Report of the Finance Committee

On April 16, 2004, the Executive Committee VOTED to restructure the Association's investment management services. The change reflects a philosophical shift from higher-cost actively managed to lower-cost indexed mutual funds. The Executive Committee thanked Stein Roe & Farnham (and, in particular, Robert McNeil and Scott Vogg) of Chicago for their conscientious service on behalf of the Association, and authorized the Secretary-Treasurer to transfer that half of the portfolio located with Stein Roe & Farnham to comparable Vanguard Admiral shares. Prior to the transfer, half of the portfolio was already in the Vanguard S&P 500 index fund, where it had been for over a decade. This shift was expected to save the Association over $30,000 annually in embedded mutual fund management fees; the Association was satisfied with the advice it had received from Stein Roe & Farnham and the Finance Committee. Indeed, as is reported below, this change has caused little change in the Association's portfolio strategy.

The Executive Committee also VOTED to thank and dissolve the Finance Committee (consisting of John Siegfried, Chair, Robert Dederick, Kathleen Hagarty, and William Landes), transferring its responsibilities to the Budget Committee, accordingly renamed the Budget and Finance Committee, on the grounds that the Budget Committee could efficiently absorb responsibility for establishing portfolio category benchmarks and deciding periodically whether to rebalance the portfolio. The independent Finance Committee had last met on December 10, 2003 in Chicago, setting portfolio benchmarks in consultation with the Association's investment counsel, Stein Roe & Farnham. The new Budget and Finance Committee routinely meets twice annually, which will increase overview of the portfolio balance.

The new Budget and Finance Committee decided in early May 2004 to modify the portfolio benchmarks slightly, reducing the S&P 500 index allocation from 50 to 45 percent, increasing the international equities allocation from 5 to 10 percent, decreasing the mid-cap allocation from 10 to 5 percent, increasing the small-cap allocation from 0 to 5 percent, and diversifying the investment-grade bond portfolio by dividing it into one-third long-term corporate bonds, and two-thirds total bond index. The Committee divided the international allocation equally between a European equities mutual fund and a Pacific equities mutual fund. The other allocations were held at the levels set by the 2003 Finance Committee. The portfolio was rebalanced at the time of the transfer, May 13, 2004. Pertinent allocations are reported in Table 1.

The market value of the Association's portfolio grew from $10,214,368 on December 31, 2003 to $11,887,988 on December 31, 2004. The Association maintains a Treasury Money Market account with Vanguard to smooth cash flow fluctuations; it contained $502,454 on December 31, 2004. On May 17, 2004, $437,924 was transferred from cash to the portfolio. Assuming the $437,924 was part of the portfolio from January 1 through May 17, 2004, but earning 0 percent from January 1 through May 17, 2004, the return on the investment portfolio for the 12-month period was 11.3 percent.

At the meeting on January 6, 2005, the Budget and Finance Committee decided to maintain the portfolio benchmarks established in May 2004, and not to rebalance the accounts.

JOHN J. SIEGFRIED, *CHAIR*

TABLE 1—PORTFOLIO ALLOCATIONS

	Dec. 2003 category targets	Portfolio % distribution Apr 30, 2004, actual	Portfolio category targets, May 2004	Portfolio % distribution May 20, 2004, actual	Portfolio % distribution Dec. 30, 2004 actual
Bonds:					
Long-term corporate	0	0	10	10	9.9
Intermediate-term	30	28.9	0	0	0
Total bond index	0	0	20	20	18.7
High-yield	5	4.7	5	5	4.9
All bonds	35	33.6	35	35	33.5
Equities:					
S&P 500	50	51.2	45	45	44.8
Mid-cap	10	9.7	5	5	5.5
Small-cap	0	0	5	5	5.4
International	5	5.5	0	0	0
European	0	0	5	5	5.5
Pacific	0	0	5	5	5.4
All equities	65	66.4	65	65	66.5