

Town of Hampton



TRUSTEES OF THE TRUST FUNDS JUNE 18, 2007 4:00 PM

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

The meeting was called to order at 4:00 PM by Chairman Lessard.

Mr. O'Dowd noted that a correction is needed to Page 2 of the previous minutes with respect to his previous recommendations. "In 2002, TD Banknorth had recommended a 15% investment in equity. This letter was written to Chairman Lessard."

Mr. O'Dowd recapped from the last meeting the two proposals that they put together. One was a portfolio for individual equities and bonds. The second was a portfolio of mutual funds with the same ratio of 60% bonds and 40% equities.

Those portfolios have been provided to the Trustees today. The first proposal includes a fee of 50 basis points per year. This is a market-value-based fee computed and taken monthly. With the current portfolio, the fee is running \$12,000, or about 6 to 8 basis points per year. The mutual fund would be 40 basis points per year. These fees are discounted from the Wealth Management Group's usual fees.

Mr. Reynolds first described the current-holdings portfolio. Estimated income is \$725,479 (projection over the next 12 months). He then reviewed the trades necessary to have the cash to make the purchases to change the portfolio. He then reviewed the

“Proforma Holdings” report in the handout package. This report is a “pretend” portfolio if the recommended trades are made. The estimated annual income would be \$737, 910 before TD Banknorth Wealth Management Group’s fees. He described the stock selections made. It is a well-balanced portfolio with over 50 stocks. This portfolio would rise and fall to a lesser degree than the market. Most, if not all, of these stocks may increase their dividends.

Mr. O’Dowd said that it is not feasible to maximize both appreciation and yield. Their objective was to sustain the current income level of the portfolio, while introducing a capital appreciation element. He indicated that the bank’s management responsibility is more intensive with this proposed portfolio.

Mr. Reynolds said he chose Treasuries for sale to generate the cash to purchase the equities. He then described those selected for sale and then compared these to the equities recommended for purchase. This increases the Town’s credit risk to get the higher yield. He then described the Goldman Sachs High Yield Bond Fund. These are considered “junk bonds” and therefore riskier than the Treasuries. He indicated that the bond portion of the portfolio is riskier than the equity portion. This was done to get the yield desired.

Mr. Atwood asked for the difference between the Goldman Sachs and the preferred stocks. The Goldman Sachs is more liquid. It also represents 100 bonds. The stocks would be a higher concentration of funds in one stock. He reiterated that the stocks would raise their dividend almost every year. He noted that more active management is needed, requiring the higher management fee.

Mr. Atwood expressed the concern that it may be an error to change the portfolio this dramatically all at once.

Mr. O’Dowd said that, over time, the proposed portfolio would grow. In the short run, this may not be the most opportune time to jump into the market. He then stated that the proposed portfolio would sustain and slightly increase the income. This should be a reassurance to the Town.

Mr. Eastman and Mr. Lessard indicated that there are selected citizens who watch the income from the fund carefully. The majority does not. But those who do are very vocal if the income should decrease.

Mr. Eastman noted that there were no citizens in attendance today.

Mr. Kelley asked how long a recovery period might be needed if the stock market took a dive. Mr. Reynolds indicated that the Great Depression went into the 1940’s. The 60’s were bad for the stock market. It was 1972 when the market started to recover. He described other market adjustments in more recent times when recovery periods were shorter time spans. For this portfolio, however, the recovery period is not a critical factor, because the fund is intended to exist in perpetuity.

Mr. O'Dowd stated the important issue for Trustees is a duty to manage the portfolio. It should be well diversified. As "the Fed" decreased interest rates, income has been reduced for the citizens. The benefit of this portfolio is its long time frame.

Mr. Lessard asked about industrial stock in the portfolio. There are 6 selections. Certain stocks mentioned are not on the bank's approved list.

Mr. Atwood asked if there was a stated approved stock list. There is not at this time.

Mr. Reynolds then addressed the Mutual Fund Model portfolio. This is a group of equity mutual funds (35%), bond mutual funds (60%) and 5% in cash. Estimated annual income for this portfolio is \$562,000. That is not close to what is being generated now (\$595,121 in 2006).

Mr. Kelley asked how this change in investment strategy would be implemented. Mr. O'Dowd said that would be up to the Trustees.

Mr. Eastman asked if the Town would make as much as in previous years. The proposed individual investment portfolio is expected to do that. He is inclined to try it.

Mr. O'Dowd said having an allocation toward equities is a prudent thing to do. He then reviewed fees - 50 basis points for equities (\$82,000) and 40 points for the mutual fund option (\$66,000). Currently fees are \$17,500.

Mr. O'Dowd said the current market fee is around 1% for individual equities. The fees for the Town are a 50% discount from market rates.

The Trustees can charge the fees to income or principal or both, in the bank's opinion.

Mr. Lessard asked what the financial benefit would be for the increase of \$65,000 in fees. The benefit would be in the appreciation in capital and not in short-term annual yield.

Mr. O'Dowd reiterated that having the ability for growth in the portfolio would be beneficial in the long term. It may grow within the next 5 years. It would have a greater chance of growing than it does now.

Mr. O'Dowd said the current portfolio is not adjusted for inflation and income could go down again if "the Fed" interest rate goes down.

Mr. Atwood asked how we could get the benefit of appreciation in yield if the portfolio is re-balanced using the appreciation. Mr. Reynolds believes that the dividends will be greater than the rate of inflation. This will increase income annually. The recommended companies (equity investments) have room to issue dividends every year.

Mr. Atwood said he is still concerned about the increased fee for management. If 60% of the portfolio is in fixed income (with 9% of that in "preferred stock" that's really fixed

income), that means that 51% (of the portfolio) is not being looked at and actively managed. He thinks the fee is high.

Mr. O'Dowd said the fee is a valuable ticket of admission to their (Wealth Management Group's) investment management capability. It is discounted and that is the best they can do.

Mr. Lessard noted that these stocks are being reviewed every day for all bank clients. Mr. O'Dowd said some clients are paying more, but the bank values the relationship with the Town and has done the best it can do on the fee.

A professional asset manager will be overseeing the portfolio, and the portfolio will be able to grow. That is what the Town will be paying for.

Chairman Lessard noted that the investment contract with TD Banknorth expires in October of 2008. It will go out to bid in July of 2008.

Mr. Atwood asked if this was a pooled fund. It is not. It is designed specifically for the Town. The fee is based on the market value of the portfolio. There is no transaction fee as trades are made.

MOVED by Mr. Mackensen to take the proposals under advisement

SECOND by Mr. Eastman

VOTE: 5-0-0

MOTION PASSED

Chairman Lessard asked if the Trustees had any more issues or questions for the bank. There were none. Mr. O'Dowd and Mr. Reynolds left the meeting at this time.

There was a discussion of the time frame for making changes in the investment strategy of the portfolio.

Minutes of meeting of May 22, 2007:

Page 2 – see correction on page 1 above.

Page 2 – paragraph 8 – add “Mr. Mackensen suggested a goal that we improve income by \$50,000 per year.”

Page 3 – delete 3rd paragraph from bottom. (“Mr. Kelley is not in favor of changing the investment policy”).

Page 6 - Add “Mr. Mackensen asked about the bonding for the Trustees.”

MOVED by Mr. Mackensen to accept the minutes as amended

SECOND by Mr. Kelley

VOTE: 5-0-0

MOTION PASSED

Chairman Lessard asked about bank signature cards. They have not been signed. There is no checking account. A voucher is used for the bank to charge the portfolio for its fees.

Mr. Mackensen spoke to the CDs currently in effect for other funds. He suggested the New Hampshire Public Deposit Investment Pool. He distributed a package on this. Many towns are using this service. They are paying 5.12% presently. Mr. Mackensen described the flow of funds using this Pool. This fund currently has \$700 million in it. It is totally liquid. There are no maturity dates. The Pool was set up to help towns manage their trust funds and capital reserve funds.

Mr. Mackensen went through the current participants in this Pool. He went through the details of the fund. MBIA is the investment manager. There is State protection of the money. There is online access with electronic transfer capability. The Board would need to vote to do it. MBIA charges 35 basis points, but that is taken out before the yield of 5.12%. His recommendation is to approve the concept. It would require opening a zero-balance checking account in Town for transferring funds.

MOVED by Mr. Kelley to join the New Hampshire Public Deposit Investment Pool.

SECOND by Mr. Atwood

VOTE: 5-0-0

MOTION PASSED

Mr. Mackensen asked that he be authorized to speak with Citizens Bank and TD Banknorth regarding a zero-balance free checking account. Chairman Lessard suggested that he see Christina Twitchell at TD Banknorth.

Mr. Mackensen distributed the sub-accounting that TD Banknorth is doing now manually on a spreadsheet. We are getting 5% interest now.

A recent Hampton Beach Village District Precinct meeting was discussed. Mr. Mackensen said that there are 3 capital reserve funds at the Beach. Mr. Mackensen noted that there is a \$4,000 discrepancy (\$38,000 versus \$34,000) between what the Village District Precinct thinks it has in capital reserve and what the Trust Funds do have in them. This should be resolved.

MOVED by Mr. Atwood to authorize Mr. Mackensen to talk with the Village District Treasurer to sort this out.

SECOND by Mr. Eastman

VOTE: 5-0-0

MOTION PASSED

Mr. Kelley stated that he thinks the Village District representative should come to our next meeting. Chairman Lessard stated that he wants the Village District Chair to give him what they have given to Mr. Mackensen.

Mr. Mackensen asked if he could get online access to the TD Banknorth Hampton Real Estate Trust Fund account to obtain monthly statements electronically.

MOVED by Mr. Kelley to authorize Mr. Mackensen to have online access to the Hampton Real Estate Trust Fund documents.

SECOND by Mr. Eastman
VOTE: 3-0-2

MOTION PASSED

In 2006, the Board never officially approved an Investment Policy. The RSAs require that the Investment Policy be approved annually.

MOVED by Mr. Kelley to re-adopt the Investment Policy previously approved on October 25, 2005.

SECOND by Mr. Eastman
VOTE: 3-0-2

MOTION PASSED

Mr. Mackensen advised that there is a House Bill on the floor right now that will require the Investment Policy to be filed with the State.

He then distributed a handout on investment options. It is an analysis of the bank's mutual fund recommendation.

The next meeting will be July 16th. Discussion will include the analysis and the bank's proposal. Also, if the Village District issue has progressed, that will be discussed.

MOVED by Mr. Kelley to adjourn

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

MOTION PASSED

Meeting adjourned at 6:10 PM

Respectfully Submitted,

Barbara Renaud