig asked if Mike was looking for a policy that is reasonable that doesn't have to be presented to the board for approval and Mike said that he recommends that big expenditures would always come before the board. He said we want to have a spending policy that would guide us in developing the budget. Doug asked what a big expenditure would be and Mike said right now its \$5,000 or more. LeeAnn asked if we have a threshold in non-capital expenditures and Mike said that Betsy has always said that as long as it is within budget to sign all contracts and purchases.

LeeAnn asked, looking at the last three to five years, what would be the percentage we have been spending on the budget and Mike said he would bring that information to the March meeting. LeeAnn suggested that we might want to include items exceeding the budget or a certain dollar amount be required to come before the board for approval in the spending policy and Mike said that was a good point. Betty asked for clarification that this would be a spending policy on the endowment and Mike said it was and that this policy would lay out how much of the endowment we would use to fund operations. Dave said he would like to see two things: the average of the last three years going forward and the other is going back three years how much have we been spending. Mike mentioned he believed last year it was three percent. He said we have budgeted \$7.1 million in operations for this year. Nori commented that if we use three percent of the endowment in a flat market then the market has to get up to five percent to get back to normal. LeeAnn asked if we want something built into our spending policy to prevent that erosion over a period of years. Mike said that is something that could be built into the policy.

IV. Adjourn

**Don Cruise adjourned the meeting at 4:26 p.m.**