

Town of Hampton



TRUSTEES OF THE TRUST FUNDS MAY 22, 2007 4:00 PM

PRESENT: Robert V. (Vic) Lessard, Chairman
John J. Kelley, Sr.
Glyn Eastman
Edward (Ted) Atwood
Warren J. Mackensen, Bookkeeper
John W. O'Dowd, Senior Wealth Advisor, TD Banknorth
Steven H. Reynolds, Portfolio Manager, TD Banknorth

Chairman Lessard called the meeting to order at 4:00 PM. He then invited the TD Banknorth representatives to speak about the current status of the Real Estate Trust Fund and alternatives going forward.

Mr. O'Dowd of Banknorth gave a history of their Wealth Management Group's management of the Trust Fund over the years. Primarily, investments have been in government obligations, federal agencies and some marketable CDs. Mr. Atwood asked who initially determined the investment policy for the Trust Fund. TD Banknorth is the agent of the Trustees. Mr. Eastman recounted that when (Town owned and) leased land was sold, the citizens said that, at the end of each year, they wanted income from the Fund to go back to the Town to reduce property taxes. Technically, the citizens didn't specify the investment policy to be used. The Trustees have latitude in the investment policy. The current \$17 million in the Fund was accumulated from the sale of leased land. There are currently 27 parcels of land remaining that are worth anywhere from \$190,000 to \$1 million. Mr. Kelley agreed that the initial directive was to invest the money conservatively in guaranteed investments.

The current portfolio is a laddered portfolio of fixed income vehicles. Mr. Mackensen asked for clarification that the citizens did not direct the investment vehicles, simply that the income from the Fund be returned to reduce property taxes.

Mr. O'Dowd advised that there could be more diversification in the portfolio. The stated objective of the investment policy is preservation of capital. This means preservation of the historical value of the fund. If the Trustees want to diversify, the bank can present different proposals to meet that objective.

Mr. Atwood referred to a recent article in the Boston Globe. Average return in the Massachusetts pension funds for 2006 was 13.28% in Quincy and 12.53% in Newton. He stated that when all funds are tied up in government funds there is no appreciation in them. They probably net an income of approximately 2%.

Mr. O'Dowd agreed that the portfolio does not recognize inflation. He recommends a gradual adjustment of the portfolio to incorporate investment vehicles that will take inflation into account.

\$2.7 million of bonds in the portfolio will mature this year. The range of return is 3% to 4.875%. This principal could be moved into other investments at maturity.

Mr. O'Dowd noted that in 2002, TD Banknorth had recommended a 15% allocation to equities. This letter was written to Chairman Lessard. He also indicated that a pension portfolio is not a good comparison. If the Wealth Management Group could diversify allocations in the portfolio, the result would be closer to the pension fund.

Mr. O'Dowd agreed that the portfolio has not maintained purchasing power. Mr. Mackensen referred to the current buying power of money. With the principal not adjusted for inflation, money has been lost.

Mr. Mackensen developed a sample portfolio with a ratio of 60% bonds and 40% equities. He suggested that the Fund move away from government securities to corporate securities. He also suggested that the objective should be to return to the Town each year an amount that is at least the same as the previous year. He suggested a goal that we improve income by \$50,000 each year. That would be the target. The balance of the Fund could be put into equities. Dividends from corporate securities are distributable income. These dividends would be added to interest income returned to the Town. He summarized that, in his opinion, the Trustees should be moving toward a 60% fixed income and 40% equity portfolio.

Mr. Kelley indicated he did not have an opinion on this. Mr. Lessard asked how the income would come to the Town if Mr. Mackensen's recommendation were to be accepted.

Mr. O'Dowd said that some of the portfolio should be geared to growth. There may be a short-term impact if the Fund moves to equities. Dividends will be posted as cash to the

portfolio and shown as distributable cash in addition to the interest from the fixed income vehicles.

Chairman Lessard asked if anything would have to be sold. Mr. O'Dowd indicated that it would not. The various investments would be converted to equities as some of the current investments mature. Over time, this would grow the portfolio. The Trust Fund would get the benefit of income yield and grow the portfolio at the same time.

Mr. Atwood asked about whether individual stocks or mutual funds should be used. Mr. O'Dowd said that depended on what strategy the Trustees wanted. The Trustees could choose a passive approach and use index funds, or use a more active approach with individual stocks.

Mr. Mackensen referred to an existing TD Banknorth portfolio that is close to his diversification recommendation. There are more than ten securities in this fund to meet RSA requirements.

Mr. Atwood stated that he believed the citizens shouldn't be limited each year to what the fund received (in income) the previous year. The citizens should get as much back as they can, bringing the Fund back to the original capital amount.

Mr. Mackensen noted that capital gains realized would need to stay in the Fund as capital. These cannot be distributed because they are considered principal.

The TD Banknorth representatives explained re-adjustment of the portfolio as future performance skews it away from the 60% fixed income and 40% equity investment mix desired. Doing this, the portfolio will grow over time.

The trustees had decided in the past to maintain a fixed income portfolio. Over the past years, interest rates have declined, which has hurt the portfolio in terms of income derived.

There was a discussion of the difference between an aggressive investment strategy and diversification of the portfolio.

Chairman Lessard wants to ensure that the people of Hampton get back the maximum return possible. They have not had an increase in returns in recent years.

Mr. Atwood stated that he is willing to consider a change in investment policy.

MOVED by Mr. Mackensen to have one of the Trustees work with the bank to come up with an investment policy involving a portfolio mix of 60% fixed income and 40% equities that has a likelihood of realizing a return at least as good as what the return has been historically. This Trustee would then return to the Board of Trustees with a proposal.

Mr. O'Dowd said the agreement with the Wealth Management Group at TD Banknorth (fees and investment policy) could be re-drafted and submitted to the Trustees.

Mr. Mackensen said the model selected would need to be applied to the Town fund to see what the projected yield would be.

SECOND by Mr. Eastman.

Mr. O'Dowd explained re-balancing of the portfolio.

Chairman Lessard and Mr. Kelley are interested in hearing a proposal for a re-drafted agreement. The contract with TD Banknorth Wealth Management Group ends in October of 2008.

Mr. Kelley said people in Town today didn't contribute to the Real Estate Trust Fund. These people should have more of a say in the policy. Mr. Atwood said people made a decision to buy their land rather than lease it. That was a separate individual decision. Seventy percent of those people are gone now.

VOTE: 5-0-0

MOTION PASSED

The bank will re-draft an agreement reflecting a new asset allocation and give a projection of the yield on that basis.

There was discussion as to whether individual holdings should be considered or a passive approach taken with index funds. Mr. O'Dowd said individual stocks that pay dividends in excess of the rate of inflation, and where there would be more control, might meet the Town's needs.

Mr. Atwood asked if there are mutual funds that accomplish these objectives. Mr. O'Dowd indicated that there are, but there is an extra layer of expenses with mutual funds.

Mr. O'Dowd said the economy is pretty good right now. The real estate market has leveled off, and the stock market is not overvalued. Earnings and the price of the market are parallel. He feels that the impact of the real estate market adjustment won't be as great as feared. This portfolio is intended to exist in perpetuity and has the long term to grow. If it is well-diversified in quality holdings with a long investment time horizon, it should be effective.

Mr. Mackensen asked if online access to statements is available. He indicated that the Trustees need to maintain records. These forms would be bank statements. There will still be hard copy statements sent to the Trustees.

Mr. O'Dowd said he would present two proposals. Last year \$595,000 (in interest) was turned back to the Town. This year we would be looking for a \$640,000 return

(annualized). Mr. O'Dowd will submit proposed portfolios to see if the Trustees feel they are acceptable.

The benefit of allocating some of the funds to equity investments is the appreciation over time. Chairman Lessard said he wants to be able to show people that they'll get more money – to provide that assurance to people. Mr. Atwood said he believed the citizens are not that attuned to how much is coming in.

Mr. Mackensen asked if there is an omnibus trust fund for the non-real estate trust funds. Mr. O'Dowd responded that TD Banknorth Wealth Management Group manages only the Real Estate Trust Fund. There is, however, a jumbo CD with the Government Banking Division of TD Banknorth for non-real estate trust funds. The approximate amount of that jumbo CD is about \$785,000. The CD is earning 5.0% and matures on October 20, 2007.

Mr. O'Dowd provided Banknorth's Income Fee form to be signed by the Trustees. He said the re-allocation of the Real Estate Trust Fund would also show how the fee would be calculated under a new investment policy. As a note, he indicated that TD Banknorth is now a wholly owned subsidiary of Toronto Dominion Bank.

MOVED by Mr. Mackensen to approve the fee and to authorize the Chairman to sign on behalf of the Trustees.

SECOND by Mr. Kelley.

VOTE: 5-0-0

MOTION PASSED

The Wealth Management Group will mail the new asset allocation proposals within two weeks.

The next meeting of the Trustees will be Monday, June 18th at 4:00 PM in the Selectmen's Meeting Room.

At this point, the TD Banknorth representatives left the meeting.

There was discussion of procedures and responsibilities. Chairman Lessard said the Finance Director couldn't handle this because that would be a conflict of interest. Mr. Mackensen said he needs help knowing what to do. He has RSAs about what has to be done. All materials are kept in the vault at the Town Office Building. There was additional discussion of checks to be issued, etc. There was discussion about bank signature cards.

MOVED that the bank signature cards be changed, but it will remain that two signatures are required to sign checks.

Mr. Mackensen suggested that 3 signatures be placed on the account and that 2 signatures be required to sign checks. Chairman Lessard, Mr. Eastman and Mr. Mackensen will be the signatories on the account. Two of these three will be required to sign checks.

SECOND by Mr. Atwood.
VOTE: 5-0-0

MOTION PASSED

There was discussion about the mechanics of changing accounts. A resolution may be required from the Trustees.

Mr. Mackensen asked about bonding for the Trustees. They are required to be bonded per the RSAs. Chairman Lessard will research this with the Town Manager.

Mr. Eastman stated he would like to resign as Bookkeeper.

MOVED by Mr. Kelley to accept Mr. Eastman's resignation.
SECOND by Chairman Lessard.
VOTE: 4-0-1 (Eastman)

MOTION PASSED

MOVED by Mr. Eastman to appoint Mr. Mackensen as Bookkeeper.
SECOND by Mr. Atwood.
VOTE: 4-0-1 (Mackensen)

MOTION PASSED

Mr. Atwood is going to Concord for Trustee Training on June 20th. Mr. Mackensen attended training a year ago and will go again this year if he is available on that date.

MOVED by Mr. Kelley to pay the Secretary for the meeting as incidental Town expenses at an hourly rate 20% over her current wage from the Town.
SECOND by Mr. Mackensen
VOTE: 5-0-0

Distribution of minutes was discussed.

MOVED by Mr. Kelley to adjourn.
SECOND by Mr. Mackensen
VOTE: 5-0-0

MOTION PASSED

Meeting adjourned at 5:15 PM

Respectfully Submitted,

Barbara Renaud