



The WOODSTOCK Endowment Trust Fund

Recommendations

Investment Policy Advisory Group

September 19, 2017



WOODSTOCK
V E R M O N T

Woodstock has an endowment fund worth \$1.6 million

- In 1993, Rockefeller gave the Town \$625,000 *“as an endowment fund to produce annual payments to help offset the loss of real estate taxes”*
- The Fund came with many directives for its management including a directive that withdrawals be limited until 20 years after the Rockefellers *“cease using the Mansion as a residence”*
- The Town Selectmen agreed on a set of ordinances in 1994 with further restrictions on distributions from the Fund
- Additional investment guidelines were approved by the Village Trustees and Town Selectboard in 2009
- We’ve taken the distribution of approximately \$41,200 each year since 2000 in lieu of property taxes

Since inception the Fund has been managed by Seaward Management following these ordinances and guidelines

- The Fund is currently individually managed by Seaward Management
- Seaward Management increased their management fee in July 2017

Fee to July 2017	Fee after July 2017
0.45%	0.62%
\$7102 for 12 mth to June 2107	\$10,191 est for 12 mth on a fund of \$1.65million

- The Fund performance is shown below for the equity and fixed income components

Seaward Management Performance History Net of Fees

	Latest 1 year*	Latest 3 year *	Latest 5 year*
Equities	16.74%	6.56%	9.78%
S&P 500 Index	17.91%	10.46%	13.66%
Fixed Income	0.57%	1.41%	1.26%
Barclays Capital US Intermediate Gov/Credit Bond Index	0.78%	2.04%	1.82%

* Year to April 30, 2017

The Village Trustees and Town Selectboard agree it is time to review how the Fund is managed for the future

- An Investment Advisory Policy Group was formed in July, 2017
 - Jeffrey Kahn, Village Trustee
 - Jill Davies, Selectboard Member
 - Ann Quasman, Registered Investment Advisor – 20 years (Retired)
 - Ron Miller, experienced investor
 - Jonathan Wilson, CFO Farm & Wilderness
- The team is considering four questions
 - Who should manage the fund?
 - What investments should we make?
 - Can we consider making socially responsible investments without impacting performance and incurring additional costs?
 - Can we take a capital withdrawal from the fund?

Now this group is ready to make recommendations

Recommendations Summary

- We recommend changing our investment strategy
 - Tighten the allocation ranges of equities, bonds and cash
 - Switch to a socially responsible equity index fund for the equity portion of the Fund
 - Invest the fixed income portion in a community-focused Vermont Lender
- These recommendations will require us to change our investment manager
- We recommend forming a new advisory committee to review the investments each year
- We recommend changing the investment guidelines and ordinances to reflect these recommendations
- The remainder of this document provides support for our recommendations

We recommend tightening the allocation ranges within our current current policy

- The current investment guideline allocation ranges should be realigned to best practices

Current Guidelines

Asset Class	Allocation Range Min/Max
Short-Term	0% to 30%
Fixed Income	30% to 70%
Equity	30% to 70%

Recommended Guidelines

Asset Class	Allocation Range Min/Max
Short-Term	0% to 20%
Fixed Income	25% to 40%
Equity	55% to 75%

We recommend investing the equity portion of the Fund in an equity index fund

- We believe it is more prudent to invest the equity portion of a fund this size in a mutual fund
 - A mutual fund offers greater diversification than an individually managed portfolio
 - A mutual fund offers significantly lower management costs
- Specifically we recommend an equity index fund
 - An equity index fund buys all (or a representative sample) of the equities in a specific index, like the S&P 500 index
 - The goal of an index fund is to track the performance of a specific index as closely as possible
 - An index fund offers the lowest cost and matches the risk and return of the broader market

We believe we can invest in a socially responsible index fund without impacting performance or incurring high fees

- Vanguard is a leading, well respected American investment company with professional money investors
- They are a proponent of low-cost investing and work with individuals, endowment funds, pension funds etc
- Since 2000, Vanguard's Social Index Fund (VFTSX) has invested in stocks with socially responsible principles
 - This Vanguard Fund generally holds each security found in the FTSE4Good US Select Index
 - The Index excludes companies that have violations or controversies related to environmental impact, human rights, health and safety, or labor standards, or that fail to meet criteria related to diversity
 - The Index excludes companies involved with weapons, tobacco, gambling, alcohol, adult entertainment, or nuclear power
- The management fees at .22% are lower than we are currently paying
 - On an investment of \$1.2 million this is an annual cost of \$2,640 vs \$7643 Seaward Management would charge

Vanguard's Social Index Fund Performance vs Indices

	1 year*	3 year *	5 year*	10 year*
Vanguard FTSE Social Index Fund	21.37%	10.2%	16.39%	6.66%
S&P 500 Index	17.9%	9.61%	14.63%	7.18%
Spliced Social Index**	21.62%	10.46%	16.68%	6.88%

* Year to 6/30/2017

** Calvert Social Index through December 16, 2005; FTSE4Good US Select Index thereafter

We recommend investing the fixed income portion in a community-focused Vermont lender

- We recommend investing in the Vermont Community Loan Fund (VCLF)
 - VCLF has been established for 30 years and has a history of repaying investors 100% of the time
 - VCLF makes loans to small businesses, community organizations & non-profits, childcare providers and developers of affordable housing
- The VCLF Fund offers a Social Investment Term Account that functions like a CD (fixed rate, set term) that invests exclusively in Vermont projects

The VCLF Social Investment Term Account current rate of return

1-2 years	3-4 years	5-6 years	7-9 years	10+ years
0.85%	1.25%	2.25%	2.5%	3%

- We suggest investing 25% of the Woodstock Endowment Fund in VCLF for different length terms
 - 5% for 5 years, 5% for 7 years and 15% for 10 years
- This fund offers higher returns than bonds today at zero cost
 - Seaward Management's fee for 25% of the Endowment Fund is \$2547

We recommend the Fund is reviewed annually by an investment advisory group

- We recommend appointing an ongoing group of residents who have investment experience and an interest in socially responsible investing
- The group would review annual performance, asset allocation and investment alternatives and make a report to the Village Trustees and Town Selectboard
- The group would make suggestions to investment guidelines and ordinances as circumstances change in order to keep current with the investment/economic climate

Next Steps

- Review the ordinances and the Statement of Investment Objectives and Policy and suggest changes in line with these recommendations
- Answer the remaining question we posed
 - Can we take a capital withdrawal from the fund?