Reserve Fund Advisory Committee

AGENDA

April 27, 2021

12:00 p.m. – 1:00 p.m.

Click below to join the meeting by Zoom:

https://us02web.zoom.us/j/82030509688?pwd=UytGbUxWWG1uWG8vL1pGd09MTzNuUT09

Note: As of March 31st, 2020 PACTS and GPCOG is holding all committee meetings via Zoom conferencing technology. We remain committed to full public access and participation in our meetings through remote access during the COVID-19 crisis. Remote meetings will be held in accordance with the requirements of LD 2167, Public Law Chapter 618.

Committee Members:

Name	Affiliation
Jerre Bryant	City of Westbrook
Kelly Dorsey	Androscoggin Bank
Karen Milliken	R. M. Davis
Nathan Poore	Town of Falmouth
Matt Sturgis	Town of Cape Elizabeth

1. Welcome and Introductions

2. Acceptance of 6/18/19 Minutes

The Reserve Fund Advisory Committee met on 6/18/19. Committee members Jerre Bryant, Matt Sturgis, Kelly Dorsey, and Karen Milliken attended. The committee accepted the 2/8/18 minutes unanimously. Carl Gercke and Ken Blaschke of HeadInvest provided an overview of the fund's performance. As of 5/31/19, the fund's value is $782,593. The asset allocation targets 70% equities, which is within the investment policy's range of 60% to 80% held in equities. A sustainable annual withdrawal rate is between 2.5% and 3%. GPCOG has been withdrawing at a higher rate. It is likely there will be an economic downturn within the next five years. A discussion ensued about whether the investment fund should reallocate its assets between fixed income and equities. HeadInvest does not recommend trying to time equity sales to the market.

The asset allocation strategy should be grounded in whether GPCOG will have sufficient fixed income to meet its needs during a downturn. Given that GPCOG does not anticipate any large income needs from the fund, the committee agreed that maintaining the existing asset allocation was the best way to proceed. A discussion ensued about how HeadInvest might change the types of equities in the fund during a downturn. Finally, proposed amendments to the Investment Policy were provided by the Finance Director for review and approval. The proposed amendments included the reserve fund advisor reporting to the Executive Director and Finance Director instead of the committee on a quarterly basis, and the advisor would meet with the committee annually instead of semi-annually. The proposed amendments and acceptance of the revised investment policy were unanimously approved.

Proposed Action

Accept the 6/18/19 meeting minutes.

3. Performance of Reserve Fund

Staff Report

HeadInvest, the firm that manages GPCOG's Reserve Fund, will review the fund's performance. Staff will discuss withdrawals from and additions to the fund from the past two fiscal years.

Proposed Action

For discussion only

4. Investment Policy Acceptance – See Attachment A

Staff Report

Each year, the Reserve Fund Advisory Committee reviews and accepts the Investment Policy for the fund. Attachment A is the Investment Policy for review and acceptance.

Proposed Action

Accept the Investment Policy

5. Divestment from Oil Company Holdings

Staff Report

GPCOG is committed to growing shared and sustainable prosperity. GPCOG has long had a focus on reducing emissions from petroleum through the Maine Clean Communities program, our transportation investments, our planning and zoning projects, and our work on energy efficiency and renewables.

Some institutions have divested from companies to indicate their commitment to Environmental and Social Governance to improve the environmental sustainability and ethical impact of investments. The national divestment process began in Maine; Unity College was the first institution to announce they were divesting their portfolio of $8M from fossil fuels in 2012. Now $14 trillion worth of endowments and portfolios nationwide have divested in part or in whole. University of Maine divested from coal in 2015, and there is legislation being introduced this session requiring the State Treasurer to divest fossil fuel holdings from its retirement portfolio by 2026.

As of 3/31/21, GPCOG's portfolio includes stocks from three energy companies: Chevron, Kinder Morgan, and Schlumberger. These holdings comprise about 2.5% of the current portfolio. In 2020, these stocks underperformed, corresponding to the drop in driving during the pandemic. Oil companies may face competitive pressure in the coming years as the economy decarbonizes.

However, the value of energy companies has recently rebounded, increasing in value in GPCOG's portfolio by 25% in the first quarter of the year. It Is likely those stocks will continue to recover their value over the next one or two years.

If GPCOG were to divest all individual stock withholdings of companies which derive a significant portion (greater than 10% of their revenues) from the manufacture, sale or distribution of petroleum products, HeadInvest would rebalance the portfolio with other stocks.

Proposed Action

At this time, GPCOG staff propose the committee consider a narrow divestment action limited to divesting in companies that have a direct link to petroleum production. If the Committee were to recommend divestment, the Committee should recommend an execution date. This could align with the end of GPCOG's fiscal year (6/30/21) or end of calendar year (12/31/21).

Potential action by the committee would be to recommend to GPCOG's Executive Committee that it add the following language to the investment policy: "GPCOG will divest its all individuals stock withholdings of companies which derive a significant portion greater than 10% of their revenues from the manufacture, sale or distribution of petroleum products by [insert date of execution.]"

Attachment A: Investment Policy Statement

GREATER PORTLAND COUNCIL OF GOVERNMENTS' RESERVE FUND

Investment Policy Statement

I. Introduction

As a result of the termination of a trust account maintained for the benefit of GPCOG by the Maine State Retirement System for many years, GPCOG has received the remainder of the account which has been placed in a Reserve Fund created for this purpose. The income from this Reserve Fund shall be used for the long-term benefit of GPCOG and the municipalities served by GPCOG. These funds are perpetual, and they enjoy tax-free status.

II. Responsibilities

Recognizing its fiduciary responsibility for these assets, GPCOG has established an Advisory Committee to supervise the investment of the Reserve Fund. The Reserve Fund Advisory Committee hereby establishes the investment policy by adopting this statement, which must be reviewed and accepted at least annually. Pursuant to MSRS 5706 Deposit of Investment of Funds, Paragraph 4 (attached), the Committee retains a professional registered investment advisor to manage Reserve Assets in accordance with this policy statement. The advisor reports to the Executive Director and Finance Director of GPCOG quarterly and meets with the Reserve Committee annually to discuss investment returns, outlook and strategy.

III. Investment Policy

The Reserve Fund will be invested in accordance with the provisions of the Maine Uniform Prudent Investor Act (attached). Assets will be invested for optimum "total return", which does not distinguish between investment income and capital appreciation. The investment time horizon is long term.

IV. Objectives

The primary investment objectives of the Reserve are: (a) to preserve the real (inflation-adjusted) value of the assets, and (b) to pay a reasonable and stable current income, which increases over time at least with the rate of inflation.

V. Asset Allocation

The long-term balance of the Reserve will be 70% stocks and 30% fixed income, with investment advisor discretion to range between 80% and 60% stocks, depending on market conditions and outlook.

VI. Investment Guidelines

a) Stock investments will be in leading companies with revenues of at least $500 million, consistent and above-average profit growth, and superior financial strength. Individual stocks will be limited to 4% of total stocks at cost and 6% at market. Industry exposure will be limited to 10% at cost and 15% at market.

b) Up to 10% of total stocks may be invested in broadly diversified international stock mutual funds.

c) When purchased, bonds will be rated "A" or better by the major credit rating firms. Bond maturities will be limited to within fifteen years. Individual bonds which are not backed by the full faith and credit of the U.S. government will be limited to 5% of total bonds at market value. Maximum exposure to a single industry will be 25%. Maximum maturities in any one year will be 20% of total bonds at market value.

d) Prohibited assets and transactions include commodities, option contracts, derivative securities, selling short and use of margin credit.

VII. Adopted October 24, 2001 by the GPCOG Executive Committee.
VIII. Amended February 6, 2018
IX. Amended June 13, 2019