

BHSN Band Booster Executive Decisions –June 24, 2014

The officers and directors, via email, have decided to move some money from CD's to investment accounts, since CD interest rates are so low these days.

Also, the truck restickering project has expanded to include cleaning and painting. The total cost of about \$7000 has been approved.

Emails from Jeff Main

7/24/14:

Finding investment alternatives that yield something in this interest rate environment is a challenge for everyone right now. This problem can be especially tough for non-profits because we all feel a duty to be very conservative with an organization's money, and we don't necessarily want to think about risk the same way we might with our own personal money (especially long term money). On one hand, to get any kind of yield and total return we have to be creative as to the kinds of assets we consider. On the other hand, if we buy something with a long duration until maturity or much greater risk, we may pay for it in another way later when interest rates begin to rise or that high risk backfires.

The two mutual funds I've suggested you consider each take a different approach to the problem:

As the fact sheet says, the Western Asset Management Short Duration High Yield Fund seeks higher current income while minimizing risk from changing or rising interest rates (which we really believe is around the corner). The majority of the assets are invested in corporate bonds, many with floating or adjustable interest rates. The average length until maturity of the fund's holdings is only 2.7 years. Most of the corporations who have issued these bonds have credit ratings below the best and highest rated companies out there. In some environments (eg when the economy was weak enough to cause default rates to rise) this would concern me more than it does currently. Default rates are extremely low across the board, and I expect them to remain low for some time.

The Wells Fargo Absolute Return Fund takes a different approach. Rather than investing all in bonds with fixed or floating interest rates like the Western fund and others, this fund spreads the money around tactically between bonds, dividend paying stocks, real estate trusts, and other assets. It's goal is to get a positive total return with an emphasis on capital preservation. So in a year when stocks are up nicely, this fund will likely lag behind (eg it was +6.27% in the last year). On the other hand, it is expected to hold up relatively well if and when markets get hard.

As for risk or volatility, both funds will have their ups and downs - returns on funds like these are not guaranteed and not FDIC insured. But both of these are managed with the idea of generating good single digit returns with an emphasis on preserving capital when it gets hard. I think a blend of the two would be a good option for money the band boosters board thinks will likely be appropriate for that risk tolerance and return profile.

I have recommended using Class C shares of the funds, because that preserves the most flexibility for

you going forward and it avoids any up-front sales charges or loads being charged on purchase. If money is withdrawn within 12 months, they will charge a 1% back end fee, as I explained to Tania. However, beyond that 12 months there is no charge to withdraw and you have maximum flexibility to change courses later - if you want to switch to a different investment, go back to CD's, spend some of the money, etc.

As for the fees, I have recommended Class C shares of both funds. This will accomplish a couple things for the Boosters:

- No up-front sales charges at all
- **No charge on withdrawals, as long as you wait 1 year** (inside of 1 year of purchase the mutual fund will charge 1% of withdrawn amount)
- A great deal of future flexibility to switch to other investments or back to CD's when you deem it preferable
- No other required length to maturity

7/26/14:

Every mutual fund out there has built in internal expenses – 12b1 fees, if you are reading the prospectus – and these two are no exception to that. These charges do NOT appear on a statement or as activity – the fund simply deducts the cost out of the value of each share on a quarterly basis. The Western Asset Management fund's net annual expense ratio is **1.75%**, part (1%) of which comes back to Hilliard Lyons and me as our service fee. The net expense ratio on the Wells Fargo fund is **2.37%** per year (same 1% back to HL). These “pay as you go” expenses are a bit higher than they would be if we used Class A shares of the same fund, but with Class A you have an up-front sales charge that can be as much as 5.75%. If it were expected to be a longer term investment it might be worth going that direction, but I feel this preserves the maximum flexibility for your group going forward.

Jeff Main
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Email from Tania Gardner, Treasurer - 7/25/14:

CD values are as follows:

Endowment CD value \$46,592.66 (Interest earned last year \$125, this year, \$76)
Uniform Trailer CD value \$36,945.74 (Interest earned last year \$97, this year \$60)

In addition the board voted to move the following over the past 2 years:

End of Fiscal 2012: \$5000 to Trailer, \$544.65 to Endowment

2013 \$5000 to trailer, \$4,600 to Endowment

7/1/2014 \$5,000 to Trailer + 5,000 to trailer on 6/30/14

Balance in Trailer/uniform should be \$51,945.74

Balance in Endowment should be \$51,737.41

I suggest we reinvest all of it with Jeff. My suggestion would be to have each fund invested in both of Jeff's suggested investment options.

I think we can pay for trailer repairs [painting and restickering] out of savings. Current balance is \$47,000. We have only dipped in savings in the past 2 years to move money to the Trailer or Endowment funds but have not touched it otherwise.

Balance in checking is currently at \$34,000. Lows were in Nov and April when it dipped to around \$10,000.

In executive session July 25, 2014, the BHSN Band Boosters have conducted the following business:

Treasurer Tania Gardner made a motion, and Director Janis Stockhouse seconded the motion, to move the proceeds from two CD's formerly held at ONB into two mutual funds as proposed by Jeff Main, Sr. Vice President and Financial Consultant at Hilliard Lyons:

Western Asset Management Short Duration High Income Fund, Class C (LWHIX):
Fact Sheet

<https://individualinvestor.myleggmason.com/portal/server/gateway/PTARGS_0_35566_1_3518_1568_71147_43/http%3B/indinvserver%3B8400/indivPortletWebApp/document/s/product_fact_card/D7241-western-asset-short-duration-high-income-fund.pdf>

Summary Prospectus

<<http://hosted.rightprospectus.com/LeggMason/Fund.aspx?cu=52469F630&dt=SP>>

Wells Fargo Absolute Return Fund, Class C (WARCX)

Fact Sheet

<http://a584.g.akamai.net/f/584/1326/1d/www.wellsfargoadvantagefunds.com/pdf/factsheets/FactSheet_AbsoluteReturn_Retail.pdf>

Summary Prospectus

<http://a584.g.akamai.net/f/584/1326/1d/www.wellsfargoadvantagefunds.com/pdf/prospectus/summary_absolutereturn_ac.pdf>

Voting in favor of this motion are:

President Janis Parker

Vice-President Erin Wager Miller

*Treasurer Tania Gardner
Director Janis Stockhouse
Director Tom Wilson*

*Undetermined votes are:
Assistant Treasurer Moira Wedekind
Secretary Lisa Ensman
Past President Mark Bisesi*

The motion carries by simple majority.