

# Town of Hampton



## TRUSTEES OF THE TRUST FUNDS

MAY 18, 2009 3:00 p.m.

TRUSTEES: Robert (Vic) Lessard, Chairman  
Edward (Sandy) Buck  
Warren J. Mackensen, Bookkeeper  
David Hamilton, Clerk  
Norman Silberdick

PUBLIC: Bonnie Searle, Citizen  
Richard Nichols, Selectman  
David Batchelder, Citizen  
Another gentleman, name unknown

The meeting was called to order at 3:00 p.m. by Chairman Lessard.

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### Minutes of the Last Meeting:

The minutes from the meeting of April 20, 2009, were reviewed.

**MOVED** by Mr. Mackensen to approve the minutes.

**SECOND** by Mr. Hamilton.

**VOTE: 5-0-0**

**Motion Passed**

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### Real Estate Trust Fund:

The Trustees reviewed graphs showing the month-end market values of the Real Estate Trust Fund since late 2005. The market value has increased during the last two months.

At the end of the meeting, a copy was provided to Ms. Searle, at her request.

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### **Real Estate Trust Fund Cash Basis Income:**

The Trustees reviewed a 2009 Cash Basis Income, Fees & Distributions Summary spreadsheet provided by the Bookkeeper. The next quarterly distribution will be in July 2009.

Mr. Hamilton questioned why the monthly figure for dividends did not exactly match what he had on his portfolio statement (difference of \$564.39). It was determined that the difference was a result of TD Wealth management Group expensing foreign taxes against dividend income as reported on the trust-format monthly statement. At the suggestion of Mr. Silberdick, the Bookkeeper will add an additional column to the spreadsheet to show foreign taxes paid, which occurs several times per year, so that the portfolio statement and the trust-format statement will tie out exactly.

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### **Real Estate Trust Fund Portfolio Asset Allocation and Investment Diversification:**

Mr. Silberdick asked the Trustees why so much of the Real Estate Trust Fund is invested in equities, i.e., why is the Investment Policy target for equities set at 40%. He felt that a 10 to 15% exposure to equities was sufficient. The remaining 85 to 90% should be in fixed income and cash.

Mr. Hamilton recommended that equities be capped at 25% of the portfolio. He was curious as to how the Trustees could transition the Trust Fund to reach this target.

Mr. Buck responded that 10% to 15% in equities is too conservative. The recovery from the recent equity contraction would take a very long time if too conservative an approach is implemented.

Mr. Lessard stated that he did not want to go along with the Investment Policy changes in July of 2007, but that he signed the Investment Policy to provide unanimity with the Board. He stated that he will not entertain any votes during the meeting to make any changes. He wanted to hear from the investment advisor, TD Wealth Management Group, at the next meeting.

The discussion continued with Mr. Mackensen providing a Morningstar report. See attached pages. He explained that Morningstar is an independent research firm that tracks stocks and mutual funds, and provides monthly data to investment advisors.

The Morningstar report listed the securities in the Real Estate Trust Fund portfolio as of April 30, 2009. In some cases, proxies were used to simulate the portfolio holdings. The report shows that, of the 39% of the portfolio in stocks, 96% were in large capitalization stocks. Only 4% of the stocks were in mid-cap stocks. There

were no small cap stocks. This is due largely to the fact that TD Wealth Management Group is a large cap manager.

Mr. Mackensen continued, pointing out that, of the 50% of the portfolio in bonds, only 5% were of high quality according to the Morningstar report. The portion of the portfolio supports the income requirements of the Real Estate Trust Fund Investment Policy.

Turning to Page 2 of the Morningstar report, Mr. Mackensen drew the Trustees' attention to the scatter plot diagram, which showed the risk and return of each portfolio position over a three-year period. A Morningstar-created conservative benchmark, comprising 40% equities and 60% fixed income and bonds, was superimposed on the scatter plot to show an unmanaged reference point. A composite of the total portfolio showed that the portfolio as a unit produced a higher return at lower risk than the benchmark, which was a positive outcome.

Mr. Mackensen pointed out that the Real Estate Trust Fund does not have any exposure to small cap stocks, and only a minimum exposure to mid-cap stocks. Yet, small cap and mid-cap stocks have historically outperformed large cap stocks coming out of a recession.

The Chairman recognized Mr. David Batchelder, a citizen of Hampton, a Chartered Financial Analyst (CFA) charter holder and a professional investment advisor. Mr. Batchelder reminded the Trustees that the Real Estate Trust Fund should be managed with a long-term view because of the endowment nature of the Fund. He was in favor of bringing in international stock exposure, more mid-cap exposure, and small cap exposure in order to increase the diversification of the Fund.

Mr. Silberdick commented that he does not see the market going up soon. Further, he is concerned about the economy and unemployment. He also questioned current government policies in responding to the recession.

Mr Hamilton opined that he does not consider an investment policy of 40% equities and 60% fixed income and cash as conservative.

Mr. Batchelder responded that, in the institutional money management world, a portfolio comprising 40% equities and 60% fixed income and cash is generally considered a conservative equity portfolio. When questioned further by the Trustees, Mr. Batchelder acknowledged that there is no precise definition of conservative – that the term can mean different things to different people.

Mr. Hamilton suggested that a greater allocation to fixed income and cash would produce more income.

Mr. Batchelder pointed out that the fixed income market is risky, too. For example, in the recent downturn some corporate bonds dropped 30% in value.

Mr. Silberdick countered that, if held to maturity, the bonds will still deliver the face value.

Mr. Lessard expressed a certain degree of disappointment with TD Wealth Management Group.

Mr. Mackensen expressed a strong desire to achieve greater diversification in the portfolio by using broadly diversified index funds that would get away from the large cap stock picking that goes on in TD Wealth Management's Burlington, Massachusetts, investment analysis office. He pointed out that the portfolio incurred some substantial losses in the last year because the investment manager held large positions in some stocks that dropped drastically.

Mr. Hamilton suggested that the portfolio hold good fixed income products and that equities be held to a range of 15% to 25%.

Mr. Silberdick indicated that he liked mutual funds because of their greater diversification.

Mr. Buck agreed with Mr. Silberdick and pointed out that The Vanguard Group has divided their funds into many different categories to facilitate obtaining a diversified portfolio. He further suggested that the portfolio have more of a value-bias.

Mr. Batchelder cautioned that one's definition of value may differ from another person's definition of value. Recently, financial stocks were considered value stocks. They were the darlings of the indexes because of their earnings growth over the last several years. However, many of the financial stocks have had to reduce or eliminate their dividends and are themselves now seeking capital investment to shore up their balance sheets.

Mr. Silberdick requested that the investment advisor provide the Trustees with a more diversified portfolio.

Mr. Lessard said that he told TD Wealth Management Group that the portfolio was a long-term investment. He requested that the Bookkeeper contact the investment advisor and ask them to be present at the June Trustees meeting.

Mr. Hamilton said that TD Wealth Management Group may be limited in what they can do.

Mr. Silberdick said that he was in favor of reducing the percentage allocation to equities.

Mr. Mackensen pointed out that the current Investment Policy equity target allocation is 40%, with an acceptable range of 25% to 45%.

Mr. Buck said that he felt the equity percentage should be in the 25% to 30% range.

Mr. Silberdick felt that 25% was reasonable (compromising on his earlier suggestion of 10% to 15% equities).

Mr. Mackensen favored keeping the Investment Policy as is, i.e., 40% equity target with a range of 25% to 45%. He reminded the Trustees that the purpose of an investment policy is to establish a clear long-term vision of an acceptable portfolio allocation, and then not change the policy when markets deviate from the norm. If the policy is changed based on market behavior, the whole point of having a policy to guide the investments during market turmoil is missed.

Mr. Hamilton reiterated that a maximum of 25% equities is where he feels municipal portfolios should be, but with better diversification.

Mr. Silberdick questioned whether the Trustees can ask TD Wealth Management Group to provide a 25% equity portfolio with more diversification.

Mr. Hamilton expressed his concern that TD Wealth Management Group may not be able to diversify the portfolio without concentrated stock positions.

Mr. Mackensen suggested the use of broadly-diversified index funds to avoid concentrated stock positions that harmed the portfolio recently.

Mr. Buck wanted to obtain TD Wealth Management Group's input on a 25% equity allocation. If they concur, can they implement the allocation?

**MOVED** by Mr. Mackensen to table further discussion until the next meeting when TD Wealth Management Group could be present.

**SECONDED** by Mr. Buck. Mr. Silberdick suggested that a meeting be held in the near future to pursue this matter. Mr. Buck suggested the next regularly scheduled meeting would be sufficient. It was left that the discussion would be revisited at the next regularly scheduled meeting on June 22, 2009.

**VOTE: 5-0-0**

**Motion Passed**

In closing, Mr. Mackensen asked for Mr. Batchelder's assessment of the discussion. Mr. Batchelder stated that endowments, of which the Real Estate Trust Fund could be considered one, are generally more aggressively invested than the Real Estate Trust Fund due to their infinite time horizon. He said that 40% equity is a reasonable equity percentage, but there is no right or wrong in these sorts of matters. It depends on the organization, its goals and requirements, and the people who manage it.

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### **Smaller Trust Funds and Capital Reserve Funds**

The Trustees reviewed documentation on the smaller trust funds and capital reserve funds. The documentation included the Vanguard Prime Money Market

web-based statement and the TD Banknorth CD. Transaction details and dividend allocations for the 12 smaller trust funds and capital reserve funds were reviewed.

The Bookkeeper highlighted that \$325,000 was moved from the Vanguard Prime Money Market Fund to a TD Banknorth Government Banking Division CD to improve the investment performance of the Cemetery Burial Trust Fund. The rate is 2.05% for two years. Maturity is April 24, 2011. There is no premature withdrawal penalty because the CD was obtained through the Government Banking Division.

The Bookkeeper will obtain written documentation on the collateralization of the CD above the \$250,000 FDIC ceiling. Mr. Buck affirmed that collateralization is required.

The discussion turned towards the Poor Trusts, of which there are three, although they are managed as a Common Fund (1P). The total value of all Poor Trusts total \$532. There was discussion about collapsing this small amount of money, or otherwise expending it. Mr. Mackensen pointed out that the three Poor Trusts are perpetual trust funds for the worthy poor of Hampton, and that they may not be terminated, disbursed, or otherwise eliminated from the Trustees' books. He went on to say that, with further publicity about the existence of the Poor Trusts, philanthropically-oriented people in Hampton may want to gift money to their own Poor Trust to fulfill their benevolent goals.

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### **Warrant Article 30 – Expendable Trust Fund for Employee Compensated Leave**

The Trustees reviewed the Department of Revenue Administration letter to the Selectmen dated April 14, 2009. No Trustee action was required.

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### **Department of Public Works Equipment Capital Reserve Fund**

The Trustees reviewed the documentation for the disbursement of \$7,500 for a 23-passenger bus. A signed voucher for the disbursement will be obtained from the Town Finance Director after the meeting.

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### **Library Trust Funds:**

The Trustees reviewed a letter from Ms. Bridgit Valgenti, Chairperson of the Board of Trustees of the Lane Memorial Library. She authorized the Trustees of the Trust Funds to move the Library Trusts (four trusts managed as Common Fund 1L) from the current short-term investment vehicle (the Vanguard Prime Money Market Fund) to a new Fidelity Balanced Fund account.

Mr. Mackensen and Mr. Hamilton signed the Fidelity Account application. Mr. Lessard and Mr. Mackensen co-signed the check to Fidelity Investments.

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**Trustee Web Site:**

Mr. Silberdick reported that Mr. Nichols had some difficulty finding the quarterly income and portfolio market value of the Real Estate Trust Fund on the Trustees' web site. The Bookkeeper reported the Home page guides Internet users to the Trust Funds page listing the various trust funds. By clicking on the hyperlink to the Real Estate Trust Fund, the income and market value table can be seen towards the bottom of the Real Estate Trust Fund page.

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**Trust Funds Audit:**

The Bookkeeper reported that he provided additional year-end 2008 documentation to the auditors after the Trustees meeting on April 20th.

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**Public Session:**

Chairman Lessard recognized Ms. Searle in the audience. Ms. Searle asked how the Town's risk tolerance is determined. Mr. Mackensen reported that risk tolerance is a highly subjective determination. Factors to consider include the time horizon of the portfolio, the amount of money in the portfolio, the purpose of the portfolio, and other qualitative factors.

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**Next Meeting:**

The next meeting of the Trustees is scheduled for Monday, June 22, 2009, at 3:00 p.m.

**MOVED** by Mr. Hamilton to adjourn.

**SECONDED** by Mr. Silberdick.

**VOTE: 5-0-0**

**Motion Passed**

The meeting adjourned at 4:33 p.m.

Respectfully submitted,

*Warren J. Mackensen*

Warren J. Mackensen, Bookkeeper