Advance CTE/Center to Advance CTE Finance/Audit Committee Conference Call

**MINUTES**

October 27, 2016

3:30 – 4:30 p.m.

**Attendees:** Lee Burket, Philip Cleveland, Tim Hodges

**Absent:** Sheila Ruhland, Rod Duckworth

**Staff:** Kimberly Green, Kate Kreamer

**Guest**: Mark Friese, Merrill Lynch

**Welcome**: Secretary/Treasurer Philip Cleveland welcomed the group to the call.

**Review of Finance Statements**: Because the financial reports for year-end FY16 and FY17 year-to-date, were reviewed in detail at the October Board meeting, the Committee did not need to review the statements in detail on the call. The Committee was given the opportunity to ask question about any of the statements. No questions were posed.

**Review of Investment Policy Statement and Performance**: Cleveland welcomed Mark Friese, of Merrill Lynch to provide an overview of the markets, the status of our investment policy statement and to offer recommendations for any changes to the current investment strategy.

Friese shared this has been a very unusual year. Volatility in the U.S. markets has been very high. At the beginning of this year the market was down about 5% due to financial issues in China. The market eventually recovered from this and then later declined with issues in Europe. The market also recovered from this event.

Interest rates are currently near all-time historic lows, but are expected to be increased for the first time in many years. Bonds move inversely with interest rates, so it is expected that bonds will decline. For this reason both the *Association* account and the *Foundation* accounts are above the ranges for equities (at 68% now). Friese sees no indication that interest rates will be rising significantly in the near term. When interest rates start to increase and bonds decline in price, Friese’s team will reallocate from equities to bonds.

A large portion of the equity portion of organizations’ portfolios are focused on conservative, dividend producing, equity- based indexes. These indexes provide income that has historically risen over time and provided capital appreciation potential. Advance CTE/Center to Advance CTE’s investments are currently over-weighted in this area that recently performed well beyond the general market (e.g. consumer staples and utilities, underweighted in healthcare). Friese’s team believes that this trend will continue for many years as the baby boomer retire and seek to replace their employment income with income generated by their savings.

Both the Foundation’s and Association’s equity exposure performed in line with the general markets.

There has been increasing volatility in the U.S. markets due to events outside our country. Problems with Greece, Puerto Rico and China are just some examples. The international equity exposure in your portfolio is currently less than 3%. Area like central Europe are starting to improve, but starting from deeply depressed levels.

The election could have an impact on the market, so a report will be shared after the election results. However, the portfolio is in a defensive position to protect the assets.

Right now, no changes are being recommended to the investment allocation. Sufficient cash is available to meet intermediate cash flow needs that were estimated by the organizations. The Committee discussed the limitations on some of the new funding coming into the Foundation, which have a grant period of just one year. As such those funds should not be invested. Green and Friese will meet to discuss cash flow needs and the grant/contract periods to ensure maximum investment potential while also ensuring funds are available when needed to support grant-related work.

During the question period, Friese shared he would not recommend moving funds from cash to bonds. Friese also shared that he investment policy statement gives his team flexibility to manage the funds within a framework. Changes are made automatically within that framework and do not require active management by the Finance/Audit Committee or the Advance CTE/Center to Advance CTE leadership. Green and Friese meet quarterly to review the portfolio and cash flow needs. If the parameters of the investment policy statement no longer meet the needs of the organizations or the cash flow needs change, then Friese would approach the Committee to discuss revisions in the policy; this is what happened two years ago when Friese recommended increasing the equity cap within the investment policy statement.

Green reminded the Committee that the next call was scheduled for January 12, 2017 and was especially important for there to be a quorum, as it is the call when the Committee is presented with the audit and 990s (tax forms). She also noted that the staff will work in the first quarter of 2017 to fill the associate representative position to the Committee, as Connie Beene of Kansas took the State Director.

Call concluded at 4:30 p.m.