

Date: July 14, 2009

From: BSA Financial Advisory Committee (FAC)

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To: Executive Committee and Council of the Botanical Society of America

Re: Annual Report of the FAC for 2008-2009 regarding the BSA Endowment Fund

Since the previous 2007-2008 Annual Report, the FAC has:

- Monthly monitored the BSA Endowment Fund (EF) invested with Smith Barney (SB)--which is now Morgan Stanley Smith Barney (MSSB);
- Had one conference call on May 21, 2009 with the MSSB staff in Des Moines, IA;
- Voted to restructure the endowment fund portfolio, per May 2009 MSSB recommendation. This change was deemed necessary to meet the challenges of the changing global markets and the Endowment Fund Investment Performance Goal of a net rate of return of 8.00% (previously, this was 9.44%; an absolute rate of return that included services and fees). The latter is based on the BSA statement of investment policy objectives & guidelines (see this recommendation and three others voted on by FAC at end of this Report);
- Did *not recommend* any amount of the EF for 2009-2010 to the EC/Council for initiatives, pending further discussion in Snowbird, UT prior to Council meeting

Comparison of this year's value with the EF values for the two previous years*:

June 10, 2007, the EF value was \$3,633,455

June 30, 2008 the EF value was \$3,326,358

June 30, 2009 the EF value was \$2,724,682

*This decline in EF value has been the direct result of the erosion of the world economy, especially during 2008-2009 (approximate decline of 25% over the two-year period).

The EF total management fee for this last fiscal year was \$28,110 (0.0076%).

Presently, the EF is divided into the following fund categories:

Funds	2008 (6/30)	2009 (6/30)
➤ Common Stocks + Money Funds	= \$1,927,653	= \$ 198**
➤ Common Stocks + Money Funds	= \$ 517,580	= \$ 286**
➤ Common Stocks + Money Funds	= \$ 169,923	= \$ ----**
➤ Fixed Income + Money Funds	= \$ <u>711,202</u>	= \$ ----**

➤ Newly Managed Index Funds		<u>=\$2,724,198</u>
Total	= \$3,326,358	=\$2,724,682

**These accounts are temporary and include residue funds that will be merged into the Newly Managed Index Funds

Summaries and decisions of four recommendations made by FAC in May

Bryan Boesen of MSSB, in his Report to the BSA FAC, provided the rationale for:

1. Recommendation: Change the present investment asset strategy to the proposed indexing strategy (as outlined on page 29 of report to BSA FAC). The BSA FAC concurred that this change would better position the EF to be less affected by the global economic changes, and would provide stability and a better opportunity for future growth.

Approved

In BSA Statement of Investment Policy Objectives & Guidelines (page 9);

2. Investment Time Horizon Recommendation: Do not change; This plan will continue in perpetuity. Rationale is this item will be revisited in the future when the BSA Council and Executive Committee better develop a needs budget that may require use of the endowment income. For now, the FAC task is to restructure the assets for optimum growth.

Approved

3. Investment Performance Goal Recommendation: Change "An absolute rate of return 9.44%" to "A net rate of return 8.00%." Rationale is to clearly indicate what the endowment fund is actually receiving (which does not include fees and services).

Approved

4. Asset Allocation Recommendation: Do not change present percentages for Minimum and Maximum for each Asset Class as presently identified. Rationale is the present allocations give a reasonable flexibility for changes to be made in each category of investments that are in Primary and Secondary Investment Objectives.

Approved

The chair or any member of the FAC will be willing to answer questions about the EF.

Respectfully submitted,

Harry T. (Jack) Horner, FAC Chair