Mesa County FEDERAL MINERAL LEASE DISTRICT
P.O. Box 3039 • Grand Junction, CO 81502
E-Mail: info@mesaFML.org Web: www.mesaFML.org

BOARD OF DIRECTORS MEETING

Date and Time: 1:00 pm on Thursday, May 20, 2021

Location: Home Loan State Bank Community Room (Replay on our YouTube Channel)

Attendees:

Craig Springer

Quint Shear

Dusti Reimer

Janet Rowland

Chris McAnany

Matt Rosenberg

Autumn Schultz

Agenda:

I. Call to Order at 1:01 pm.

II. General Public Comment.

  a. None.

III. Approval of the April Meeting Minutes.

  a. C. Springer made a motion to approve meeting minutes. J. Rowland second. Voted. Approved.

IV. Staff Report.

  a. D. Reimer said the meeting minutes, the May agenda, May meeting details, the May changes to the meeting details, the April meeting video to Facebook and YouTube. The CMU/D51 COVID photos were posted that they shared with us for their grant.

  b. D. Reimer said we had no media to report at this time.

  c. D. Reimer said we have one grant requesting payment. The CMU/D51 COVID Rapid Testing and Deployment grant for $88,400. This was the full amount. The photos they sent have the MCFMLD plaque and they had several photos with them doing tests and testing. They put it to use immediately.

  d. C. McAnany said they had a news article in the New York Times about what CMU did with that and the water testing.

e. C. Springer said it was an amazing piece in the New York Times.

f. D. Reimer said yes, that was good. We have invoices for payment for Dusti Reimer, invoice #158 for $2,690.98, Eide Bailly Invoice #EI01138601 for services for $505.43 and Dufford Waldeck Invoice #25153 for services for $228.00.

g. D. Reimer said the upcoming events- I just wanted to touch base on the June Board meeting date. The meeting date is June 16th. Just in case schedules might be weird. July meeting date is July 21st and our audit, is almost done. I'm shocked actually. It's probably the quickest it's ever been done. Matt and Chris, you'll be getting a letter from him/us. Then we should have a draft ready to go and we'll do our MD&A, and we should be ready to go by June, but we'll have it all done and ready to go to the State by July 31st.

h. J. Rowland made a motion to approve the staff report. C. Springer second. Voted. Approved.

V. Review of Financials.

a. D. Reimer said there was nothing too glamorous. Our total bank balance is $924,868.15. Permanent fund ending April 30th showed $2,117,929.35. Our invoices were paid for accounting fees and contact services, dues and memberships. Our grants outstanding show the same. Colorado Mesa University will be paid off this next time, so our outstanding grants are City of Fruita, Lower Valley Fire Protection District and City of Grand Junction Police Department. The budget to actual not a whole lot has changed.

b. C. Springer made a motion to approve the financials. J. Rowland second. Voted. Approved.

VI. Annual Review and Discussion of the Investment Account Investments and Investment Policy.

a. M. Rosenberg said I'll go through pages quickly for the interest of time. The first page is page four, and it shows that the current balance as of market close last Friday. The two things I'll point out is the total gain is actually really good since inception with $527,764. The investment policy asks for a comparative benchmark. I don't tend to pay a lot of attention to them. Benchmarks have a lot of issues with them, but it is good from time to time to look at that. This shows an annual since inception returns compared to benchmark is a 55% equity. We've outperformed that. That's not the goal of an advisor, we've been sitting at a higher equity allocation since inception. Since March 12-17, we rebalanced the portfolio. That's where we bought into more stock and sold off bonds, when stock, was down. That was a nice boost to the portfolio. We've also been more strategic with bonds, rather then the bond index. One of the changes was to get the treasuries out of the portfolio as much as possible. We used to own aggregate bond fund. Most are 45% treasuries. I don't want, after March/April last year, any treasuries in our portfolio. We replicated those bond sectors by finding sector funds, not the agg to get them out of the portfolio which has helped for some out performance. I don't think month to month or even quarter to quarter we're trying to find winners.

b. M. Rosenberg said the next page shows the income of the portfolio. It's about a 1.5% yield. We're expecting $31,000-$32,000 for this year. You have a couple benchmark yields the S &P is 1.35%. The ten-year treasury is 1.63%. The fixed duration of the bond portfolio is 2.6 years which is really short considering. The last one, page six, has the standard deviation, which is the risk. The volatility of the portfolio which is risk. We have 10.3% which shows a moderate risk target. It shows the MWRR of 10.8%. This shows the asset class as well. I think the 10.8% standard deviation, we'll talk about. In your IPS you actually reference a 15% and I Think that's one of the things we might add clarity one, if we're going to make changes to the IPS.

c. M. Rosenberg said the next slide is the most important. It shows the scatter plot. On your left is the return of the portfolio, on the bottom axis is the risk. The returns are all relative to the risk. As you move a portfolio from moderate to very aggressive, the more risk the more return. As you move from conservative to moderate to aggressive you create a curve, because the more risk could mean more return. This shows we've done a good job of this. There is definitely higher return above that curve, but there isn't more on the left. We have it balanced right where it should be. What would be not good, say that green box in the southeast, would be bad. You took more risk and got less return than the asset class. I like this chart. I look at this regularly to make sure we're staying in there. We're currently at 62% equity. Our IPS restricts us to 65%. We were above 65% at one point, and unfortunately, we had to rebalance and we're back around 62%. I say unfortunately, because equities have gone up since then. I rebalanced to get back to 60%. We've come close to getting back up there, but we've backed down. If it gets higher than 65%, then we'll rebalance to get back down there. The last slide are the fees. I want those up there to make sure we're transparent. Our fee is 0.8%. Additional fees to the portfolio fund fees are about 0.075%. So, your total portfolio fees are about 0.875%, which are right in line with fees. That's what I have for the portfolio. I'll pause to answer any questions, if there are any.

d. M. Rosenberg said the economic update. You guys read the news. I'll try to keep it high level. The market, if you're talking about stocks, is a supply and demand. I hear this all the time; things have got to come down. I never want to say yes, absolutely, because there has to be half of the people saying I want to buy in right now. I'll start with what could make the market go down. First is the news a few years ago where unemployment data ticked up. Which was surprising. The most alarming was the jobs report. We were expecting one million jobs added and it was only 266,000. That was a huge miss. That sent the market reeling. That's where the volatility has come from the last few weeks. This is a theme you're familiar with. People are being paid not to work and it is going to be hard to fill those jobs. I've never seen anything like this.

e. J. Rowland said did you hear what the governor announced today? He's giving people $1,600 for people to go to work.

f. M. Rosenberg said I did see that. I'll leave my opinion out of it. But that's interesting. How are we going to get the jobs filled when they make more money not working? There is a plan to eventually taper out of that in the next three to four months. We have a lot of back log now in manufacturing and shipping. How that backlog gets worked through is what remains to be seen and that is why I have it listed as a risk. The second one is the government transfer payments, which is kind of the same thing. You have 40% of personal income is government transfer payments.

g. Q. Shear said 40%?

h. M. Rosenberg said 40%. I looked up the definition of government transfer payments and it said it is the government paying for something they don't receive a good or service for. It's just the government saying here is some money. It is now 40% of incomes. Again, how do you get down from that? So that's another risk. The third is the tax hikes. I put two slides that talked about the major ones. The one is more relevant is the corporate income tax. Increasing that tax from 21% to 28% and taxes on people who keep manufacturing and stuff overseas. Last time, when Trump lowered the tax rate from 35% to 21%, we got a 10% bump in the stock market right away. If this isn't going back to 35%, you could probably see a 7-8% stock market immediate decline as a result. But that would also be a temporary one year. Those are why I see some risks. Some positives though, is increased money supply. Page 50 shows the M2 money supply in the US. If you look at it, it has increased a ton from 2020 to now. That's from the stimulus. If you took a dollar out of your pocket, 30cents of that was printed in the last 12 months. This does not include the transportation bill. That would obviously go up even more. The outcome of that is inflation. The other positive household savings is at an all time high now. With all this pent-up savings, when the economy opens up, spending could be gang busters. The blended yield on the bond portion is about 2%, if the projections for inflation are 2.6% for the next five years. Bonds have really gone from being a source of income to being a stored value. There is a cost to that stored value now. We should be looking to increase the stock portion of the portfolio, considering the goals of the district. I'll pause and make sure there is no questions.

i. M. Rosenberg said his recommendations moving forward is to stay at our maximum equity allocation and keep bond durations short. We can look at, like we said before, if you look at S & P 500 for equity the dispersion of the stocks is really broad. In the S & P 500 you have Tesla. It's trading 17 times sales. That's crazy numbers. Then you have companies like Chevron and Xcel that are two times sales. If we go in with our index approach. Right now, I'm having to drink everything. I don't get to pick and choose. If we can customize our equities allocation, I think we can get it more appropriate for the goals of the district, which would be more energy and utilities and less tech. Even within those sectors there are broad dispersion. You have a casino and cruise ship, but then you also have Apple. You can refine the portfolio to make those goals, rather than take them all in big broad swoop. The IPS specifically, if I go to the financial plan review, we did this right when we started. We wanted our goal to be to draw one million dollars every year without significant principle reduction. At that time, yields were higher. We would need $66 million dollars before you could draw out from dividends and interest and know you're still endowed. That implies $23-$25 million. If we truly want to stay in perpetuity, we're under endowed in equities. You would need to be fully in equities. That's were inflation hedges with growth. When you look at the endowments for the foundations that are permanently endowed, they are almost all equity. The only thing different they have been alternative assets like hedge funds or direct investments Is about 30% allocations. The Yale model is 70% equities and 30% alternative. The Colorado Statues 24-51-206 that limits us to 65% equities. This is the one I would recommend changing. There is this other clause I highlighted at the bottom that needs some clarifying. Establish the annual risk tolerance for unrealized losses to be less than 15%. So, originally, I interpreted that as a 15% annualized standard deviation was the goal. And we've definitely stayed less than that. A typical moderate portfolio is around 7-8%. The only reason we're at 10% is because of the craziness of March and April of last year. We had some days that were 10-12% single equities day. If this is to be interpreted to be there is a 15% draw down, in other words we don't want the portfolio to go down 15% from the previous water mark. That would have implied we would have needed to sell out everything at the bottom. I think that's a risk we don't want to take. That's a call out that pulls us out of the market. That's worth clarifying. My last comment, on the IPS, in general. The investment policy statement is just guidelines for what are we doing here and what is our goal. What is ok, what isn't. What kind of risk do we want. I think we've legalized this too much. We have Colorado statues in there that are saying we have to be bound by this. I think that runs the risk to both of us, the board and the me as an investment advisor, of getting caught in some minor state statue of old railroad equipment trust certificates and stuff that wasn't intended of what we're trying to do. Plus, those change and sometimes they aren't made available. I guess making the investment policy, just plain English, is my recommendation. We can help with that.

j. C. Springer said 25% of this portfolio is in international bonds and stocks. There is a dual risk factor, you can be right and still be wrong, why is a federal mineral leasing district in Mesa County, Colorado, taking those two risks? Do you understand what I'm saying by those dual risks?

k. M. Rosenberg said I think I do, but if you could just clarify.

l. C. Springer said international equities are at a discount, compared to US equities so theoretically there is value there. But also, those international securities are valued in their home currencies, they are not valued in dollars. So, you can be right in the movement of those markets, but if the currency moves against you, you're still wrong. AT the end of the day, yield is an opinion, but cash is a fact. I struggle with that.

m. M. Rosenberg said that's a common concern I hear. Part of what we're trying to do is create a globally diversified portfolio that covers all those asset classes. They both have positive returns, but there is a possibility that one of them is up 10% and one is up 12%, you're going to hedge by diversifying all the portfolio. Most of the country specific fund, like a Canada ETF or Switzerland ETF. It sounds good, because it sounds like you want dollar exposure to this country. The reason you invest internationally is partly currency exposure. When I look at probability distribution for returns for a US stock it's based on profits and performance. On international stock I essentially have a broader dispersion, because I have an exchange rate with the dollar. Even though that sounds bad, it's actually giving me a lower risk in that portfolio. The other thing is the exchange rate difference is the difference between interest rates and inflation between countries. When a country like ours goes gang busters printing cash, and it's not to say other countries won't do the same, it actually brings down the dollar as well and strengthen the international withholding. I'm actually favorable about the international market. You'll see the Euro and all the others start flooding our economies. It's part of diversifying the portfolio. It's not reducing the return and keeps us on the curve. One more thing, the fixed income piece that's one bond fund the ticker is JPST is 70% US bonds and 30% developed market bond like Canada. If it's below 80% we classify it as an international bond. That's a restriction for you guys to say we don't want this, but I wouldn't recommend it. We would follow that. We've had clients say that.

n. C. Springer said by many metrics are in rarified error with US stock prices and you're asking us to increase our purchases of stocks. At what arguably could be the top, correct?

o. M. Rosenberg said well, yea. I think there is an approach to strategically do that. I wouldn't do that tomorrow. I wouldn't sell the bonds and go buy stocks tomorrow. But if we're really a permanent investment, why would be in bonds. If you're not going to be touching this money, it should be in stocks. Mine, I won't retire for another 20 some years. My portfolio is all in stocks. I'm not touching this money. I have to have the stomach to just watch it fluctuate, like it did last March. In fact, if you're like me and you're saving, you should smile when a market goes down like that. Finally, we don't have to take our new money and buy multiples.

p. C. Springer said so you're saying 65% is not enough, but I'm not seeing what you want it changed to.

q. M. Rosenberg said I think the first thing, before you go there, is to recommit to your goal to be a perpetual investor. Saying yes, we want these funds to last forever and we are not concerned with the volatility. I think that was the comment that founded that graph three years ago. I still feel like there is some nervousness that if the market were collapsed, how would this look, that we lost this money instead of granting it out. I think now, with those profits in there, then the right move would be to go 70-95% equities. Those will get the returns and the inflation hedge and that's where the money goes. One more comment, my clients have an emotional cost, even if they aren't ever going to take that money out. For my institutional clients, it's a political one. The Board of Directors that has a fiduciary responsibility and someone will criticize us if we do this. And that's real. And if we need to keep it where it is, because of that, then we keep it where it is. Just like I have clients that say I'm never going to need this money and I watch it go down by "X" percent, and it causes me to almost have a heart attack, then that's real and we need to keep it more conservative.

r. C. Springer said in my line of work, every disaster that I've witness, goes back to one thing. A lack of diversification. It's just an observation. The lack of diversification gets them every time.

s. M. Rosenberg said he agreed. Every great fortune that has been created was from wealth concentration. Every great fortune that has ever been lost has been from wealth concentration. Diversification in terms of your portfolio, there are two or three funds, but there is almost every stock in the US stock market in there. This is diversified. Even though there are 12 holdings, you are as diversified as you can possibility be. The only thing you don't have is gold and currency and commodities. That's not something you long term investment. You would never want to buy a commodity fund, even in personal, you would say you're doing a speculative funds you'd keep for 6 months, not 30 years.

t. C. Springer asked what his bet would be on the economy?

u. M. Rosenberg said I feel really negative, except I always hear Warren Buffet in my ear saying don't bet against America. This may be a little sentimental I don't want to bet against America. Like I Said, I have 100% stocks in my personal portfolio and I'm staying 100% invested and even thought we're in uncharted territory, it's not the first time. No matter how much I disagree with certain things going on right now, there is another election coming up. We have freedom still. I don't want to bet against America.

v. The Board had no questions.

w. C. McAnany said he prepared a statutory handout for discussion purposes. This is really for informational purposes. The board acts like fiduciary, to weigh risks, to diversify and look at costs and make broad decisions on perimeters. You can delegate a lot to your investment advisor, but ultilmates the buck stops with the Board. The statutory is laid out in the investment act. This sets the duties for trustees of funds, generally, with this PERA overlay. This was drafted over the legislation to give us some guard rails that would be appropriate investment vehicles like this. They settled on what the PERA board is allowed to invest in. As Matt pointed out, some of them aren't really current investments you'd consider or would consider to be strange. We're allow to have investment in real estates.

x. Q. Shear said because people get real estate gifted to them.

y. C. McAnany said our policy has been crafted and checks the boxes and we do more than what the state law requires. Matt is here almost every month to brief us on performance. If he's not here, we have the monthly statements. We have a very hands-on approach. I agree with the comment that we are an indefinite duration investor like an endowment at an institution, but our money is like an oversized IRA right now. We are limited to how aggressive we can get. That 65% equities are hard boiled into the legislation. If we want to change that, we will have to change the legislation. It is doable, just not in the short term. There is a provision in the law that trustees, or you as board members, need to make reasonable efforts to verify the facts and relevant information. This is the Bernie Madoff factor. It puts a duty of inquiry on you to verify the account balances are there and the investments are there. This investment policy, there is a lot in it. I respectfully differ with Matt a little bit. We have some limitations that are hard baked into our policy by law. That 65% equities are one of those things. It might be prudent to invest more money into stocks, but legally I don't think we can do that. So, we need to respect that. But we do have a great deal of flexibility in what you want to invest in. There are no limitations on oversees equities. But you may conclude that it might not be an appropriate area to focus on. What I was thinking about today, when we talked about this, for you to think about your policy and what you would like to change and give direction to us and Matt. Do we need to change the direction, rebalance, or give more direction as to how to invest that money?

z. J. Rowland asked if we need to make this decision today, because she has to go?

aa. C. McAnany said that decision doesn't need to be made today. This is just a briefing thing. If you have input, we will need to put that in writing and bring it back to you for approval.

bb. Q. Shear asked for email comments between now and the next meeting.

cc. C. Springer said I'm not a huge fan of emails.

dd. Q. Shear said emails for updates for the meeting.

ee. C. McAnany said yes like updates to bring before the meeting next time.

ff. Q. Shear said yes. I think, unfortunately, I've dealt with other money that has had these constraints on it. And you don't have a lot of choice with the PERA overlay and requirements. If this was my personal investments, I would do things differently, but given this overlay, we are limited. Let's send out an email and let everyone review this stuff and see if we have any changes for the next meeting.

VII. Unscheduled Business.

a. C. Springer made a motion to adjourn the meeting. Q. Shear second. Voted. Approved. Meeting adjourned at 1:52 pm.