Public Record

Investment Committee

Friday September, 23, 2016

Present: Norm Nicholson (Chair); Stan Cohen; Ted Gibbons; Tim Creem (by phone)

Also: Bob Peabody (Town Manager); Charisse Keach (Finance Officer); and representing Norway Asset Management Kurt Garascia and Mary Leavitt

The meeting was called to order at 9:02 PM. There was first a discussion on the handling of withdrawals from the Trust Funds. This has caused problems in past years with some amounts withdrawn transferred to the Trust Fund checking accounts where they remained uninvested and unspent but included in the audit as part of the Funds.

Charisse indicated that in the future, withdrawals, on instructions from the Town Manager, will be transferred early in July, directly to general funds. The Moose Pond checking account has been closed. The Bridgton Trust Funds checking account supposedly needs to be kept open for the receipt of cemetery lot sales. It was requested of Charisse that she talk with the auditors to see if this could be changed to a cemetery account so it would no longer be included in the asset value of the Bridgton Trust Funds.

Kurt Garascia and Mary Leavitt of Norway Asset Management then joined the meeting. Kurt first commented on a change in the make-up of their composite equity index. Formerly the S & P 500 alone, this is now 85% S & P, 5% mid-cap, 5% small-cap, and 5% foreign. He then reviewed the three Trusts. The Moose Pond and Bridgton Trust Funds have slightly underperformed (after fees) the Composite index return since inception (10/31/2013) with outperformance in the first two months of FY 2017. Currently they are slightly below 60% in equity holdings (56.6% Bridgton Trust Funds; 58.9% Moose Pond) while Norway continues to gradually move into individual stocks from Index Funds in the “large-Cap sector. The Park Forest Trust Fund has a higher equity ratio (64.5%) since no withdrawals are expected in the next few years. No changes in strategy are anticipated in the near term.

The Committee then discussed possible returns on equities and fixed income over the next 5-7 years and how those projections might impact the current 4% withdrawal formula. Kurt reviewed Norway Asset Management’s projections for returns from equities and fixed income over the next 5-7 years as shown below:

Bull Case Base Case Bear Case

Equities 7% 6% 5%

Fixed Income 4% 3% 2 ½ %

The Committee then reviewed Forecasts from Morgan Stanley (attached). Their seven year forecast projects a return of about 4% from a portfolio of 60% equities,40% fixed income. Using Norway’s Base Case projections, the return from a similar portfolio would be 4.8%. A spending formula is generally designed to enable a portfolio to retain its spending power through future years. Put another way, the projected annualized growth would equal withdrawals plus the rate of inflation. This was true in 2003 when the 4% maximum withdrawal rate was voted by the Town but appears questionable today. For instance if we took Norway’s Base projection of 4.8% (60%equities-40% fixed income) and assumed inflation of 1 ½% (probably low), this would point to a withdrawal rate of 3.3%.

This subject, along with a review of asset allocation will be further discussed at our next meeting tentatively scheduled for December. It was pointed out by Stan that the 2003 vote of the Town states that withdrawals from the Moose Pond and Bridgton Trust Funds “shall not exceed in any fiscal year four per cent (4%) of the average value of the Trust over the immediately preceding three year period”. . Thus if the Selectmen recommended a reduction in the Withdrawal %, a vote of the Town would not be required.

There being no further business, the Committee thanked Kurt and Mary and the meeting was adjourned at 10:42AM.

Recorder Norman C. Nicholson