

March 22, 2021

**TO:** Board of Directors

**FROM:** Molly Myers, Treasurer; Mike Cooper, Chair; Lisa Gaffney, Vice President; Jonathan Tepper, Sonia Trask

**RE:** Investment Advisor Selection

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**BACKGROUND:**

The Reserve Policy Task Force was created at the November 9, 2020 Board meeting to examine and provide recommendations regarding ArtStream's Investment Policy and Reserve Policies. A revised Reserve Policy was sent via email to the board in February for their approval. Minor changes were made to the policy after it was approved by the board, so the board will vote again at the March 22, 2021 meeting on the amended policy.

The Reserve Policy Task Force held a virtual meeting with the current ArtStream investment advisor, Alvin Carlos of District Capital Management (DCM) on December 15, 2020. We learned that ArtStream is the only non-profit client of DCM and the largest account Alvin manages. He relies on his two other partners for investment strategy, yet both of those partners have other full-time jobs. It became apparent to the task force that DCM is not a good fit for ArtStream so the task force decided it is in the best interests of ArtStream to engage a new investment advisory firm.

The task force interviewed three firms. Two of the three are known to task force members. Each of the firms are competent to manage ArtStream's account and each recommended principal investments in exchange traded index funds.

Friese, Phillips, Bock Group  
Merrill Lynch  
Bethesda, MD

Key Bank Wealth Management – Nonprofit division  
Albany, NY

One Day in July/Shelbourne Fiduciary Partners  
Burlington, VT

**PROPOSAL:**

We propose to engage One Day in July (ODIJ) to manage the ArtStream Investment Portfolio that is currently managed by DCM. The ODIJ proposal is attached. The task force selected One Day in July for the following important reasons:

- ODIJ is not affiliated with any large investment banking firm or broker dealer.
- ODIJ understands that investment fees are very important to ArtStream.

- ODIJ charges an annual advisory fee of 0.50% on the market value of assets under management, the lowest of the three firms
- ODIJ manages approximately \$370 million in assets for 470 clients in 29 states
- The two ODIJ advisors who will handle ArtStream's account have long experience in large financial firms

ONE DAY  
IN JULY

SHELBURNE  
FIDUCIARY PARTNERS

# PROPOSAL FOR INVESTMENT MANAGEMENT SERVICES

**ARTSTREAM, INC.**



**FEBRUARY 23, 2021**

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**ARTSTREAM PROPOSAL**  
**ONE DAY IN JULY LLC – FEBRUARY 23, 2021**

**I. Firm and Advisor Background**

- One Day In July LLC (ODIJ) is based in Burlington, Vermont. ODIJ was formed in 2016 by Dan Cunningham. Its team consists of 14 individuals across functions including investments, technology, compliance, finance and business development.
- ODIJ offers investment advisory services to individuals, for-profit and non-profit corporations, endowments and foundations, and state and local governments. The business model is based upon reducing cost and complexity while offering a customized investment and service solution.
- ODIJ is focused solely on investment management. The firm does not bundle investment advisory services with other services such as estate planning, banking, insurance, or tax preparation.
- As an independent advisory firm, ODIJ is unaffiliated with any broker dealer or bank platform. We consider this an important element in avoiding potential conflicts of interest.
- ODIJ employs Charles Schwab & Co. as its custodian for client assets and utilizes investment products from several of the largest providers in the industry, including Vanguard and BlackRock.
- As of the end of 2020, ODIJ has approximately \$370 million in assets under management across 470 clients in 29 states.
- Frank Koster and Josh Kruk bring over 60 years of collective investment management experience, including extensive involvement developing solutions for institutional clients.
- Both Frank and Josh currently and historically have served on the boards of several non-profit organizations.
- Full biographies are available in Section VI.

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**II. Investment Philosophy**

The key tenets of our investment philosophy include:

- **Portfolios should be customized.** Investment solutions should be tailored to the unique needs of each client, taking into account risk tolerance, income requirements and cash flow needs.
- **Controlling costs is critical.** Cost is one of a small number of factors that are almost completely controllable by the investor, and lower costs can have a material long-term impact on performance.
- **A passive approach to security selection is desirable.** Based on extensive research, we do not believe active security selection will consistently beat an indexing approach after fees. Our strategies utilize a variety of exchange-traded funds (ETFs), each of which seeks to track the performance of a particular market index.
- **Diversification and liquidity are significant factors in controlling risk.** The ETFs we utilize provide access to hundreds of different stocks across a variety of industries, company sizes, and geographies. This reduces concentrations, preventing any single risk factor from having an outsized impact on the portfolio's returns.
- **Calibrating, understanding and mitigating the drivers of potential downside risk is critical.** It is essential to have a grasp on the portfolio's potential downside in the event of a large stock market sell-off and to align portfolio risk with the client's ability to absorb market volatility.
- **The primary role of the fixed income allocation is to reduce volatility.** We believe the principal driver of long-term appreciation for most portfolios is the stock allocation. By contrast, the fixed income allocation should provide an element of stability in down equity markets. Therefore, we generally emphasize fixed income securities that demonstrate low correlation to the stock market and avoid the most credit-sensitive areas (e.g., high yield bonds).
- **Unnecessary complexity should be avoided.** We believe investing generally follows the 80/20 Rule, where 80% of the value comes from consistently getting the simplest 20% of the process correct.

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**III. Fees**

- ODIJ charges an annual advisory fee of 0.50%<sup>1</sup> on the market value of assets under management.
- Fees are calculated and deducted on a monthly basis as follows: Prior Month-end Portfolio Value x (0.50% / 12).
- ODIJ does not receive any other direct or indirect fees or commissions in conjunction with the management of the portfolio.
- The ETFs included in the model portfolio proposal have a weighted average annual fee of 0.14%.
- Though there is no guarantee this will always be the case, there are currently no administrative or other fees associated with the maintenance of the custody account at Charles Schwab, and the ETFs utilized by ODIJ can be traded commission-free on the Charles Schwab platform.
- The hypothetical example below illustrates the impact of fees on a portfolio's balance over time:

<b>Year</b>	<b>0.5% Fee</b>	<b>1.0% Fee</b>	<b>1.5% Fee</b>	<b>2.0% Fee</b>
0	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
1	\$ 632,843	\$ 629,700	\$ 626,571	\$ 623,456
5	\$ 783,202	\$ 763,945	\$ 745,154	\$ 726,818
10	\$ 1,022,341	\$ 972,687	\$ 925,424	\$ 880,440
20	\$ 1,741,969	\$ 1,576,865	\$ 1,427,350	\$ 1,291,959

Assumes no cash flows into or out of the portfolio and a consistent 6% annual return before fees, with fees deducted pro-rata from the return on a monthly basis. For illustrative purposes only and does not reflect actual portfolio results.

1. The standard ODIJ fee schedule is 0.50% on the first \$2.1 million of client assets, with weighted average fees gradually decreasing for amounts above \$2.1 million.

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**IV. Service Model**

- Service is customizable based upon ArtStream’s needs, and investor education is a fundamental component of our service.
- Frank and Josh will be the direct contacts for the ArtStream relationship, and ArtStream personnel will have their cell phone numbers.
- We are available for in-person or remote attendance at Board meetings as needed. We are also available upon request for other calls or meetings.
- Charles Schwab portfolio reporting is available on a monthly basis, typically within a few business days of month-end. Clients also have online access to their portfolios on a daily basis through Charles Schwab.
- ODIJ is able to provide additional customized reporting or analysis for Board meetings or in response to ad hoc requests.
- For non-profit boards in particular, communication is tailored to meet the varying levels of experience and market knowledge across the membership.

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**V. Portfolio Recommendation & Rationale**

***We are proposing our environmental model, a diversified stock and bond portfolio that includes reduced exposure to companies that own fossil fuel reserves and to sectors with large carbon footprints.***

**Objectives**

- To work closely with ArtStream to establish and maintain a solid financial foundation that balances near-term operating needs with long-term infrastructure and programming needs.
- To demonstrate a level of stewardship for the Reserve Fund assets that engenders confidence from the donor base and encourages additional donor support.
- To build a portfolio of low-fee, diversified, and highly liquid index ETFs that provides growth potential for the Reserve Funds without absorbing excessive market risk.
- To dynamically rebalance and re-evaluate portfolio allocation targets as needed based on changes in ArtStream’s circumstances and operating needs and changes in market conditions.

**Recommendations**

- Keep the portion of the Operating Reserve Fund allocated to cash in a separate account outside of the investment portfolio to avoid incurring fees.
- Invest the Opportunity Reserve Fund in a diversified mix of stock funds and high-quality bond funds with a target of 60% stocks and 40% bonds. This mix allows for growth in principal while maintaining some protection against large stock market drawdowns.
- Weight the majority of the stock allocation to large-cap U.S. companies to provide a strong foundation for earnings growth and dividend income. Supplement that with an allocation to mid and small-cap stocks to further diversify exposures and add another element of long-term growth potential for the portfolio.
- Invest 10-15% of the stock portfolio in non-U.S. companies to provide geographic diversification and exposure to faster-growing economies such as China.
- Limit the bond allocation solely to investment-grade securities that offer a buffer against stock market risk.
- Spread the bond exposure across a mix of short, intermediate and long maturities. Shorter maturities are less volatile and are a good source of near-term funds should withdrawals from the portfolio be required. Intermediate and longer maturities exhibit greater price volatility but have tended to perform better in stock market downturns.



# ARTSTREAM PROPOSAL

## ONE DAY IN JULY LLC – FEBRUARY 23, 2021

### Stock Index Funds

Initial Allocation: **60%** of invested assets, broken down as follows:

**ESGV Vanguard ESG U.S. Stock ETF (35% of stock allocation / 21% of total portfolio)**

Invests in a broad array of over 1,400 U.S. large, mid and small cap companies. The portfolio is screened for certain environmental, social and governance criteria.

**VONG Vanguard Russell 1000 Growth ETF (10% / 6%)**

Invests in over 450 growth-focused companies in the U.S. Exposure is primarily to large-cap companies.

**IWP iShares Russell Mid-Cap Growth ETF (8% / 4.8%)**

Provides exposure to approximately 350 medium-sized growth companies in the U.S. Growth companies often exhibit higher rates of earnings growth than value companies, but may also exhibit greater volatility.

**IWO iShares Russell 2000 Growth ETF (8% / 4.8%)**

Provides exposure to over 1,000 small cap growth companies in the U.S. Growth companies often exhibit higher rates of earnings growth than value companies, but may also exhibit greater volatility.

**VIOV Vanguard S&P Small-Cap 600 Value ETF (6% / 3.6%)**

Gives access to approximately 450 small-cap value companies in the U.S.

**VSGX Vanguard ESG International Stock ETF (12% / 7.2%)**

Invests in a broad array of over 4,000 large, mid and small cap companies in developed and emerging markets outside of the U.S. The portfolio is screened for certain environmental, social and governance criteria.

**VNQ Vanguard Real Estate ETF (6% / 3.6%)**

Provides asset class diversification through exposure to approximately 180 large real estate investment trusts across different sectors of the economy (health care, apartments, offices, storage facilities, etc.).

**VGT Vanguard Technology ETF (3% / 1.8%)**

Invests in over 300 U.S. companies of various sizes in the Technology sector. This is a growth-focused fund.

**VDC Vanguard Consumer Staples ETF (4% / 2.4%)**

Invests in large, medium and small sized U.S. companies in the Consumer Staples sector. These are often value companies with a relatively high dividend yield.

**VHT Vanguard Health Care ETF (4% / 2.4%)**

Invests in over 400 U.S. companies of various sizes in the Health Care sector.

**KBWB Invesco KBW Bank ETF (4% / 2.4%)**

Invests in large national and regional banks in the U.S. These companies generally exhibit a relatively high dividend yield.

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Bond Index Funds

Initial Allocation: **40%** of invested assets, broken down as follows:

**IEI     iShares 3-7 Year Treasury ETF                    (10% of bond allocation / 4% of total portfolio)**

Provides exposure to a laddered portfolio of U.S. Treasury securities with maturities ranging from 3 to 7 years.

**IEF     iShares 7-10 Year Treasury ETF                    (20% / 8%)**

Provides exposure to a laddered portfolio of U.S. Treasury securities with maturities ranging from 7 to 10 years.

**TLT     iShares 20+ Year Treasury ETF                    (10% / 4%)**

Provides exposure to a laddered portfolio of U.S. Treasury securities with maturities of 20 years or more.

**EAGG   iShares ESG US Aggregate Bond ETF                (30% / 12%)**

Provides exposure to the broad U.S. investment grade (BBB rated or better) bond market. The portfolio is screened for certain environmental, social and governance criteria.

**SUSB   iShares ESG 1-5 Year Corporate ETF                    (30% / 12%)**

Provides exposure to U.S. investment-grade corporate bonds with maturities ranging from 1 year to 5 years. The portfolio is screened for certain environmental, social and governance criteria.

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**VI. Advisor Biographies**

**Frank Koster**

Prior to joining ODIJ in 2019, Frank was CEO of Vermont Works, a startup private equity company focusing on growing Vermont’s economy organically. Prior to that, Frank was Head of U.S. Fixed Income for Aegon/Transamerica. Frank joined Aegon after serving as the Chief Investment Officer at Dwight Asset Management starting in 2009. He has just over 40 years of capital markets experience, including stints at several major financial services and Wall Street firms.

Frank serves on the Board of Directors as Treasurer for the Lake Champlain Maritime Museum.

**Josh Kruk**

Josh joined Frank at ODIJ in 2019 after a stint as Deputy Chief Investment Officer for National Life Group. Prior to that, Josh was a Managing Director for Goldman Sachs Asset Management, where he was the Head of Stable Value Portfolio Management and one of the lead portfolio managers for the firm’s exchange-traded funds. Josh also spent 12 years in a variety of roles at Dwight Asset Management, the most recent of which was Head of Portfolio Management. Josh is a CFA charter holder, has a CPA license and holds a certification in Sustainability and Climate Risk from the Global Association of Risk Professionals.

Josh serves on the Board of Directors for the Vermont CFA Society and Kayla’s Directory, a non-profit started by his wife with the mission of enriching the lives of special needs children in Vermont.

Frank and Josh bring over 60 years of combined investment experience and have led or been a key part of teams that have managed in excess of \$100 billion in institutional assets. In addition to portfolio management, they have significant experience in institutional risk management, trading, client service, and compliance.