MINUTES

A meeting of the Boston Public Library Trustees Finance and Audit Committee was held on Tuesday, March 7, 2017, 8:00 a.m., Boston Public Library, Central Library, Commonwealth Salon, 700 Boylston Street, Boston, MA 02116.

Present at the meeting were: Finance and Audit Committee Chair Evelyn Arana-Ortiz and Committee members Representative Byron Rushing, Zamawa Arenas, and John Hailer, and President David Leonard.

Also present were Boston Public Library staff including Chief Financial Officer Ellen Donaghey, and Clerk of the Board Pamela Carver. Other library staff were Sean Monahan, Supervisor of Accounting and Jane Sproul, Budget and Procurement Manager. Mr. Sebastian Grzejka from New England Pension Consultants attended as well members of the public.

Ms. Arana-Ortiz, Chair of the Trustees Finance and Audit Committee (“Committee”) presiding, called the meeting to order at 8:10 a.m.

Ms. Arana-Ortiz asked if the trustees had edits to the draft minutes of the February 13, 2017 meeting. With no comments, upon motion made and duly seconded, Minutes of Trustees Finance and Audit Committee Meeting of February 13, 2017 were unanimously approved.

Ms. Arana-Ortiz next called on Chief Financial Officer, Ellen Donaghey for Proposal Review and Recommendations to the BPL Trustees. Ms. Donaghey reminded the Committee that they discussed at their last Finance and Audit meeting but never took a formal vote to extend the firm CliftonLarsonAllen’s contract for another year as the BPL’s independent auditor. She noted that it was recommended in light of BPL Foundation changes, that it wasn’t prudent to change auditors at this time. Mr. Hailer suggested it may be a good idea to review contracts every three to five years and several of the other members agreed to put this out to bid and go through the RFP process next year for the BPL’s perception sake. Upon motion and duly seconded, the Committee

VOTED: that, the Trustees Finance and Audit Committee recommend the Trustees of the Public Library of the City of Boston vote to extend the contract for Annual Independent Auditing Services with CliftonLarsonAllen, LLP, for one year through June 30, 2018 to allow completion of FY17 audit.

The meeting next moved to the vote to establish the “Alice (Davis) Schiesske Fund”. Ms. Donaghey explained that 5 years ago, Robert Schiesske informed the Library that he intended to create an endowment at the Library in his mother’s name in his will. Mr. Schiesske told the
Library he intended for the funds in the Alice Davis Schiesske Trust to be used for access and innovation. We have received the first distribution of $70,000, allowing a $3,500 annual distribution. Ms. Donaghey explained they will learn how much the full distribution will be later. This trust fund will be used to support the sixth principle, “Access and Innovation”, of the BPL’s Compass Strategic Plan. The documentation between Mr. Schiesske and the Library has been reviewed by the City’s Legal Department and the Library believes that the language does allow for flexibility in later years. Upon motion and duly seconded, the Committee

VOTED: that, the Trustees Finance and Audit Committee recommend the Trustees of the Public Library of the City of Boston that David Leonard, President of the Public Library for the City of Boston, or his designee, be and hereby is, authorized to accept a gift in the amount of $70,000 (Seventy Thousand Dollars and No Cents) earmarked for the “Alice (Davis) Schiesske Fund” to be held in trust and administered by the Trustees for the establishment of an endowed fund in support of the Library’s “Access and Innovation” strategic plan. The income to be expended annually, but is not limited to, for providing access to and training in innovative technology, electronic resources, and digital information through its own holdings and its strategic position within the wider world of knowledge, the principal and income be invested and distributed, respectively in accordance with the Board’s Investment Policy Statement.

In addressing the next vote before the Committee, Ms. Donaghey stated it was to establish the Henry A.E. Roman, M.D. and Irene L. Roman Fund. Ms. Donaghey explained that the legal department has been working with the estate attorney to make sure the language establishing the Trust is correct and agreeable to both the Library and the donor. The Roman Fund bequest of two million dollars and zero cents ($2,000,000) is to establish a new fund for the purpose of enhancing and expanding the Library’s Italian holdings and to expand upon the Library’s Italian Cultural programming. Ms. Donaghey explained the BPL’s attorney, Caroline Driscoll worked with the estate’s attorney to broaden the language beyond the original limitation of “Etruscan works.” The Library believes the revised language is broad enough to allow it to be used both for conservation, purchase of items and programming related to its Italian collection. Upon motion and duly seconded, the Committee

VOTED: that, the Trustees Finance and Audit Committee recommend the Trustees of the Public Library of the City of Boston vote to establish the “Henry A.E. Roman, M.D. and Irene L. Roman Trust” for the purpose of enhancing and expanding the Library’s Italian holdings and to expand upon the Library’s Italian Cultural programming. Funds may be used for purposes outlined in the agreement between the Library and the Roman Estate’s attorney, to include: conservation treatment of the Library’s Italian
print collection, digitization of relevant items in the Library’s collection such as Italian medieval manuscripts, acquisitions and public programming, such as lectures by staff and guest curators.

The meeting next moved to discuss the New England Pension Consultants’ (NEPC) Money Manager recommendations. Ms. Arana-Ortiz called on NEPC Consultant, Sebastian Grzejka, to discuss the three companies that they recommended to present to the Committee: Bridgeway Large Cap Value, Diamond Hill Large Cap, and Coho Relative Value Equity. Mr. Grzejka gave a brief overview of the three managers who will present to the Trustees. The focus will be on a strategy to add value and add exposure that is not currently in the portfolio. A portion of the large cap portfolio is currently managed by the Boston Company. He stated while the Boston Company has done relatively well recently, the longer term performance has been slightly behind benchmark. Additionally, the fees charged are high. Mr. Grzejka pointed out that their performance was up 29.6% since last year. Since inception they are behind a bit, 1.5% behind the benchmark.

Mr. Grzejka went on to explain the various approach of each management company. The Boston Company uses a hybrid approach. They take a screening mechanism where they fundamentally use a quantitative style. Bridgeway uses a fully quantitative approach, where they take a top down view. Coho is a bottom up approach style, with concentrated managers exercising a more conviction-based style. Diamond Hill uses a more fundamental, bottom up approach. They have more conservative managers. He explained you will see gaps in their strategies.

The Committee heard the first company, Bridgeway Large Cap’s presentation. Vice President, Bill Higgins of American Beacon Advisors attended in person while Elena Khoziaeva, CFA, Portfolio Manager at Bridgeway Capital Management and Cindy Griffin, Director, Marketing and Client Service at Bridgeway Capital Management attended via conference call. Mr. Higgins started with a brief introduction of the company. He explained that it was established in 1986 where they started with pension management for American Airlines. They currently manage assets of 54 billion dollars. Next, Cindy Griffin and Elena Khoziaeva gave an overview of their disciplined investment approach. All staff has ownership in the company which helps steward the culture at the firm which results in long term tenure. Ms. Griffin explained that their Large Cap investments has consistency over time. Next, Ms. Khoziaeva went on to present their strategy. She said they take a philosophical approach, asking “what is the principle, how we think about executions and set expectations for future.” She stated they have proven over time it is possible to be successful in long term investing. They discussed the various models that they use and choose for various strategies and gave examples. They use three categories: Value, Company Financial Help and Momentum. After the presentation, Trustee Arenas asked “Why should we choose you?” They replied that over a long period of time Bridgeway has shown returns which are important, following markets and consistency, and they are showing big success. Trustee Arana-Ortiz asked about the firm’s succession planning, as Bridgeway is a
majority family owned company. The representatives agreed that is mostly comprised of the founding company, Chief Financial Officer, friends and family. The owner is active in the plan today and will continue to do so, however Bridgeway does have a succession plan. The ownership would be controlled by partners and would always be controlled by that work for the firm. The first presentation ended at 9:00 am.

Then next presenters were Matthew Stadelman, Senior Portfolio Specialist and Faith Stevenson, Director of Institutional Business Development of Diamond Hill Large Cap Managers. Ms. Stevenson explained their strategy and stated that their employees are required to only invest in Diamond Hill. This ensures they are committed to the investment strategy. Diamond Hill has 20 billion total investments but 100 million in large cap. They are an employee owned company (25%) which offers long term intrinsic value. They employees are compensated on the results. They consist of one hundred twelve employees, forty eight of whom are on the investment team. They have a low rate of employee turnover. Next, Mr. Stadelman discussed the process. He said the intrinsic value philosophy they use goes back to Benjamin Graham, a proven investor who has written two of the founding books in investing. His investment philosophy stressed investor psychology, minimal debt, buy-and-hold investing, and buying within the margin of safety. As a side note, he looked up both books in the BPL card catalog and both are here and active.

They identify companies they want to work with by their margin of safety, because they never know how they will perform, they build in risk control in the event things unfold differently. The managers look at the people and price when looking at a business. Does it have positive cash flow? The people need to be strategic thinkers and be good capital allocators and wait for the right price. He talked about his team of 30 individuals that are dedicated to research only. It reflects the commitment they have to the research and that they don’t do analysis as a stepping stone. Mr. Stadelman gave several examples of some clients that have proven results and showed they are in the 1% among their peers in the last five years. Their focus is on downsizing, and maintaining long term results. They explained the idea is to put their client’s capital behind their best ideas. They tend to hold stock for four years and 10% has been owned for ten years.

Trustee Arenas asked “Why should we choose you?” They answered because most don’t think long term but rather think four to five years. They can add value to the BPL through their consistency and focus of team. Their presentation ended at 9:30 a.m.

The last company was Coho Relative Value Equity. Ruairi O’Neill, CFA, Partner/ Portfolio Manager and John Musser, Client Consultant Relations presented to the Committee. Mr. Musser explained that there are two things they want the committee to take away from their presentation. First they are 100% employee owned which allows for the best interest and allows talent and retention. Secondly, they maintain a one investment approach. There are no other distractions.

Next Mr. O’Neill said say that they have two philosophies, to protect and participate. First and foremost they want to protect their clients’ money but target an asymmetric return. He gave
examples of how they do this in various markets. Next he discussed their investment process and how they narrow the universe. They are long term investors of delivering returns in down and up markets. They went on to explain that they care about Balance Sheets and Capital Allocations and research is very important to them. They frequently meet with Portfolio teams because they have a disciplined approach. They don’t ever want to pay too much and avoid value traps. The Committee asked the question “Why should we consider you?” Their response was they clearly have conviction in what we do, they devote their whole lives in this strategy and believe firmly in the company’s investment philosophy of Protect and Participate. They said everyone’s energy is 100 % focused on this. Their presentation ended at 10:00 a.m.

The Committee members then discussed the presentations with NEPC’s Sebastian Grzejka. Mr. Hailer was interested in Diamond Hill. He felt Bridgeway was very standard and Coho had a lot of volatility in it. Ms. Arana-Ortiz expressed her concerns over Bridgeway only having one owner despite having a succession plan. They narrowed the options down to keeping the current investment company, The Boston Company and Diamond Hill Capital Management. The Committee looked at a comparison of the company’s portfolios and risk return charts. After some discussion, the Committee decided to recommend Diamond Hill as their choice for Large Cap domestic equity investments to the full Board of Trustees. Upon motion and duly seconded, the Committee

VOTED: that, the Trustees Finance and Audit Committee recommend the Trustees of the Public Library of the City of Boston award management of the Active Large Cap Domestic Equity portfolio in place of The Boston Company to Diamond Hill Capital Management, 325 John H. McConnell Blvd, Suite 200, Columbus, Ohio 43215.

The Chair asked if there was any new business. They decided to discuss Deferrari Trust in the fall rather than at the May meeting.

Chair Arana-Ortiz asked if there was any Public Comment. David Vieira, President of the Citywide Friends group commended the Committee for the teleconference link used. He stated the clarity was excellent but suggested a little voice projection from the Trustees would be helpful for future meetings.

With no further business, upon a motion duly made and seconded, the Trustees voted to adjourn the meeting at 10:15 a.m.

Respectfully submitted,

[Signature]

Pamela R. Carver, Clerk of the Board