

# Town of Hampton



## TRUSTEES OF THE TRUST FUNDS

JUNE 22, 2009 3:00 p.m.

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

ADVISOR: John O'Dowd, TD Wealth Management, Private Client Services

PUBLIC: Andrew C. Mackensen, Former Citizen of Hampton

The meeting was called to order at 3:03 p.m. by Chairman Lessard, followed by the Pledge of Allegiance to the flag.

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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 month-end market value has increased during the last three months (February 28 to May 31) from \$12,773,617 to \$14,001,791, which is an increase of \$1,228,174. There was also a distribution to the Town of \$125,000 during this four-month period that is not included in this increase.

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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.

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

Chairman Lessard recognized the Real Estate Trust Fund investment advisor, Mr. John O'Dowd.

Mr. O'Dowd opened his presentation by making five points:

- The securities markets are unpredictable, and they typically don't move together. When stocks move up, bonds may be down. When domestic markets falter, international ones may lead.
- Asset allocation can manage the challenges of changing market conditions by diversifying investments among many different securities.
- Asset classes have distinct performance characteristics and react differently to changing market cycles.
- Within each asset class, there are subclasses that offer more opportunities for diversification, by market capitalization (large, mid, and small), style (growth vs. value), credit quality and maturity.
- Diversification may reduce a portfolio's overall risk because the returns are less dependent on the performance of a single type of investment.

He went on to discuss the power of asset allocation. Asset allocation can be responsible for as much as 91% of the volatility of a portfolio's performance. That is why an allocation is so important in achieving long-term investment goals.

Next, he showed a quilt-type chart demonstrating that no asset class performs consistently well all the time. This chart demonstrated the importance of diversifying into different asset classes.

Mr. O'Dowd then discussed asset correlation by showing a chart that uses the S&P 500 as a reference point and then compares other sectors and styles to the S&P 500. Over the last nine months, virtually every sector and style correlated with the S&P 500 indicated that diversification did not help much in this recent period.

The Board's attention was then directed to the Real Estate Trust Fund, which showed that the equity asset allocation is 35%, the fixed income allocation is 62% and the remainder is in cash. The portfolio continues to provide an estimated portfolio yield of 4.38%. This is an excellent yield, considering the recent market volatility. The current asset allocation has been very consistent, percentage-wise, since the portfolio was reallocated to equities in August of 2007.

The next slide in Mr. O'Dowd's presentation showed that the equity capitalization is currently 88% large-cap stocks 5.5% mid-cap stocks, about 2.9% small-cap stocks and about 3.7% international. With regard to equities styles, 47.3% of the portfolio is in the growth category, 24.4% in blend and 28.3% in value. Mr. O'Dowd said that they are weighting the portfolio more towards small-cap, mid-cap, and international stocks over the next six months as the recovery progresses. Overall,

the portfolio will remain a large capitalization portfolio as large-cap stocks have proven to be the most stable equities.

Mr. Silberdick inquired as to who makes decision on the investments. Mr. O'Dowd responded that the equity and fixed income decisions are made in Burlington Massachusetts, Toronto, and New York. Mr. Silberdick further asked, referring to the "quilt chart," whether it would have been better to be in bonds over the last few years. Mr. O'Dowd responded that he would need to go out much longer in time than the 16 years shown on the chart to answer the question.

The 12-month performance of the Hampton Real Estate Trust Fund portfolio was -7.72%, versus an Income/Growth Index of -9.45%. This outperformance relative to the benchmark shows that the fund is well allocated and that no major changes are necessary. Mr. O'Dowd then showed two portfolio performance slides looking at calendar year 2008, as well as a longer period from October 1, 2007 through May 31, 2009. These time frames also showed that the portfolio has outperformed the benchmark, while still maintaining a maximum yield for portfolio income as well as a growth orientation to offset inflation.

The next chart showed that the quality of the fixed income portion of the portfolio is of high quality and that 60% of the portfolio investments are in AAA-rated US Treasuries and federal agencies.

Mr. Silberdick stated that he was promoting a 15% commitment to equities, while some of the other trustees thought that the equity allocation should be 25%. He was concerned that we have not seen the bottom of the equity markets yet, and that the fund is overweighted inequities. He definitely felt the maximum commitment to equities should be in the 20 to 25% range.

Mr. O'Dowd responded by saying that Mr. Silberdick is stating more his own personal risk tolerance than what should be considered for the Real Estate Trust Fund given its perpetual time horizon. Mr. O'Dowd told the trustees that he has been working with this portfolio for over 10 years and that for a long time, the portfolio needed to beat inflation because he saw erosion of income in the past due to inflation. He re-emphasized the need to smooth out the portfolio returns through equities to lessen the effects of inflation over the long term.

Mr. Silberdick then commented that we have a diversified bond portfolio with reasonable returns at this time but he wondered when the overall portfolio would return to \$16 million.

Mr. Hamilton reiterated his opinion from the last meeting where he felt that equities should be capped at 25%. He then went on to question the \$394,000 in cash, garnering a mere 0.1% return. He wanted to know why this cash was not invested better.

Mr. O'Dowd explained that the portfolio is providing an overall yield of 4.38%. Mr. Lessard commented that one or more of his friends have indicated that the yield of the portfolio is quite good considering the current market situation.

Mr. Mackensen commented that the amount of money in cash is an appropriate amount considering that approximately \$150,000 will probably be distributed to the town in mid-July, and that the investment advisor needs the rest of the cash to place trades while managing the portfolio.

Mr. Buck commented that he is comfortable with the cash level as it is.

Mr. Silberdick felt that we have too much cash but he was not sure that it was worth the aggravation and cost to change the situation.

Mr. O'Dowd said that, if the cash target is lowered, the Trustees should change the Investment Policy to reflect the lower target cash percentage. The written change will provide the direction necessary for TD Wealth Management Group.

Mr. Hamilton said that we should be looking at each segment of the portfolio to invest as best we can. Mr. O'Dowd said that 5% cash is a prudent position and that the investment manager manages the portfolio to the Investment Policy targets.

Mr. Mackensen asked what restrictions there might be on the investment advisor if the cash target was lowered to 3%. Mr. O'Dowd said that a lower cash target could potentially hamstring trading.

Mr. Hamilton asked if the investment advisor has any accounts for sweeping cash each day. Mr. O'Dowd responded that the accounts are swept every day and that he recommended leaving cash as it is.

Mr. Silberdick asked if we can get a report showing the daily cash balance. Mr. O'Dowd indicated that that may be difficult, but he will see what is possible.

Mr. Mackensen asked about the possibility of using several stock index funds in various market sectors in lieu of picking individual stocks in order to obtain greater equity diversification in the portfolio. He alluded to the substantial losses incurred during the last year due to certain equity positions held in the portfolio.

Mr. O'Dowd said that the 50 individual stocks in the portfolio represent a prudent portfolio and that there is no need to use stock index funds. Mr. O'Dowd pointed out that the portfolio is less volatile than the income/growth benchmark against which the portfolio is measured. The introduction of international equities has helped the portfolio.

Mr. Silberdick said that he was in favor of a maximum equity exposure of 25%. Mr. Hamilton concurred that he also was fine with a 25% equity exposure. Mr. Mackensen commented that the discussion represented short-term time horizon

thinking. Mr. Buck commented that he wants to see a more value bias in the portfolio than growth.

**MOVED** by Mr. Silberdick to reduce the equity target in the Investment Policy to 25%.

**SECONDED** by Mr. Hamilton.

Chairman Lessard asked the Board how it would put a 25% equity target into effect without losing money on existing positions. There was no resolution.

Mr. Mackensen reminded the Board about the comments made by Mr. Batchelder at the last meeting, viz., in the institutional money management world, a portfolio comprising 40% equities and 60% fixed income and cash is generally considered a conservative equity portfolio.

**VOTE: 2-2-1**

**Motion Failed**

Mr. O'Dowd thanked the Trustees for a healthy and important discussion of the portfolio and then left the meeting.

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### **Minutes of the Last Meeting**

The minutes from the meeting of May 18, 2009, were reviewed.

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

**SECOND** by Mr. Silberdick.

**VOTE: 5-0-0**

**Motion Passed**

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### **Policy on Public Attendees**

Mr. Hamilton asked the Board to establish a policy relative to citizens of Hampton and members of the public at large who may be in attendance at Trustee meetings.

The Board decided to acknowledge attendees at the beginning of the meeting in order to record their names in accordance with RSA 91-A:2 ["Minutes of all such meetings, including names of members, persons appearing before the public bodies, and a brief description of the subject matter discussed and final decisions, shall be promptly recorded and open to public inspection not more than 5 business days after the meeting....].

In general, public comment would be restricted to the end of the meeting. At the discretion of the Chairman, a person may be acknowledged and be given permission to speak to the Board during the meeting.

### **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, the \$325,000 TD Banknorth CD for the Cemetery Burial Trust Fund, and the Fidelity Balanced Fund statement for the Library Trust Funds. Transaction details and dividend allocations for the 12 smaller trust funds and capital reserve funds were reviewed.

The Bookkeeper reported that collateralization of the Cemetery Burial Trust Fund CD in the form of a \$100,000 Letter of Credit to cover the principal invested above the \$250,000 FDIC ceiling has been received.

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### **Change to a Fiscal Year-End of June 30th**

The Bookkeeper informed the Board that he emailed the Town Manager informing him that the Trustees can support a change in accounting from a calendar year to a fiscal year ending June 30<sup>th</sup>.

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### **Cemetery Maintenance Capital Reserve Fund**

The Bookkeeper informed the Board that a letter was received from the NH Department of Revenue Administration inquiring about the Cemetery Maintenance Capital Reserve Fund that was established in 1994. The Bookkeeper will research the situation regarding this capital reserve fund at the library. The Trustees website has the Trustee pages for the Town Report for 2000, which does not list this capital reserve fund. Also, the 2005 MS-9 Report to the State on the website does not list this capital reserve fund.

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### **Next Meeting**

The next meeting of the Trustees is scheduled for Monday, July 20, 2009, at 2:00 p.m.

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

**SECONDED** by Mr. Silberdick.

**VOTE: 5-0-0**

**Motion Passed**

The meeting adjourned at 4:40 p.m.

Respectfully submitted,

*Warren J. Mackensen*

Warren J. Mackensen, Bookkeeper