FAIRLINGTON GLEN COUNCIL OF CO-OWNERS
March 11, 2025 Board Minutes
Online via Zoom

ATTENDEES: Charlie Robbins (President), Maynard Dixon (Treasurer), Seth Theuerkauf (Secretary), Jeremy Wiedemann (Vice President), TJ Doyle (At-Large Member), Amy Steliga (On-Site Manager, Cardinal Management).

CALL TO ORDER: The meeting was called to order at 6:30PM by the Vice President via Zoom.

SPECIAL TOPIC:

At the February 2025 Glen Board Meeting, the Board requested a presentation by a representative of Morgan Stanley focused on opportunities for investing a portion of the Glen's reserve funds into higher yielding investment instruments. At this meeting, Mr. Bill Worsley, a Glen Co-Owner (Court 13) and Certified Financial Planner, presented an alternative to the equities managed-account investment plan offered by Morgan Stanley.

Mr. Worsley recommended that the Board regularly invest pre-determined sums into an index fund offered by Vanguard (e.g., the total world stock market index fund, VTWAX). Mr. Worsley argued that such index funds have lower fees, perform better than managed accounts offered by brokerage firms, and involve no more Board attention than funds managed by brokers. He supported his presentation with an extensive PowerPoint presentation that is included below as Appendix A.

The Board posed several questions to Mr. Worsley around logistics of setting up such an account and Glen investment policy changes that would be needed to ensure durability of an investment strategy of this nature. Generally, the Board indicated support for further evaluation of an investment option more aligned with the proposal from Mr. Worsley.

RESIDENTS' FORUM:

Residents attending: John McKennan (Court 12), Laura Chadwick (Court 8), Deborah Sanchez (Court 8), Dianne Altuna (Court 13), Michael Schneider (Court 5), Lori Derkay (Court 12), and Bill Worsley (Court 13). Jay Yianilos (Glen Echo Editor).

John McKennan expressed support for the presentation provided by Mr. Worsley on investment options for a portion of the Glen's reserves.

Laura Chadwick (Court 8) and Deborah Sanchez (Court 8) provided a brief presentation describing the parking lot condition issues present in Court 8 and advocated for a full replacement of the parking lot versus further repair work. Given the issues identified and described, the Board concurred with a need to explore costs associated with a full parking lot replacement in Court 8 and directed the On-Site Manager to work with REI to generate a cost estimate (more information included below in the Treasurer's report). The Vice President expressed concerns for the potential redirection of water associated with a full parking lot replacement in Court 8 and encouraged the On-Site Manager to ensure REI rigorously evaluates any needs for regrading as part of their design work.

Dianne Altuna (Court 13) and the On-Site Manager provided an update on the status of the voluntary Glen Emergency Contacts database in development and managed by the On-Site Manager. The On-Site Manager indicated that there have been responses from community members and that the database is actively being populated with information voluntarily shared by residents. The President asked the Glen Echo Editor to include the notice about the Glen Emergency Contacts database in the next 2 issues of the newsletter, and the Vice President recommended the notice be shared regularly given the flow of residents into and out of the Glen.

BOARD MEETING MINUTES:

03.11.25.01 Motion. Moved to approve the meeting minutes from the February 11, 2025 board meeting. Motion passed unanimously.

BOARD MEMBERS' REPORTS:

President –

The President shared that the Glen has successfully made it most of the way through the winter season and we look forward to the spring. The spring season will include new plantings, and we look forward to the Landscape Committee helping us to address our borders with King Street and Quaker Lane. Despite many challenges facing our community economically, the Glen continues to maintain progress and remains on budget.

Vice President –

The Vice President expressed appreciation for the special presentation provided by Mr. Worsley on investment opportunities for a portion of the Glen's reserves and indicated receptiveness to further exploration. He recognized that this option will require more hands-on work to set-up and ensure a process and policy is in-place to assure its long-term success, but acknowledged that many of those same steps would still be required if we opt for the pathway presented by Morgan Stanley.

Treasurer –

03.11.25.02 Motion. The Treasurer moved (a) to reject REI's proposal for administration of our next round of parking lot work in Tab 5 of the March 2025 Management Report and (b) to delegate administration of this round to the On-Site Manager.

The Treasurer noted that the work will take place in Courts 3, 5, 10, 12, 13, 15, and 16 (with perhaps the addition of late discovered spot projects in other courts). There will be no replacement, realignment, or large-scale milling-machine work that would be charged to reserves. Just crack and hole filling, seal coating, and striping.

The Treasurer argued that (1) REI's proposed fee fer the work the fee that REI proposed for this work seems much too high for the work that is to be done and (2) Amy is more than able to oversee this particular project from start-to-finish, i.e., with no need for engineering involvement by REI.

Motion approved unanimously.

In responses to a group of residents from Court 8 seeking a full replacement (down to the dirt) of their parking lot, rather than the more limited scope of repair work for which we have recently contracted, the Board agreed to investigate the matter.

In response, the On-Site Manager was asked, first, to halt any work from beginning in that court and to request an estimate of the expense that would be saved by backing that more limited repair work out of the contract. The On-Site Manager was then asked to contact REI and get a rough estimate of what a full replacement would cost, including engineering fees. The Board would then make a final decision. Court 8 residents argued that a full replacement would not be as expensive as recent replacements of larger courts.

03.11.25.03 Motion. The Treasurer moved to postpone the next proactive batch repair cycle, which will involve Courts 5-8, from the 2026 budget to the 2027 budget. The Treasurer argued that:

a) This would greatly help us to limit any dues increase that would be required by our 2026 budget, which he is now starting to draft.

b) The proactive work is less needed than it was when we first started the cycles, when there was much more catch-up work that needed to be done.

c) We will still be doing any needed spot work, such as repairs to leaky roofs, damaged gutters, and fallen slate.

Motion approved unanimously.

The Treasurer proposed a change our process of approving proactive batch repair work that is proposed by engineering consultants (currently REI). Under his new approach:

a) First, REI would conduct its binoculars inspection. If needed, our crew would help them to take a closer look at a needed section by using our ladder.

b) Before seeking bids, REI would: (1) itemize the observed work that might be needed; (2) prioritize the work according to its importance; and (3) develop ballpark estimates of the cost of the work.

c) REI would then meet with us, fully prepared to separate the work that cannot wait from the work that can wait until the next round, and to give us it's best estimate of how much the former would cost.

d) Only after we approved the work would REI prepare the detailed specs for bid solicitation, and, if we want to pay extra, supervise the bidding recommend a winner, and supervise the winner's work.

The Treasurer explained that, until our latest round involving Courts 1-4, REI would inspect our roofs with a binoculars, itemize all the work that that they thought was needed, prepare specs reflecting this work, and, without meeting with us first, automatically put the specs to bid.

This worked OK until the latest round. Until now, there was much needed catch-up work that unquestionably had to get done soon to avoid bigger problems. Unit costs were lower, and there were fewer budget problems requiring prioritization of the work. The most needed work gradually got done. Occasionally, we blocked or delayed recommended work, as when we abandoned copper strips in favor of softwashing and split the work between years. When we retained REI for the current round, we both assumed that we would continue as before, i.e., with no attempt at advance prioritization. This didn't work out well – we ended-up with a bid for much inessential work, which greatly increased the cost of the work, and we had to REI pay extra just to get a pared-down bid from the contractor.

In response, the Secretary expressed concerns related to the most recent process of approving proactive batch roof repair work proposed by our engineering consultants, REI. Namely, he expressed concerns regarding: (1) the high proposed allowances (upwards of 30%) included in estimates provided by bidding repair vendors relative to the precise repairs identified by REI in their repair specifications, and (2) the high costs associated with REI's work (representing a 25% premium fee on top of the actual repair work to be completed). The Secretary recommended the Board re-consider involvement of engineering consultants for relatively simple and straightforward repair work, instead reserving their involvement for more extensive repair projects like full parking lot replacements. Further, the Secretary recommended requesting this year's slate repair company (Durable Slate Company) be tasked with generating an estimate for repair work in Courts 5-8 to evaluate the efficacy of working directly with a vendor versus involving a high-cost engineering consultant.

The Treasurer agreed to discuss the new approach he described above with REI and to request engineering fees from them that bore a more reasonable relationship to the cost of the actual work.

Secretary –

03.11.25.04 Motion. Motion to approve the earlier email vote for Ecotek Softwash to provide softwashing services for the roofs and trim in courts 13-16 in the amount of $11,500. Motion approved unanimously.

03.11.25.05 Motion. Motion to approve the earlier email vote for the revised roof maintenance proposal from Durable Slate Co. in the amount of $41,359.

The Secretary described an ongoing challenge at the Glen Tot Lot involving large groups of disruptive, poorly behaved teenagers creating uncomfortable conditions for children and adults at the Tot Lot. The Secretary further described a recent experience wherein Arlington County Police were unable to require the removal of the teenagers because of the lack of signage indicating that the Tot Lot was private property. In response, the Secretary described immediate follow-up actions that were taken, including the addition of 'private property' signage around the Tot Lot and temporary removal of the picnic table. The President directed the On-Site Manager to communicate with our Arlington County Police Liaison on what could be done to ensure police personnel are able to remove non-residents from our private property spaces. The Secretary also offered to develop language for new, updated signs for the Tot Lot in coordination with the On-Site Manager. The Vice President also recommended the On-Site Manager reach out to Alexandria City High School to evaluate if there are any Truancy Police Officers that could determine if teenagers were skipping school, if found present at the Tot Lot again.

The Secretary asked the On-Site Manager for an update on the procurement of additional paint bids for Courts 13-16. The On-Site Manager indicated that she had just received an estimate from Kolas Contracting and would review it prior to sharing with the Board, after which she would work to solicit two additional bids from other contractors. The Board also briefly discussed additional spot paint repair work in Courts 1-4 where significant paint deterioration has been identified.

The Secretary further asked the On-Site Manager about the status of estimates for repair work for the concrete alleyway leading to the pool, indicating a preference to have the matter resolved before the start of the pool season. The On-Site Manager indicated communication challenges with the original contractor, Dominion Paving, regarding possible repair solutions. The Treasurer recommended the On-Site Manager independently research and identify contractors that could provide a repair solution. The On-Site Manager indicated that she would request Rose Paving – the vendor providing paving repairs for this year's cycle – review the damage and provide a recommendation. The President asked that the On-Site Manager have Cardinal Management's Portfolio Manager reach out directly to Dominion Paving to indicate our displeasure with their poor communication on this issue and to ask them once more to provide a recommended solution, but also asked the On-Site Manager to independently explore other repair solutions from other vendors.

At-Large -

The At-Large Member had no updates.

COMMITTEE REPORTS:

Pool

Pool Committee Chair Lori Derkay shared that the first Pool Committee planning meeting would be held on April 1st. Our pool contractor, Atlantic, confirmed that the 2 international lifeguards we had last summer – Veronica and Kate – have committed to return this year. The contractor is also working to identify additional local lifeguards, noting an ad describing the opportunity to work as a lifeguard was included in recent issues of the Glen Echo. The contractor is scheduled to inspect the pool in mid-late April to prepare it for the season.

Landscape

The On-Site Manager described a recent planning meeting the Landscape Committee Chair, including planned maintenance of the landscaping along the King Street border.

Court Representatives

The President reiterated a standing invitation for a volunteer to chair the Court Representatives committee. The President reiterated the requirements to serve as Chair, including being a Glen co-owner and appointment by the Board.

Safety

No update.

Maintenance

No update.

E-Charging

E-Charging Committee Member Mike Schneider provided a specific proposal for options and locations for installation of EV chargers under Dominion Energy's Charging Program which provides some cost efficiencies to the Glen, but requires installation of chargers in two separate locations. The proposal centered around options for chargers at 2 unreserved parking spaces in Courts 4, 5 and 7. The proposals would in some cases require reassignment of parking spaces and could put chargers in locations that would require additional County approvals (e.g., adjacent to County sidewalks) or may be more prone to vandalism (e.g., high visibility locations along major corridors with Quaker Lane). Following a discussion between Mr. Schneider and the Board on various options, the Board recommended further evaluation of charger options in Courts 7, 5, and 4. For options in Courts 5 and 4, the President asked that the On-Site Manager and Mr. Schneider coordinate on communication with Arlington County on potential feasibility of EV charger installation in areas adjacent to County-owned sidewalks.

Fence

No update.

MANAGEMENT REPORT:

No update.

OLD BUSINESS

No update.

NEW BUSINESS

No update.

EXECUTIVE SESSION

None.

The board reconvened in regular session at 9:35 p.m.

ADJOURNMENT: The meeting was adjourned by the President at 9:36 p.m.

The next scheduled meeting of the Board is Tuesday, April 8, 2024, at 6:30 p.m. The meeting will be held virtually via Zoom.

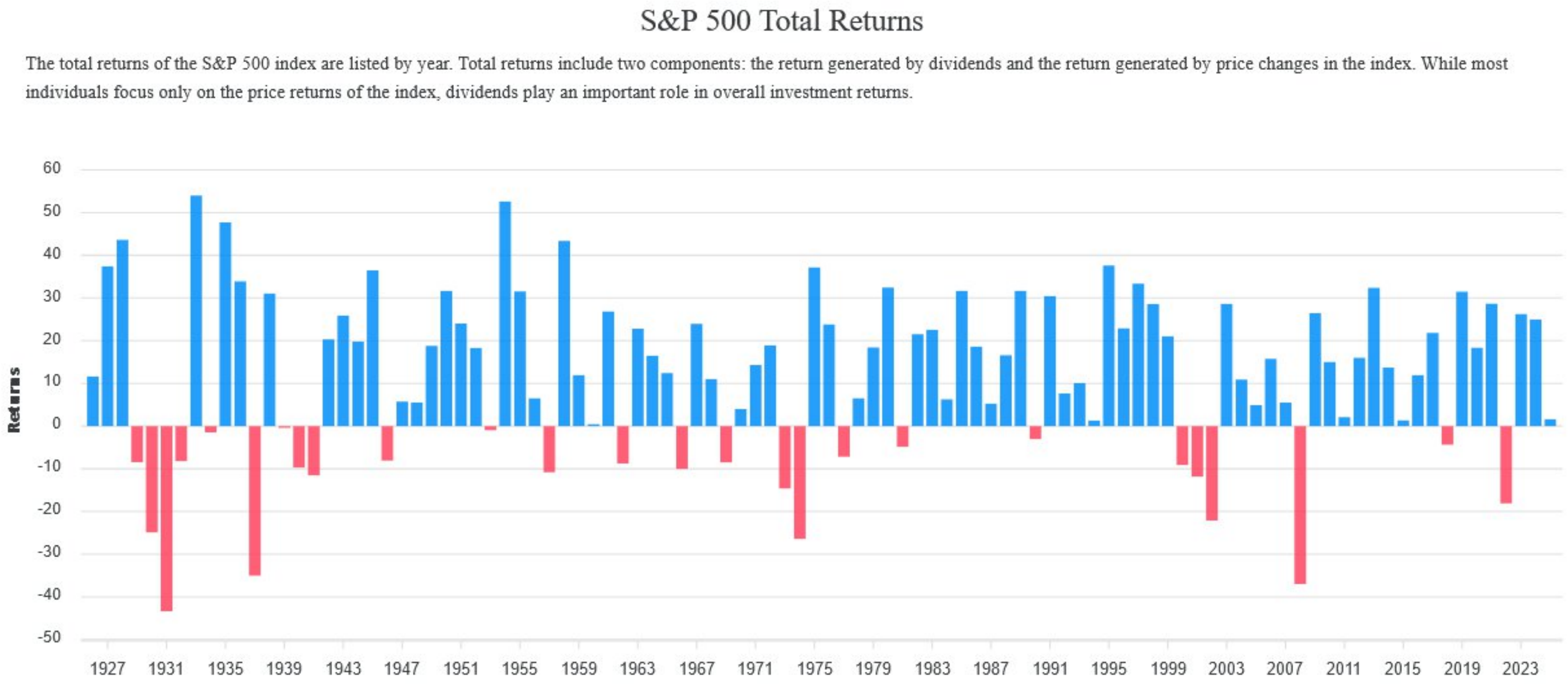
Respectfully submitted,

Seth Theuerkauf
Secretary

Appendix A. Requested Investment Options Presentation by Mr. Bill Worsley.

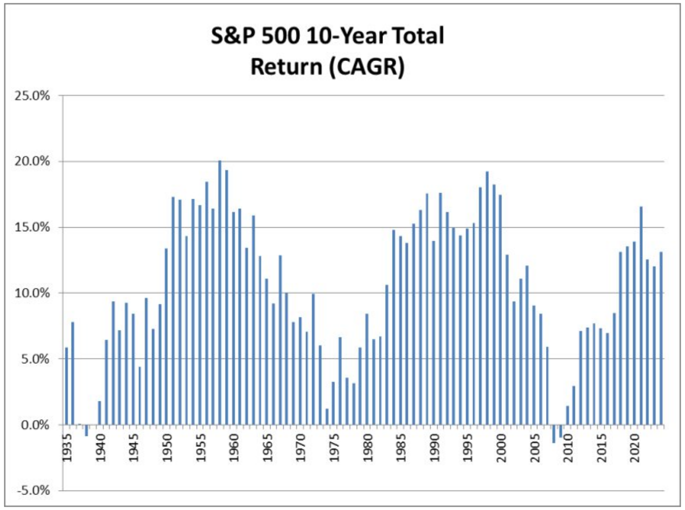
S&P 500 Total Annual Returns

- The long-term average return is 10%, but 40% declines do happen.
- During the COVID panic, between February 19 and March 23, 2020, the index fell 34% before recovering and finishing the year with a gain.

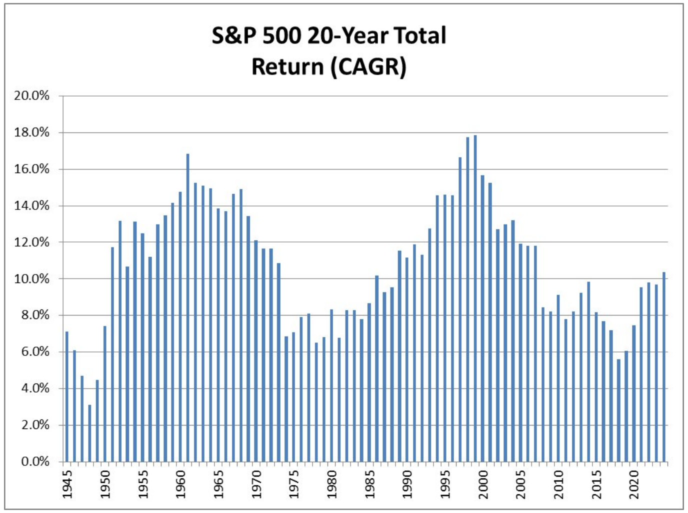


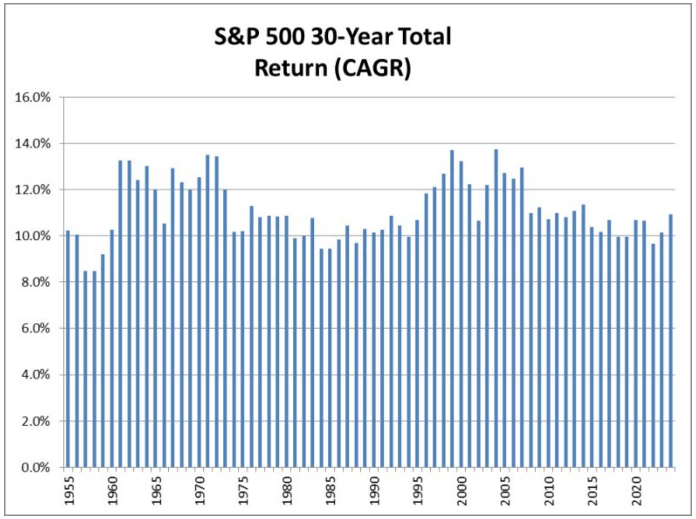
Source: Slickcharts.com

S&P 500 Total Return: 10, 20, and 30 Years



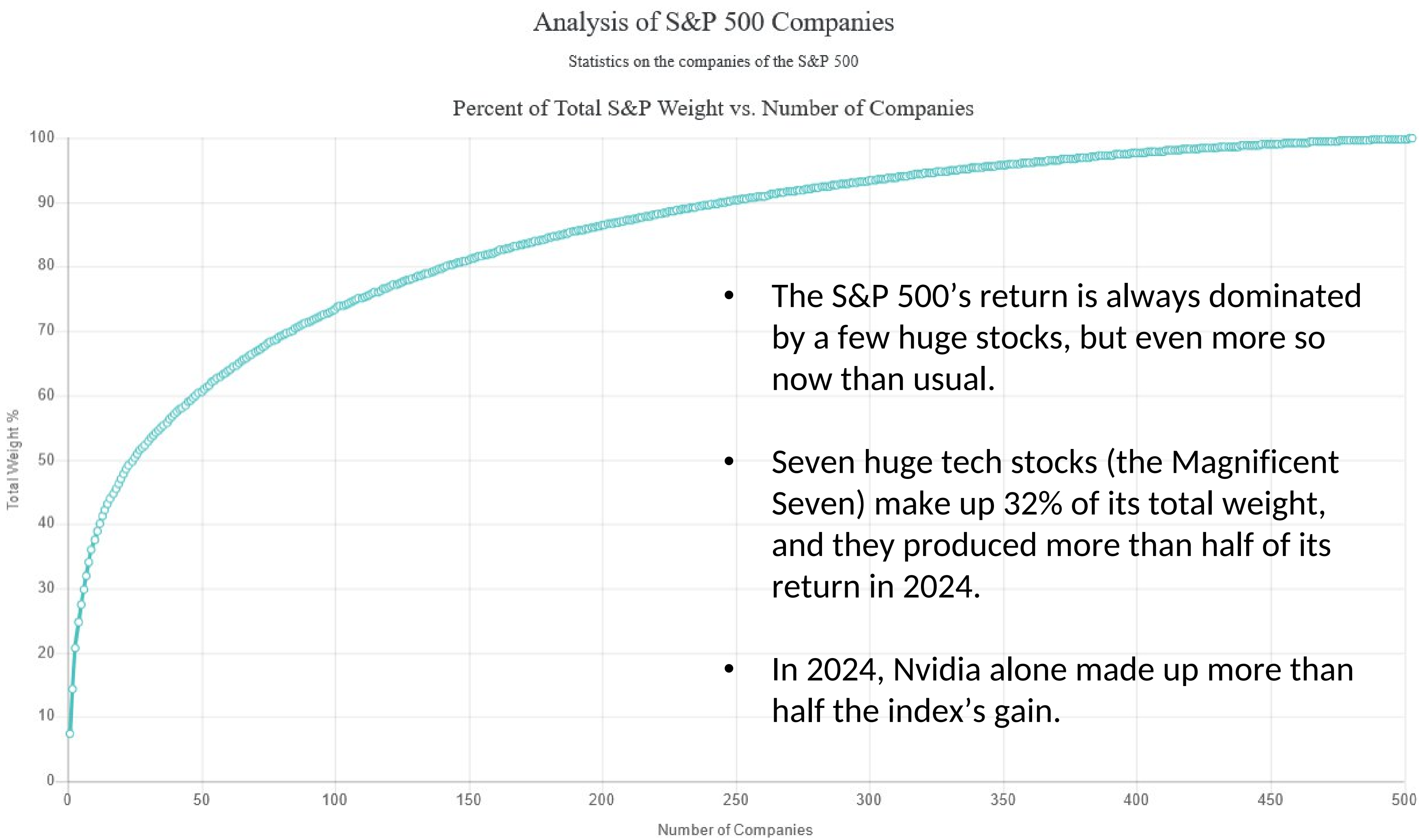
- An entire decade of lousy performance can and does happen.
- But the market's return smooths out over many years.
- Moral: Don't panic. Stay invested.
- "Don't just do something. Sit there."





Concentration Risk

The S&P 500, Like Most Stock Indexes, is Capitalization-Weighted



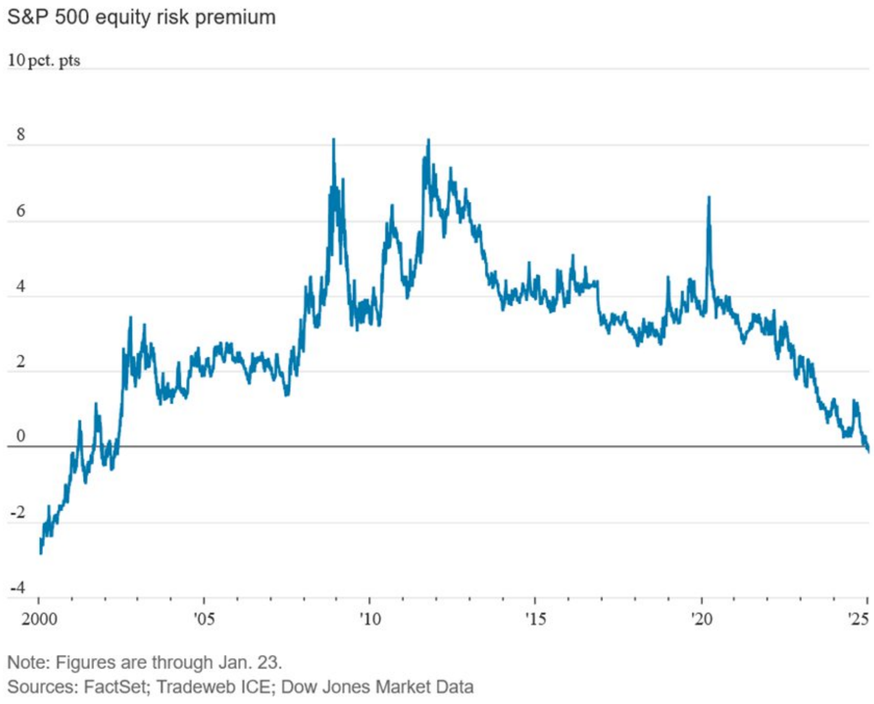
- The S&P 500's return is always dominated by a few huge stocks, but even more so now than usual.
- Seven huge tech stocks (the Magnificent Seven) make up 32% of its total weight, and they produced more than half of its return in 2024.
- In 2024, Nvidia alone made up more than half the index's gain.

The U.S. Equity Market is Expensive

- The S&P 500's forward P/E is 22, well above its average of 16.4 since 1990.

- The S&P 500's equity risk premium is at zero, the lowest since 2002. There's no risk premium for holding stocks vs. 10-year Treasuries.

WSJ, 2/17/25



How to Reduce Timing Risk

- Timing risk is especially high now because the market is pricey.

- Dollar-cost averaging reduces timing risk.
  - How to do it: Invest a fixed amount on a regular schedule over an extended period of time to spread out the risk (instead of a lump sum).
  - This reduces timing risk by lowering the chance that one will buy a lot at the top or bottom.
  - Dollar-cost averaging is easy to set up and requires little maintenance.

Morgan Stanley Account

- The Morgan Stanley proposed account is a highly diversified global portfolio of 74 exchange-traded funds (ETFs), invested in U.S. equity, international equity, fixed income, and alternatives (hedge funds, REITs, commodities).

- The advisory fee is 1.1% for $500k, or 1.0% starting at $1 million.
- The expense ratios of the 74 underlying ETFs add about 0.41%, so the Glen's total expense ratio will be 1.41%-1.51%.

Proposed Account Holdings

504-XXXX00 | Investment Account | Select UMA FA Discretionary [2 5]

Asset Class/Investment Product [1]	Symbol/ MGR Code/ Cusip	Product Type *	Current Investment($)	Current % of Account	Proposed [3] Investment($)	Proposed % of Account
Equities					**335,000**	**67.0**
US Large Cap					270,000	54.0
MAPS US Core Equity	MAF-R	SMA			270,000	54.0
International Equities					65,000	13.0
MAPS Int'l Core Equity ETFs	MAF-8	SMA			65,000	13.0
Fixed Income & Preferreds					**50,000**	**10.0**
US Taxable Core					50,000	10.0
MAPS Core Fixed Income	MAF-7	SMA			50,000	10.0
Alternatives					**115,000**	**23.0**

Source: Morgan Stanley.

Morgan Stanley Account

Performance History

PERFORMANCE (%)	3-MONTH	YTD	1-YR	3-YR	5-YR	INCEPTION
Return (Gross of Fees)	1.20	18.91	18.91	6.27	11.49	12.35
Return (Net of Fees)	0.68	16.53	16.53	4.17	9.31	10.15
Benchmark	2.63	23.81	23.81	8.01	13.86	14.84

CALENDAR-YEAR PERFORMANCE (%)	2024	2023	2022	2021	2020
Return (Gross of Fees)	18.91	20.16	-16.00	24.93	14.90
Return (Net of Fees)	16.53	17.81	-17.66	22.52	12.70
Benchmark	23.81	25.96	-19.21	25.66	20.89

- U.S. Core Equity
  - Benchmark: Russell 3000

PERFORMANCE (%)	3-MONTH	YTD	1-YR	3-YR	5-YR	INCEPTION
Return (Gross of Fees)	-6.37	6.48	6.48	3.44	4.90	4.71
Return (Net of Fees)	-6.85	4.34	4.34	1.40	2.83	2.64
Benchmark	-7.60	5.54	5.54	0.82	4.10	5.42

CALENDAR-YEAR PERFORMANCE (%)	2024	2023	2022	2021	2020	2019	2018
Return (Gross of Fees)	6.48	16.66	-10.90	10.96	3.41	19.02	-15.00
Return (Net of Fees)	4.34	14.41	-12.66	8.78	1.36	16.72	-16.69
Benchmark	5.54	15.62	-16.00	7.82	10.65	21.51	-14.19

- International Equity
  - Benchmark: MSCI All Country World Index ex-US (Net)

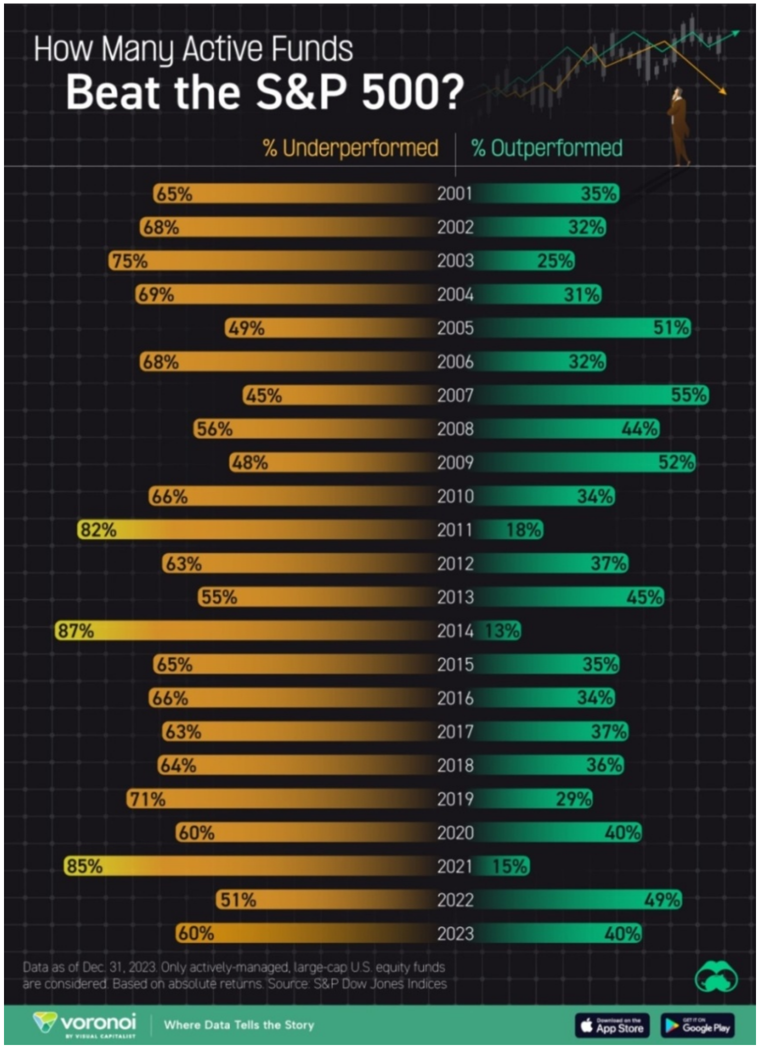
PERFORMANCE (%)	3-MONTH	YTD	1-YR	3-YR	5-YR	INCEPTION
Return (Gross of Fees)	-3.03	1.47	1.47	-2.26	-0.11	1.22
Return (Net of Fees)	-3.52	-0.56	-0.56	-4.21	-2.09	-0.79
Benchmark	-3.06	1.25	1.25	-2.41	-0.33	1.07

CALENDAR-YEAR PERFORMANCE (%)	2024	2023	2022	2021	2020	2019	2018
Return (Gross of Fees)	1.47	5.23	-12.55	-1.37	8.00	8.56	-0.16
Return (Net of Fees)	-0.56	3.15	-14.31	-3.32	5.89	6.41	-2.16
Benchmark	1.25	5.53	-13.01	-1.54	7.51	8.72	0.01

- Core Fixed Income
  - Benchmark: Bloomberg U.S. Aggregate

Source: Morgan Stanley.

Why Active Management Tends to Underperform



In most years, U.S. active managers underperform the S&P 500 and passive index funds benchmarked to it.

Reasons:

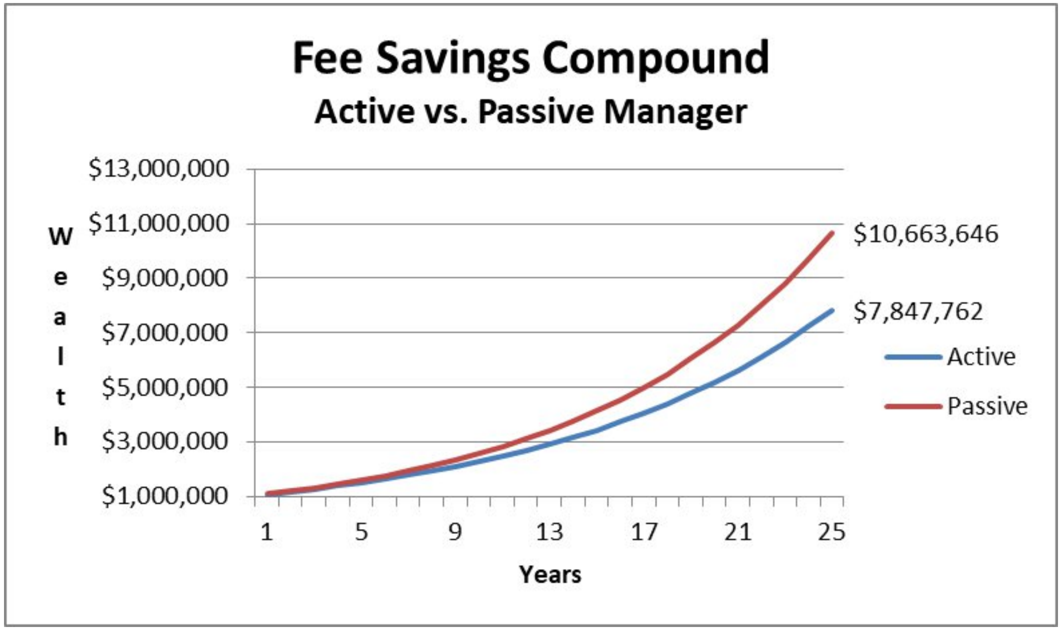
- Mispricings are scarce: The U.S. equity market is the most researched and picked over, leaving little room to outperform after expenses.

- Active funds have much higher expense ratios and turnover costs than index funds.

- Collectively, active funds ***are*** the market, so they can't beat it. Their higher costs are a difficult hurdle for active managers to overcome.

- When do active funds win? In bear markets--by underweighting the most volatile stocks, and by holding more cash than index funds do.

Passive Fee Savings Over Long Periods



- In this example, $1 million is invested in two accounts, one active and the other passive.
- Both managers earn 10% per year before fees. The active manager charges 1.41%. The passive manager charges 0.07%.
- After 25 years, the passive account is $2.8 million (35.9%) bigger.
- This example ignores taxes on realized gains, which will lower returns still more for the active manager, who trades much more frequently.

Index Funds and ETFs are Tax-Efficient

- Taxes significantly lower returns.
- Actively managed funds trade frequently, so they generate realized capital gains, which generate tax bills, draining invested capital.
    - More than 60% of active mutual funds distributed capital gains in 2022, vs. 4.5% of equity ETFs.
- Index funds and index ETFs only trade when the index composition changes, so unrealized capital gains build up and compound over time. The longer the time period, the greater the compounding. After 20 years, the difference becomes significant.
- For a buy-and-hold investor, index ETFs are only slightly more tax-efficient than index mutual funds.
    - Mutual funds may have to realize capital gains to fund investor withdrawals; with index funds, this doesn’t happen much because index funds impose tight restrictions on how often investors can trade.

An Alternative Proposal

- Minimize fees and taxes by investing directly in the Vanguard Total World Stock Index fund (ticker: VTWAX), which replicates a total world stock index (the FTSE Global All-Cap Index).

- Expense ratio: 0.07% (mutual fund); 0.06% (ETF)

Regions	VTWIX
Emerging Markets	9.50%
Europe	13.90%
Pacific	9.00%
Middle East	0.20%
North America	67.40%
Other	0.00%

- This single fund contains 9,806 stocks, invested in every part of the world.

- Although heavily dominated by the U.S., it's one-third non-U.S. stocks, which will reduce U.S. equity risk.

	Month-end	3-Month total	YTD	1-yr	3-yr	5-yr	10-yr	Since inception 02/07/2019
VTWAX	3.25%	4.36%	3.25%	20.21%	8.00%	10.96%	—	11.79%
Benchmark[1]	3.31%	4.47%	3.31%	20.22%	8.33%	11.03%	9.90%	11.89%

Source: Vanguard.

How to Invest With Vanguard

- Open Vanguard brokerage account online
  - Account comes with a Federal money market settlement fund to catch inflows and outflows (currently pays > 4%).

- Open a position in a Vanguard stock index fund ($3,000 minimum).

- Link the Vanguard account to the Glen's bank account to set up automatic investments from the bank to the fund.

- Specify timing and amount of investments
  - Example: Move $15,000 per month from Glen bank account to Vanguard on the first of every month starting April 1, 2025 and ending March 1, 2027 (or indefinitely).

- Alternatively, buy Vanguard's ETF version of the index fund. Main difference is that ETFs trade all day (9:30 a.m.-4:00 p.m.) like stocks, and the mutual fund opens only at market close (4 p.m.). The ETF charges 6 basis points; the mutual fund 7 basis points.

Summary of Recommendations

- Because of the structure of the Glen's reserve assets (slate roofs are 40%), it's prudent to invest a minority portion of reserves in long-term assets like equities to get higher returns—but only money not needed for many years.

- As part of a new investment policy, set an absolute cap for reserves held in equities (e.g., 25%). Rebalance whenever the equity portion exceeds this limit; don't let the allocation drift higher.

- U.S. market valuations are high, so the Board may want to wait for a market correction before beginning to invest. Or just stretch the investing schedule over a long period so you get the benefit of investing during the next downturn.

- Use dollar-cost averaging to reduce timing risk, automatically investing equal amounts on a set schedule.

- Maintain discipline: Don't try to time the market, and don't panic when the market plummets. Ride out the downturns—recoveries produce the best returns.

- To maximize returns net of fees and taxes, invest directly in a broad Vanguard stock index fund or ETF, either U.S. or global. In U.S. equities, passive management usually beats active management over the long term.