Investment Policy – Baxter State Park

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INTRODUCTION

The principal purpose of this Statement is to provide long term direction to the Authority for the investment of the Park's quasi-endowment fund (the Investment Management Account or IMA) and for the spending of its income. A secondary purpose is to describe for future Authority members, Advisory Committee members, and staff the underlying logic and philosophy supporting this Statement.

Setting investment policy is the most critical phase of the entire investment process. The effects of a good or bad policy can be more important than the effects of good or poor investment management.

To be successful, an investment policy needs to be appropriate for its institution. It needs to match the needs of the institution (future liabilities, in an accounting sense) to the financial assets most likely to meet those needs. The best way to minimize investment risk is to match, as closely as possible, the timing of future liabilities with the timing of future cash flows from the portfolio assets.

The policy statement also has to withstand "trustee risk" — the possibility that, at some stress point (most frequently an extreme point in the stock or bond markets), those who oversee the funds will react in a manner detrimental to the long term health of the endowment. Authority members, like other trustees, tend to serve only a few years at a time, and those who adopt this Policy Statement today will not be here ten or twenty years from now to maintain the steady course that is one prerequisite of a successful investment plan. For that reason this Statement contains an introductory section presenting the principles upon which the policy is based.

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Finally, this Statement contains two special terms that need explanation. The first is "real." In an investment context, real means after taking inflation into account. If the quasi-endowment funds grew from $5 million to $10 million over a period when the cost of living doubled, the funds would be said to have maintained their real market value over that period. If the interest and dividends generated by the funds grew from $200,000 to $440,000 during that time, then the real income from the funds would have grown by ten per cent. The distinction between nominal and real market values and income is very important for long term investors.

The second term is "spendable income." This is the amount of cash that the Park withdraws and spends. The cash income that the funds receive from dividends and interest may be higher or lower than spendable income. Generally, it pays to give the investment manager flexibility in the securities they choose to purchase. While the cash income from these securities will probably be close to the spendable income that the Park withdraws, the two do not need to be exactly the same.

I. PRINCIPLES

For the sake of those who will succeed us, we outline below the principles that have guided us in establishing the policies set forth in this Statement.

We are long term investors. This enables us to purchase long term assets, such as equities, which tend to have high returns over many years but whose price volatility precludes their use by those with shorter time horizons. In addition, the longer time horizon may allow for ownership of “less liquid” investment opportunities. By keeping our long-term focus in mind at all times, we hope to weather the periodic bad times when investors with short term orientations tend to quit the game. We expect this long-term view to provide us with better results than will be earned by those who pick short term investments or who abandon ship during turbulent times.

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We believe it is better to own than loan. We expect the stock market to provide greater total returns than the bond market does. However, we commit to a continued focus on the importance of appropriate asset allocation as a foundation for fund performance. We also recognize that certain debt instruments may, from time to time, provide “equity like” characteristics and return opportunities. We say this in a long-term sense, knowing that both economies and markets suffer periodic (but normally brief) declines, and knowing that there have been and will always be periods when certain asset classes will outperform others.

We expect the relationship between the economy, the stock market, and inflation that has existed for the past 50 years to continue. We expect the Global economy to show modest real growth over full business cycles, after allowance for occasional recessions. We expect stock prices to grow slightly faster than inflation, although the naturally volatile nature of the stock market will make such growth invisible except when observed over periods of several decades. We expect cash dividends from stocks also to grow slightly faster than inflation, and to fluctuate much less than stock prices do.

We expect continued inflation. We believe some inflation is a natural by-product of our political process. Its timing and severity we cannot predict, but we believe it will be of sufficient magnitude that to ignore it would threaten our ability to meet our long-term objectives.

Our definition of risk is not always the common one. Most investors define investment risk in terms of the volatility of short-term total returns. This definition is appropriate for funds with a very short-term time horizon, but inappropriate for perpetual funds such as the Investment Fund (or the Park’s trust funds). Our endowment bears three potential kinds of risk. One comes from any mismatch between the natural cash flows out of the endowment (the amount spent by the Park) and the cash flows coming in (from dividends and interest). Another source is the possibility that the assets in the funds do not do what we or the investment manager expects them to. The final form of risk is that of reacting inappropriately at an emotional period, most likely after a severe market decline. We hope to minimize these risks to as great a degree as is possible without harming the endowment's long-term objectives.

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We do not specifically screen for environmental / social / governance (ESG) criteria. Though the Investments made on behalf of the park take into consideration the overall mission of the park and may consider ESG standards, we acknowledge that in order to achieve full diversification and strong long-term risk adjusted returns certain managers utilized within the portfolios may invest in countries / companies with less-than-optimal ESG ratings. After detailed discussions on the topic, the Baxter State Park Investment Committee and Baxter State Park Authority have jointly concluded that our investment approach is consistent with socially responsible principals by not actively allocating assets to non-ESG compliant companies. Key factors that led to this conclusion include:

- An investment approach that utilizes primarily low cost / index oriented (passive) strategies to achieve public equity exposure
- Proxy voting guidelines for BNY Mellon affiliated funds that take ESG best practices into consideration when submitting votes
- Underlying manager evaluation process for Fugio and CommonFund private equity funds that includes an assessment of ESG factors and a manager's ESG approach when evaluating a manager's potential inclusion in Fund portfolios

The investment manager and Investment Committee will continue to keep the Park Authority updated as the ESG landscape evolves and will notify the Authority if the general investment approach or underlying portfolio strategies deviate in any way from the key principles noted above.

II. OBJECTIVES

Recognizing that the primary purpose of establishing objectives is to provide guidelines for subsequent actions, and that the establishment of these guidelines neither ensures their achievement nor limits what might be actually achieved, these are the investment objectives in order of priority.

1. To provide as much spendable income as possible for the Park now and in the future, with neither period favored at the expense of the other.
2. To have the spendable income be somewhat predictable in the near term, and to have the spendable income not decline significantly at any time.
3. To keep the market value of the endowment assets whole, after inflation, while recognizing that normal security price gyrations may keep market values over- or underpriced for several years at a time.
4. To avoid risks which might impair the ability to meet Objectives 1, 2, and 3.

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III. STRATEGY

Because of the very long-term nature of its liabilities, and the need for growing income and market values to offset inflation, the Investment Fund ordinarily will have a bias for equities. However, it is recognized that the financial landscape periodically provides opportunities that go beyond owning a simple stock. As such, the ideal strategy will be one that is inclusive of all appropriate asset classes. The investment manager(s) may deviate from this standard whenever they deem it advisable, but only within the limits set down below in Section IV.

The normal asset allocation for this Fund will be 25% bonds, 75% equities (including Special Opportunities, and a negligible amount of cash).

The primary objective of the equity portion of the portfolio will be to provide spendable income that grows at least as fast as the inflation rate. The principal category of equity investments will be common stocks, with primary emphasis on high quality stocks in companies that are financially sound and that have favorable prospects for earnings growth.

The second category of investments will encompass a broad range of alternative strategies and will be considered under the umbrella term of "Special Opportunities". The purpose of investing in alternatives includes, but is not limited to, enhancing diversification through less-market-dependent strategies, and seeking positive absolute rates of return regardless of the general direction of equity and fixed-income markets. These Special Opportunities investments are to be used by the manager in a manner consistent with the level of due diligence, research, and ongoing analysis employed on all their investments. As no list of investment instruments or strategies can be all-inclusive, the investment manager will seek appropriate communication with the BSP Authority before employing alternative types of instruments or strategies.

The objective of the bond portfolio will be, first, to dampen overall portfolio price volatility enough (hopefully) to dissuade future overseers from liquidating stocks at an adverse moment, and second, to provide a high but stagnant income stream to supplement the modest current income from stocks.

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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.

	~~Minimum~~	~~Target~~	~~Maximum~~	Minimum	Target	Maximum
Cash	~~0%~~	~~0%~~	~~5%~~	0%	0%	5%
Bonds	~~15%~~	~~25%~~	~~35%~~	15%	25%	35%
Equities	~~60%~~	~~66.5%~~	~~80%~~	50%	60%	70%
Special Opportunities	~~0%~~	~~8.5%~~	~~15%~~	0%	15%	25%

Note #1: Special Opportunities maximum allocation guideline of 15% PE / 7% Private Credit / 3% Infrastructure. Illiquidity in portfolio not to exceed 25% of total consolidated assets.

Note #2: Risk assets in the portfolio are not to exceed 80% of total consolidated assets. Risk assets are any assets other than cash or investment grade U.S. bonds.

Note #3: The Baxter State Park assets managed by BNY Mellon include the Investment Fund and the Percival Baxter Trust. In implementing the above asset allocation guidelines BNY Mellon is to view all Baxter State Park assets (Investment Fund + Trust) in a consolidated manner. The above minimum / target / maximum allocations apply to the consolidated Baxter State Park assets. Due to special opportunities allocation being primarily held in the Investment Fund account, the Trust account asset allocation will be managed in a manner to achieve consolidated allocation targets as noted above.

<u>Account List (Consolidated Assets)</u>
10140068xxx – Percival Baxter Trust
10008240xxx – Percival Baxter Trust (Separately Managed Fixed Income)
10600421xxx – Baxter State Park IMA

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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.

VI. PERFORMANCE MEASUREMENT & EVALUATION

Ultimately, the success of these Funds will be measured by comparison with their stated objectives. The long-term performance will be the result partly of the constraints and guidelines established in this Statement, and partly the results of the investment manager's actions. The inflation measure will be the Consumer Price Index for Urban Consumers or its successor.

VII. SUPERVISION

The Authority may delegate supervisory responsibility for these funds to the Investment Committee or one of its subcommittees, however it requires that those delegates:

1. Meet with the investment manager at least twice a year to monitor the performance of the funds and the manager's compliance with these guidelines;
2. Review this Policy Statement at least once a year to ensure that it remains appropriate and complete; and
3. Report to the Authority on a timely basis the results of these meetings and any other pertinent information regarding the funds.

VIII. INSTRUCTIONS FOR THE INVESTMENT MANAGER

The Authority requests prompt notice of any change in (1) the manager's fundamental investment strategy, (2) company policy regarding number of accounts managed per individual, (3) key personnel, or (4) firm ownership. It also requests prompt notice of any deviations from the restrictions outlined in section IV.

The Authority requests that the manager provide quarterly statements showing the separate performance of the stock and bond portions of the accounts, as well as results for the whole portfolio. It asks that such figures follow the standards of the Committee for Performance Presentation Standards of the Financial Analysts Federation. In addition, each quarterly report should include a summary of activity during the period, the reason for such activity, and a statement concerning the tactics currently in use for carrying out the mandate of the Authority. The latter two items (reason & statement) may be presented orally rather than in writing.

Revised by the Finance Subcommittee: April 5, 2000
Approved by the BSP Authority: July 11, 2000
Amended (section V): July 2003
Amended (removal of Reserve Fund and other changes): December 12, 2006
Amended (special opportunities and other changes): May 2011
Amended (addition of ESG language): June 2015
Amended (changed policy equity target from 70% to 66.5% / changed special opportunities target from 5.0% to 8.5%): May 2018
Amended (addition of consolidated view of asset allocation language): October 2018
Amended (addition of Authority approved ESG language): May 2021