

Endowment and Foundation Services

Prepared for:

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Baxter State Park Authority

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Table of Contents

- **Investment Outlook and Strategy**
- **Investment Policy and Asset Allocation**
- **Performance**
- **Administrative**

Investment Outlook and Strategy

Investment Outlook and Strategy



GLOBAL ECONOMY

U.S. Economy Hits Slow Patch

- First quarter real GDP roughly flat; winter weather, port strikes slow economy, falling oil and strong dollar all factors
- Job growth of 126,000 jobs in March (vs. 245,000 expected); unemployment ticks lower to 5.5% from 5.7%

Europe Shows Signs of Rebounding

- Deflation threat eases as consumer prices remain flat in April after falling 0.1% in March
- The jobless rate is seen at 11.2% in March compared to 11.3% a month ago
- Greek bailout talks continue but no breakthrough yet

Emerging Markets Uneven

- China's inflation picks up 1.4% in March; forecast 7.0% GDP for 2015
- Russia, Argentina and other countries face growth challenges

Central Bank Policies Largely Accommodative

- ECB expands bond-buying program of asset-backed securities and covered bonds to include sovereign debt purchases
- Weak 1Q GDP increases chance of rate hike will occur in September if the Fed sees evidence of improved data

Bond Yields Move Higher, but Remain Low

- 10-year Treasury yield climbed 11 basis points in April, ending the month at 2.11% on increased speculation that the Fed would raise rates this year as well as improved sentiment.
- Global bond yields increased as evidence of improvement in Europe emerged.
- Sectors returns mixed during April: Barclays Aggregate -0.4%, high yield 1.2%, emerging market dollar-denominated 1.6%

Equity Choppiness Continues

- Equities had a choppy month as investors evaluated earnings, weak economic data, a rebound in the price of oil and a softening of the dollar's strength.
- In April, emerging markets led the way delivering 7.7%, followed by MSCI EAFE up 4% and the S&P 500 returning 1%.

Earnings Challenged Near Term

- Of the 360 companies that have reported earnings to date for Q1 2015, 71% reported earnings above the mean estimate and 46% have reported sales above the mean estimate.
- The S&P 500 1Q blended earnings decline 0.4%, smaller than the estimate of -4.7% at the end of the first quarter
- Projected S&P 500 earnings of \$120 to \$125 for 2015

Favor Equities over Bonds

- Growth acceleration, increased M&A activity and benign inflationary pressures suggest equities can move higher, albeit with some volatility along the way
- Policy easing and improved growth create opportunities in international developed equities
- Emerging market equities likely to face headwinds given U.S. dollar strength; growth story remains intact, but country and security selectivity required
- Potential to add to equities during periods of market weakness

Position for Rising Rate Environment

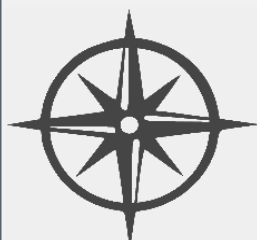
- Global rates near historic lows, but U.S. rates should resume gradual climb higher as domestic economy improves
- Maintain core portfolio of high quality, intermediate-term bonds with modest exposure to higher yielding sectors
- Active management important to navigate rate environment and control risk

Diversify into Lower Correlated Investments

- Incorporate lower correlated strategies, such as managed futures, absolute return and long/short equity, for diversification and as buffer in down market
- Consider private equity, including private equity real estate, for enhanced return potential



FINANCIAL MARKETS



OUR OUTLOOK

Investment Policy and Asset Allocation

Investment Policy and Asset Allocation

INVESTMENT POLICY: BSP INVESTMENT FUND

IV. RESTRICTIONS

While realizing that all investments involve both uncertainty and risk, and that bearing some (but not all) kinds of risk brings long term rewards, the Authority does not wish to take unnecessary risks with the endowment portfolio. Asset allocation will be bound by the following limits.

	<u>minimum</u>	<u>maximum</u>	<u>target</u>
Cash	0%	5%	0%
Bonds	15%	35%	25%
Equities (US & International)	60%	80%	70%
Special Opportunities	0%	15%	5%

The Authority expects the equity portfolio to be fairly diversified across industries as well as individual issues. For example, no single stock may represent more than 10% of the equity portfolio, and a more normal weighting should be considerably less.

V. SPENDING POLICY

The amount of spendable income annually withdrawn from the Investment Fund shall be determined by Park staff with the advice of the BSP Investment Committee, and shall be subject to approval by the Baxter Park Authority.

ASSET ALLOCATION: BSP (CONSOLIDATED) YTD 4/30/15

Asset Class	Current	Target	Range	As of 12/31/14		As of 4/30/15		Delta	
				Mkt Val	Port Wgt	Mkt Val	Port Wgt		
Cash	1.3%	0.0%	0-5%	Cash					
				Money Market	\$ 1,644,558	2.3%	\$ 1,008,756	1.3%	-0.9%
				Total Cash	\$ 1,644,558	2.3%	\$ 1,008,756	1.3%	-0.9%
				Fixed Income					
				BNY Mellon ST US Govt Sec Fd	\$ 519,639	0.7%	\$ -	0.0%	-0.7%
				BNY Mellon Intermediate Bond Fd	\$ 2,873,714	3.9%	\$ 3,540,981	4.7%	0.8%
				Individual Bonds / Bond Fd	\$ 5,767,443	7.9%	\$ 6,044,613	8.1%	0.2%
				BNY Mellon Corporate Bond Fd	\$ 2,625,102	3.6%	\$ 2,904,855	3.9%	0.3%
				Dreyfus High Yield Fd	\$ 1,364,488	1.9%	\$ 1,391,989	1.9%	0.0%
				TCW Emerging Mkt Income Fd	\$ 883,905	1.2%	\$ 983,559	1.3%	0.1%
				Dreyfus Inflation Adj Sec Fd	\$ 1,218,856	1.7%	\$ 1,317,491	1.8%	0.1%
				Total Fixed Income	\$ 15,253,146	20.9%	\$ 16,183,489	21.6%	0.7%
Bonds	21.6%	25.0%	15-35%	Equities					
<i>(US & Int'l)</i>				Dreyfus Basic S&P 500 Index Fd	\$ 16,520,219	22.7%	\$ 15,190,222	20.3%	-2.4%
				BNY Mellon Focused Eqty Opp Fd	\$ 6,601,860	9.1%	\$ 6,209,268	8.3%	-0.8%
				Dreyfus US Equity Fd	\$ 6,362,579	8.7%	\$ 5,786,785	7.7%	-1.0%
				BNY Mellon Income Stock Fd	\$ 3,407,026	4.7%	\$ 3,054,455	4.1%	-0.6%
				BNY Mellon MC Multi-Strategy Fd	\$ 5,080,001	7.0%	\$ 6,307,627	8.4%	1.4%
				Dreyfus Slct Mgrs SC Growth Fd	\$ 1,140,050	1.6%	\$ 1,351,758	1.8%	0.2%
				Dreyfus Slct Mgrs SC Value Fd	\$ 970,701	1.3%	\$ 1,358,255	1.8%	0.5%
				Dreyfus Opportunistic SC Fd	\$ 962,546	1.3%	\$ 1,378,265	1.8%	0.5%
				BNY Mellon International Fd	\$ 4,827,279	6.6%	\$ 4,795,804	6.4%	-0.2%
				International Stock Fd (Walter Scott)	\$ 1,849,814	2.5%	\$ 1,469,214	2.0%	-0.6%
				Dreyfus/Newton International Fd	\$ 1,799,080	2.5%	\$ 1,455,228	1.9%	-0.5%
				Dreyfus Int'l Small Cap Fd	\$ -	0.0%	\$ 2,779,569	3.7%	3.7%
				DFA Emerging Mkts Core Fd	\$ 3,713,195	5.1%	\$ 3,746,687	5.0%	-0.1%
				Virtus Emerging Mkts Opp Fd	\$ 1,081,993	1.5%	\$ 1,038,859	1.4%	-0.1%
				Total Equities	\$ 54,316,342	74.5%	\$ 55,921,998	74.6%	0.1%
Equities	74.6%	70.0%	60-80%	Special Opportunities					
<i>(US & Int'l)</i>				BNY Mellon Private Equity Fds	\$ 1,705,022	2.3%	\$ 1,844,372	2.5%	0.1%
				Total Special Opportunities	\$ 1,705,022	2.3%	\$ 1,844,372	2.5%	0.1%
Special Opps	2.5%	5.0%	0-15%	Total Portfolio		\$72,919,068 100.0%	\$74,958,615 100.0%	0.0%	

Market Value and Spending History

BAXTER STATE PARK (CONSOLIDATED)

<u>Year-Ending</u>	<u>Market Value</u>	<u>Total Return Consolidated</u> ⁽¹⁾	<u>Distributions</u>		<u>Inflation CPI</u>	<u>"The Stewardship Index"</u> ⁽²⁾
			<u>\$ Value</u>	<u>% of MV</u>		
12/31/05	\$58,511,512	6.7%	\$1,821,800	3.1%	3.40%	0.2%
12/31/06	\$63,077,391	10.7%	\$1,555,000	2.5%	2.50%	5.7%
12/31/07	\$67,762,152	10.3%	\$1,725,000	2.5%	4.10%	3.7%
12/31/08	\$47,006,778	-28.1%	\$1,935,000	4.1%	0.10%	-32.3%
12/31/09	\$55,711,926	23.3%	\$1,965,000	3.5%	2.70%	17.1%
12/31/10	\$61,442,234	14.1%	\$2,050,000	3.3%	1.50%	9.2%
12/31/11	\$56,268,986	-4.7%	\$2,090,000	3.7%	3.00%	-11.4%
12/31/12	\$61,727,964	13.3%	\$1,920,000	3.1%	1.74%	8.5%
12/31/13	\$70,460,064	17.4%	\$1,845,000	2.6%	1.56%	13.2%
<u>12/31/14</u>	<u>\$72,919,068</u>	<u>6.6%</u>	<u>\$1,890,000</u>	<u>2.6%</u>	<u>0.76%</u>	<u>3.2%</u>
10 Year Average:	\$61,488,807.50	5.9%	\$1,879,680	3.1%	2.1%	0.7%

⁽¹⁾ Estimated consolidated return based on respective MVs.

⁽²⁾ Total return less distribution rate, adjusted for inflation.

Performance

Performance Update

EXECUTIVE SUMMARY: OVERALL PORTFOLIO 2015

Contributors to Performance

- Strategic overweight to equities was additive as global equities continued momentum from 2014.
- Strong relative returns by our large cap managers aided performance.
- Blended developed international equity managers outperformed EAFE benchmark.
- Pure corporate bond strategy and allocation to high yield bonds continued to be additive to overall fixed income returns.

Detractors from Performance

- International markets (EAFE & EM) have outperformed US markets year-to-date. As a result, our overweight to US stocks-- and particularly US large caps-- hurt relative returns.
- Our decision to remain cautious on rates, and shorten overall bond duration, resulted in overall bond performance slightly lagging Barclays Aggregate benchmark.
- Relative underperformance by small cap managers hindered performance.

Performance

TOTAL PORTFOLIO AS OF 4/30/15

	YTD	1 Year	3 Years	5 Years	10 Years
Baxter Trust (Net)	3.51%	7.81%	10.10%	8.32%	6.59%
Investment Fund (Net)	3.29%	8.55%	10.39%	8.58%	6.24%
Consolidated (Net)	3.44%	8.03%	10.19%	8.40%	6.46%
<i>Blended Benchmark (70 ACWI / 5 SO / 25 Agg)</i>	4.16%	6.60%	9.68%	8.10%	6.39%
<i>Blended Benchmark (70 S&P / 5 SO / 25 Agg)</i>	1.81%	10.47%	12.83%	11.42%	7.33%
<i>Consumer Price Index + 3%</i>	0.82%	3.22%	4.50%	5.09%	5.27%
<i>MSCI ACWI (Global)</i>	5.27%	7.45%	12.24%	9.58%	6.98%
<i>S&P 500</i>	1.92%	12.98%	16.73%	14.33%	8.32%
<i>Barclays Capital Aggregate</i>	1.24%	4.46%	2.60%	4.12%	4.75%
<i>(50% 3-Mo T-Bill + 3%) + (50% ACWI)</i>	3.05%	5.34%	9.30%	7.16%	6.34%

Administrative Information

Administrative Information

OPERATIONAL SUMMARY: BAXTER TRUST

Investment Authority: Boston Safe (BNY Mellon) is sole Trustee for the Percival Baxter Trust.

Statements: Consolidated income and principal summary, with asset lists, are mailed quarterly to Christopher Nelson, Brian Noyes, Rupert White and Carl Gercke for both Trust accounts. Christine Theriault receives monthly statements for both Trust accounts. Jensen Bissell receives monthly and annual (calendar year end) statements for the two Trust accounts. The Maine State Treasurer receives annual statements for the Park's fiscal year-end (June) for both Trust accounts. The Maine State Attorney General receives quarterly statements for both accounts.

Payments: At the end of each month, net income is transferred to the Baxter State Park Authority Investment Fund (a/c# 10600421002).

Fees: At the end of each month fees are charged 50% to income and 50% to principal based on the following fee schedule: **5% of Income.**

Administrative Information

OPERATIONAL SUMMARY: BSP INVESTMENT FUND

Investment Authority: BNY Mellon has full investment authority within the guidelines set out by the Investment Policy Statement.

Statements: Income and principal summary, with asset lists, are mailed quarterly to Christopher Nelson, Carl Gerke, Brian Noyes and Rupert White. Jensen Bissell receives monthly and annual statements. Christine Theriault receives monthly statements. The State Treasurer receives annual statements. The Attorney General of Maine receives quarterly statements.

Payments: Upon receipt of authorized instruction.

Fees: On the 24th of each month, one twelfth (1/12) of the annual fee is charged to income based on the following fee schedule:

Based on Market Value

.90% of the first \$2,000,000

.675% of the next \$2,000,000

.45% thereafter