

**Minutes of
Investment Committee Meeting
September 25, 2017
Craig Hughes, Chairman**

Call to Order: Craig Hughes, Chairman, opened the meeting at 12:00 PM.

Attendance: In attendance were Committee members Doug Cotner, Rox Covert, Jason Herd, Craig Hughes, Winston Krause, Dan Leonard, Jim Morris, Michael O'Malley, and Charles Teeple. Also attending were advisors Malcolm Cooper and Edward Moody from Stephens, Tara Menchaca from Frost Bank, and Jon Yates and Diana Sullivan from the Boy Scouts. Not present at the meeting from the committee were Stuart Bernstein and Dale West.

Portfolio Update: Edward Moody gave an update on investment performance through September 22, when the total portfolio was valued at \$20,315,655. This is the first time these accounts have exceeded \$20 million. In 2017, the best returns have been from international stocks, with Thornburg International Growth returning 31% year-to-date and Henderson International Opportunities 18%. The domestic equities have also done well, with Shafer Cullen High Dividend Value earning 11%, Luther King Equity Blend 14%, Riverbridge Multi Cap Growth 13% YTD, and the large cap growth index fund 18% year to date. Master Limited Partnerships (Eagle and BP Capital, two energy midstream and infrastructure funds) lost 8% so far this year, and the REMS Real Estate Value fund lost 2% so far this year. The fixed income allocation has had a very small return.

Mr. Moody noted that with the equities doing so well, the fixed income investment allocation has fallen below the policy minimum of 15% and recommended that it be brought up to 15% by taking a small amount from domestic equities. The committee agreed to that minor rebalancing.

Investment Policy: The council underwent an administrative review by National Council, a sort of internal audit, and the examiners recommended that the Investment Policy be updated. Edward Moody and Malcolm Cooper have worked on updating the council's Investment Policy using best practices for institutional investors.

Mr. Moody and Mr. Cooper provided a draft investment policy and pointed out a few changes made thus far plus some additional changes. This policy had been sent by email to the

committee for review prior to the meeting. There was a discussion of the revised policy, and the following changes were made as suggested by Mr. Cooper and Mr. Moody:

1. Under the Objective section, increase the objective from the distribution rate plus CPI to distribution rate plus CPI plus 1%.
2. Under the asset allocations, lower the minimum for domestic equities to 40%, raise the maximum for International Equities to 40%, and raise the maximum for Fixed Income to 40% to provide more flexibility to the committee to respond to changes in the financial markets.
3. Omit the first sentence of the second paragraph under Fixed Income and amend the second paragraph to read "An average rating of at least investment grade (BBB) shall be maintained."
4. Remove the last sentence of the policy, before the signature block, regarding the reading of each investment prospectus.
5. In the Investment Monitoring and Control Procedures under items 3, change the first sentence to require a meeting within 90 days of the end of a quarter.

Discussion:

The committee discussed the spending (distribution) policy, which is set by the Board of Directors. Currently, from the Frost trusts, 5.85% of the average of the previous 12 quarters account balances is distributed and from the Stephens accounts, 3% of the average of the existing quarters is distributed. From the distribution, 55% goes to the Operating Fund and 45% to the Capital Fund.

Mr. Yates reported that the first sale of conservation credits has been made and that another, larger sale is possible soon.

The trusts were discussed, for instance, whether they can be consolidated, whether the Stephens investments should be moved to a trust, and whether a special trust is needed for capital fund needs. The trust structure is a complex legal and practical issue and has been taken up by the governance committee.

Motions:

To recommend the Investment Policy, as amended above, for adoption by the board of directors. The motion was made by Charles Teeple, seconded by Winston Krause, and passed by committee vote.

Market Outlook:

Mr. Cooper indicated that a possible trade blockade of China, or possible health care legislation, or tax reform legislation would have big impacts on the economy. These uncertainties make it impossible to make a confident forecast. Assuming none of those occur, he expects a GDP of 2-1/2% going forward, small

Fed rate increases, crude oil from \$45 to \$65, and that the equity markets are fully priced and won't increase without earnings increases

Adjournment: There being no further business, the meeting was adjourned at 1:15 PM.

Respectfully Submitted



Jon C. Yates, Scout Executive