

# Report on the Peter and Doris Koch Endowment Funds through 2021

July 26, 2022

## To the joint Forest Products Society and Society of Wood Science and Technology Oversight Committee

By the Forest Products Society Investment Management Committee (IMC)

Justin Price- FPS President

Terry Liles- FPS Former President

Bob Breyer- FPS President Elect

Matt Holt- FPS Vice President

Chris Butts- FPS Executive Vice President

Henry Quesada- SWST President

Victoria Herian, SWST Executive Director

### Executive Summary

In accordance with Peter Koch's letter of Intent a joint FPS and SWST Committee was formed to oversee the management of the Peter and Doris Koch Endowment Funds in 2017. Peter Koch indicated that the purpose of the Oversight Committee is "to audit the previous year's actions regarding the three endowment funds" and "rule annually on whether the terms of the letter of intent are being met." On December 31, 2021, the value of the Koch Endowment was \$1,396,706. On December 31, 2020 the value of the Koch Endowment was \$1,208,747. The value on December 31, 2019 was \$983,043. The rate of return for 2021 was an estimated 15.5%. The current value for the three Koch funds as of May 31, 2022 is \$1,311,115. The joint oversight committee met on July 26, 2022 and agreed unanimously that the terms of the agreement are being met.

### Introduction

Peter and Doris Koch provided 3 endowment funds which are being managed by the Forest Products Society using directions in Peter Koch's letters dated April 23, 1996 (attached); July 21, 1997; August 31, 1997 and in the Will of Doris Koch dated November 7, 2017. Peter Koch directed that a joint FPS/ SWST oversight committee review the management of the investments annually after the passing of Doris Koch. Doris Koch passed away in 2017.

As called for in Peter's April 23, 1996 letter of intent (LOI) this report provides – 1) the full letter dated April 23, 1996, and for the three Koch funds, 2) a statement of 2020 transactions, and 3) a statement of the current and past years' net asset values.

The three Peter and Doris H. Koch Endowment funds are

- 1) The Basic Endowment Fund. Peter Koch indicated the appreciation of this fund in excess of inflation during a year may be used for FPS operations. Appreciation (return) during 2020 was 12.6%. Per Koch's direction, we calculated excess funds available from Koch Basic for FPS at \$43,854 for 2020. These funds were moved into a money market account set up by Erik Lawser, Raymond James. While returns in 2021 were significant, 15.5%, these proceeds have not been moved to FPS in anticipation of lower performance expectations for 2022.
- 2) The Intermediate Fund (reinvested every other year – in even numbered years - in 4 stock mutual funds as directed by the letter of Intent).
- 3) The Centennial Fund (reinvested annually in a select set of 4 Dow industrial stocks (4 of the 5 Small Dogs of the Dow as directed by the letter of Intent).

### The current year (2021 year-end) and prior year (2020 year-end) net asset values

The total value of the Koch Endowment on December 31, 2021 was \$1,396,706 and on December 31, 2020 was \$1,208,747. The estimated was return 15.5% for 2021.

The 2021 return for the Basic, the Intermediate fund and the Centennial funds were 9.5%, 24%, and 15.8%, respectively. We compare fund returns to returns for two benchmark investments. For the Intermediate and Centennial funds that are entirely in stocks, we compare return to the Vanguard Total Stock Market Index. For 2019, the return for these two funds were less than the Index, 28.1% and 7.6% versus 30.8%. For 2020, the return for these two funds were less than the Index, 13.6% and -3.9% versus 21.0%. For 2021, the return for these two funds was less than the Index, 24% and 15.8% versus 25.6%

For the Koch Basic fund which is a mix of stocks and bonds, we compared return to a portfolio of 3 Vanguard funds used to meet the IMC Charter guidelines for a conservative, income producing investment.

## **A Statement of transactions for 2021**

Transactions are for January to December for the Vanguard accounts.

### **General Notes on transactions**

This table below represents the gain YTD

Funds	As of May 31, 2022	Year to Date Investment Return
Koch Basic	\$466,586	\$-20,811
Koch Centennial	\$411,755	\$-508
Koch Intermediate	\$432,773	\$-64,272
TOTAL Koch	\$1,311,115	\$-85,591

### **Notes on Basic Fund transactions**

Accounts are directly managed by Raymond James (a.k.a, Erik Lawser).

### **Notes on the Intermediate fund transactions**

The Vanguard 500 Index is always held, and an analysis is done to identify 3 other mutual funds invested in small, medium and large capitalization companies, respectively. Peter Koch indicates that an analysis should be done every other year (we use the beginning of even numbered years) to determine the best stock mutual funds in the small, medium and large capitalization categories for the next two years (beginning in January of even numbered years) using data from Morningstar.com. Peter indicated screening factors in his letters dated April 23, 1996; July 21, 1997 and August 31, 1997.

Vanguard 500 Index Fund; Jensen Quality Growth Fund; Touchstone Mid Cap Fund; Fidelity Advisor Small Cap Fund make up this fund in 2022 where we sold Parnassus Mid Cap Fund; Vanguard Dividend Growth Fund; and Vanguard Tax Managed Small Cap Fund as part of the rebalancing.

### **Notes on the Centennial fund transactions**

The Centennial fund is to be invested at the beginning of each year in 4 of the 5 Small Dogs of the Dow – with the stock having the lowest per share price being excluded.

The 4 Small Dogs of the Dow on December 31, 2021 were Walgreens, Dow, Verizon, Coca-Cola. Changes for 2022 (from 2021) included dropping Cisco and adding Walgreens.

## **Notice in the Forest Products Journal –**

In accordance with Peter Koch's direction in his letter dated April 23, 1996, p. 8, shown below, a notice will be placed in the Forest Products Journal after the July 2022 meeting of the Joint FPS/SWST Oversight Committee.

Subsequent to the deaths of both Peter and Doris Koch, each year following the annual meeting of the Forest Products Society, a brief statement of the objectives of the PETER AND DORIS H. KOCH endowment fund, the result of the annual meeting of the oversight committee, and a tabulation of the current net asset values of the three component funds will be published in the Forest Products Journal.

## **References attached**

- 1) Peter Koch's letter of intent dated April 23, 1996