

**Minutes of the Class of 1958
Perpetual Endowment Board
Meeting on 29 April 2004**

1. General:

The Perpetual Endowment Board (EB) met 29 Apr 04 at the Army-Navy Country Club to review performance of the Perpetual Fund (the "Fund"), allocation of assets, changes in EB bylaws, and related issues. EB Members Ed Weckel, Church Hutton, Lee Miller, Pete Brintnall, and Meg Roosma attended. Andy Andreson, Class EXCOM POC to the EB, also attended. Due to lack of pressing issues, the EB had not met since 8 Nov 02, though EB Members were in contact with each other and with EXCOM Members during that interval. There were no votes taken at the meeting, but changes to the Bylaws were voted shortly afterward (see para. 3, following).

2. General Discussion:

a. Welcome Home Meg Roosma: Ed expressed the deep gratitude of all present for Meg Roosma's service and safe return from Iraq, to which her unit had deployed 11 months. We noted such deployments might impact future EBs, deny us a quorum as older EB Members depart, and require us to schedule major votes around them. Such factors may become more important as the EB shifts to younger Members in the next few years.

b. Performance of the Fund: Ed noted that a lot had happened during Meg's deployment, including a more-than-doubling of the Fund from about \$160K to about \$340K, much of that from gifts in late 02 and 03. The Fund had risen by 28% in 03 alone. He noted that on 4 Jun 54 the Dow had closed at 327; on 26 Apr 74 at 834; and on 28 Apr 04 at about 10,200. In other words, the Dow has risen about 30-fold in 50 years, and about 12-fold in the last 30 years. Those are the kinds of dynamics that the Perpetual Fund is exploiting.

c. Asset Allocation: Church then gave a paper evaluating our allocation of assets among the options Fidelity offers: (1) the aggressive Growth Pool, based on common stocks, (2) the less aggressive Equity Income Pool, based on dividend-bearing stocks, (3) the defensive Interest-Income Pool, based on corporate bonds, and (4) the totally defensive Money Market Pool, based on gold-plated debt. Each is a pool of many mutual funds. Over our 6 years, we have allocated 75% to (1) and 25% to (2). He made several points:

- Despite expectations, option (2) has proven just as volatile and successful as (1)
- Our growth is probably near 6%/year – quite respectable during some bad years
- History shows commitment to growth is key to success, overwhelming all choices
- Over 73 years, (1) above would have produced an estimated 157x the wealth of (4)
- Stock selection and timing make no sense whatever for any perspective >2-3 years
- Volatility can be an enemy in the very short term, but time converts it quickly to a friend, then to the crucial driver of success, because it enables least-cost-averaging
- Inflation threatens all investments, but growth stocks weather it best (i.e., 10x instead of 157x over 73 years); the worst strategy for inflation is to allocate to (3) and (4)
- We have good diversification in our allocations – just what experts recommend
- He listed 8 major uncertainties/risks that we face in our 200-year time frame
- For which we should continue to keep some powder dry, but over that span anything not committed to growth should be considered not as defense but as potential offense

Church concluded that our 75% - 25% asset allocation has been just about right, given the Fund's long perspective, and should be maintained barring major good or bad news. He suggested that if the former occurs we go to 100% growth; if the latter that we go to 50% growth, holding the balance in (2), (3) or (4)); and that the Chairman continue to have full flexibility to allocate within these bands as gifts arrive. He saw Fidelity as an excellent full-time manager of our assets, and said he would oppose any move to change managers.

This presentation re-validated the logic by which we adopted the asset allocation formula years ago. He gave copies of his paper to EB Members but asked that it not be distributed further because the needs of individuals are very different from that of a 200-year Fund. The paper was intended to stimulate discussion, which it did, meeting general agreement. Its recommendations were of a conceptual nature, and not intended to require a vote.

d. Change in EB By-Laws: Pursuant to our last meeting, Lee proposed several changes to the EB Bylaws. The first two would clarify EB disbursement flexibility, to decide:

- Whether to disburse the Fund, and if so how much, to support a possible 08 project at USMA, [Art. III, Section 2, (a)]; and, to agree with that, remove words "...coincident with the first contribution from the Endowment to the Academy" from Article XI.
- Which projects to support at USMA in 2058 and thereafter, to include those projects previously identified by the EXCOM as worthy of support [Article III, Section 2, (b)]

A third change would lengthen Meg Roosma's term as the first EB Descendent Member from 10 to 12 years, to provide continuity during a critical period. As Bylaws now read, she would have to retire at her 10th year, when the EB will have just lost all its original Members and new Members will still be learning duties [Article IV, Section 1 (c)].

A fourth change would incorporate all amendments in a new dated and clearly marked version of Bylaws each time they are changed, so that we do not have old Bylaws with a set of amendments attached to them. Ed suggested that both the Chairman and Secretary sign new versions of Bylaws when they are approved by the EB. That suggestion is in the version of the Bylaws attached to these minutes, to be voted electronically [Secretary's note: to change Bylaws requires that at least 6 Members vote "yes" to each change].

e. Fund-Raising: We concluded by agreeing that the ExCom had created the Class goal of bringing the Fund to \$580K by our 50th Reunion, and that we needed the ExCom to take not only an active role but the lead in soliciting contributions if we are to come even close to that goal by 08. We felt constrained by ExCom attitudes that active solicitation of gifts would rupture Class spirit and was too divisive to risk. Such constraints have made our own EB efforts sub-optimal and gimmicky. Through Andy, we formally asked the EXCOM for re-consideration of policy, and their clearance and support to move fund-raising to a higher plane. After the August March-back, we will want to discuss options with them, such as encouraging last-will-and-testament legacies and other possibilities.

3. Votes:

After the EB meeting, with these minutes and attachments in hand, the Members voted on the proposed changes on the Bylaws electronically between 19 and 27 May 2004, as follows:

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| a. To change Sect. 2 (a): on 2008 disbursement flexibility (1.1)* | Approved 7-0 |
| b. To change Sect. 2 (b): on 2058 disbursement flexibility (1.2)* | Approved 7-0 |

- c. To change Art. IV, Sect. 1, (c): to extend Meg Roosma's term to 12 years (1.3)* Approved 7-0
- d. To change Art. IX: to delete "coincident with the first contribution (etc.)" (1.4)* Approved 7-0
- e. To change Art. IX: on new dated/marked Bylaws each time they change (1.5)* Approved 7-0

*Identifies Addendum Number 1, and Change number

Paul C. Hutton III. Secretary

Attachment: Revised EB Bylaws, Approved and Effective as of 27 May 2004