

Report on LASA's Finances and Endowment

by KEVIN J. MIDDLEBROOK | Treasurer

In the interest of providing LASA members with timely information concerning our Association's finances, this report reviews LASA's overall financial situation, the financial reporting practices now in place, and issues concerning the management of LASA's permanent endowment.

General Finances and Financial Reporting Arrangements

Over the past several years, LASA has taken steps to ensure the professional management of its finances. The Association's annual financial statements are audited independently by the Pittsburgh-based accounting firm Sisterson & Co. In its most recent report (for the fiscal year ending September 30, 2007), Sisterson & Co. determined that the Association had total net assets of \$5,517,562. The auditors found no "material weaknesses" (as defined by the American Institute of Certified Public Accountants) in LASA's financial statements or in its internal financial controls or operations, and they made no recommendations for changes in the Secretariat's financial procedures.

The LASA Secretariat has also adopted several measures to comply with the requirements of the Sarbanes-Oxley Act of 2002. For example, since October 2006 LASA's executive director has sent the LASA treasurer monthly summaries of all Association expenditures, as well as separate notification of all disbursements over \$5,000. In addition, the Secretariat has improved procedures for records retention and adopted a "whistleblower" policy.

Endowment

Decisions concerning the management of LASA's endowment are made on the basis of

quarterly conference-call consultations with members of the Investment Committee. In addition to its *ex officio* members (LASA's president, treasurer, and executive director), the committee's current membership consists of Judith Albert, Marc P. Blum, Kimberley Conroy, and Thomas J. Trebat, all of whom have substantial experience in private-sector banking and investment firms. Since June 2005 LASA's endowment has been managed professionally by Smith Barney, a major U.S. brokerage firm.

Overall Performance

As of September 1, 2008, LASA's endowment totaled \$3,751,274. This total was allocated among three major investment categories: equities (stocks), 70.1 percent; fixed-income assets (bonds), 25.9 percent; and cash, 4.0 percent.

The value of LASA's endowment has fallen from its peak of \$4,294,232 on October 31, 2007, as a consequence of the general decline in equities markets over the past year. Because of continuing uncertainty in global markets, the Investment Committee has opted to maintain a relatively conservative "risk profile" that gives additional weight to fixed-income investments and cash.

The distribution of equity investments among broad "market category" funds ("large capitalization" stocks, "small capitalization" stocks, "emerging market" funds, and so forth) reflects the Investment Committee's judgment that the endowment is still too small to merit the higher fees generally associated with speciality portfolio management, in which an account manager would be actively involved in buying and selling shares in individual companies.

"Socially Responsible" Investments

Over the past fifteen years or so, many not-for-profit organizations have adopted a strategy of making "socially responsible" investments (SRI) in an effort to align their investment decisions more fully with their ethical concerns. So-called SRI funds typically forego investments in some categories (tobacco companies, defense contractors, gambling enterprises, and so forth) or concentrate investments in particular areas (environmental technology, for instance). However, because SRI funds are by definition narrower in composition than many other equity funds, sometimes carry higher management fees, and may not perform as well as the stock market in general, there may be a trade-off between responding to ethical concerns and the overall financial return on such investments.

LASA first made a small SRI investment (\$200,000) in 2006. This initiative was reasonably successful, in the sense that the fund's performance closely paralleled that of the broad-based Standard & Poor's stock market index. However, a closer examination of the company composition of the chosen fund (the KLD Social Index Fund) revealed that it only excluded tobacco companies, while including leading defense contractors, firms with a highly questionable labor-rights record, and other companies whose business practices might be of significant concern to LASA members.

At its January 2007 meeting, the Executive Council expressed strong support for a transition toward more socially responsible investments in the management of the Association's endowment. The Treasurer subsequently drafted a statement of investment principles highlighting the SRI issue. This statement was discussed, amended, and then formally adopted by the

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Executive Council at its September 2007 meeting in Montréal:

“The principal purpose of LASA is to foster intellectual discussion, research, and teaching on Latin America, the Caribbean, and its peoples throughout the Americas, and to promote the interests of its diverse membership and encourage civic engagement.

LASA's permanent endowment funds are invested to promote these primary goals. The endowment funds should be invested in such a way as to minimize short-term fluctuations, protect their real value from erosion due to inflation, and achieve long-term capital growth.

At the same time, LASA assumes responsibility for the moral implications and social consequences of its investment policies. It therefore seeks to avoid investments that are inconsistent with the pursuit of peace, the preservation of the natural environment, and the promotion of a democratic, humane social order. In its equity investments, LASA should give priority to companies that protect the environment, support workplace diversity and responsible worker-employer relations, and otherwise contribute to the social good. At a minimum, it should avoid investments in companies that manufacture armaments, munitions, and tobacco products.”

The Treasurer simultaneously sought additional information concerning socially responsible investing. He consulted informally with members of the Investment Committee regarding possible SRI funds, and he communicated with cognate professional associations (the African Studies Association, American Anthropological Association, American Political Science Association, and American Sociological

Association) to learn more about how they have engaged the SRI issue.

On the basis of this additional information, in September 2007 LASA's Ways and Means Committee and the Executive Council agreed (pending advice from the Investment Committee) to shift a significant proportion of the Association's “large capitalization” investments (U.S. companies with a market capitalization of more than \$1 billion) into the Domini 400 Social Index Fund, a major SRI fund that is available through Smith Barney. The fund employs a variety of social and ethical “filters” (community relations, corporate governance, workplace diversity, employee relations, the environment, human rights, and product quality and safety) to select 400 stocks from among the Standard & Poor's 500 largest U.S. firms. The fund's goal is to track closely the overall performance of the Standard & Poor's 500 stock index.

Investment Committee members subsequently endorsed this decision, although they recommended that the transition to SRI take place gradually. As of September 1, 2008, the Domini 400 fund represented 20.6 percent of LASA's total endowment holdings and 29.4 percent of its equity investments. Between January and August 2008 the Domini 400 Social Index Fund slightly outperformed the broad Standard & Poor's 500 market index. The Investment Committee has agreed to evaluate the fund's performance through 2009 before considering further investments in it.

LASA has, then, taken very significant steps toward more socially responsible investing. It is important to note, however, that for now there may be practical limits to how far LASA can move in this direction while exercising sound fiduciary responsibility in the management of its permanent

endowment. The principal constraint is that the endowment is still too small to justify active portfolio management, and most of the broad index funds (“emerging market” or “developed-country international” funds, for example) that provide an essential degree of diversity in the Association's investment portfolio cannot be screened using SRI criteria.

LASA members with questions concerning any of the issues addressed in this report can contact Kevin Middlebrook at: kevinmiddlebrook@aol.com. ■