

Town of Hampton



TRUSTEES OF THE TRUST FUNDS

OCTOBER 19, 2009 2:00 p.m.

TRUSTEES: Robert (Vic) Lessard, Chairman
David Hamilton, Vice Chairman
Edward (Sandy) Buck
Warren J. Mackensen, Bookkeeper
Norman Silberdick
John O'Dowd, TD Wealth Management, Private Client Services

PUBLIC: David T. Mayes, Trustee of Trust Funds, Hampton Falls

The meeting was called to order at 2:02 p.m. by Vice Chairman Hamilton.

Real Estate Trust Fund:

The Trustees reviewed the written Market & Economic Review provided by Mr. John O'Dowd of TD Wealth Management Group.

Third Quarter:

Governments and central banks around the world increased their economic forecasts, while companies reported better-than-expected results and analysts upgraded their future earnings estimates. We remain cautiously optimistic in our outlook, though we believe the market has priced in a lot of the anticipated economic recovery. Earnings revisions are positive globally; the economy continues to pick up; and valuation and sentiment are supportive.

Economic data are steadily improving, notably in manufacturing, which is showing signs of expanding in a growing number of countries. The global economy also stands to benefit from a rebuilding of inventories in the months ahead.

Economy:

The U.S. economy contracted 0.7% in the second quarter, the fourth consecutive quarterly decline and the longest contraction since quarterly records began in 1947. The economy has shrunk 3.8% from the second quarter in 2008.

The U.S. shed a more-than-forecast 263,000 jobs in September, bringing the total number of jobs lost since the recession began in December 2008 to 7.2 million. The unemployment rate edged up to 9.8%, the highest since 1983, from 9.7% in August.

U. S. manufacturing expanded for the second time in 19 months in September. Headline inflation rose 0.4% in August; however, consumer prices fell 1.5% year over year. Core inflation increased 0.1% the same month, while the annual core rate eased to 1.4% from 1.5% in July.

Town of Hampton Real Estate Trust Portfolio Review:

The Real Estate Trust Fund remains invested in accordance with the Real Estate Trust Fund Investment Policy. The portfolio's asset allocation is approximately 39% in equities and 61% in fixed income and cash. The estimated portfolio yield is 4.03%.

Mr. Silberdick commented that he is concerned that the portfolio has 39% in equities. Mr. O'Dowd responded that the long time horizon of the Real Estate Trust Fund provides the cushion to ride out the volatility.

The portfolio's total return for the 12-month period ending September 30, 2009, was 4.04% versus the performance benchmarks, which returned 4.23% for the same period.

Mr. O'Dowd added that TD expects a gradual economic recovery. There are real questions still surrounding the consumer. Business conditions seem to be improving. The Institute for Supply Management Index is improving and is now at 52.6. Earnings are positive, but revenue increases are not as robust as they would like them to be. The government continues to issue record levels of debt. Oil prices are moving on the strength of the global recovery. Equity markets need a global recovery to sustain the rally.

Recent developments in the U.S. housing market, fiscal stimulus, and the emergence of Chrysler and GM from bankruptcy suggest that the third quarter may well show positive economic growth, which is a good signal that the U.S. economy has emerged from the Great Recession.

Governments around the globe have been quick to respond with both fiscal and financial stimulus to avert a deep recession. While the recession may be coming to a close, the road to recovery will not be swift. A severely beaten down labor

market and shrunken household net worth imply a slow-go recovery in 2010. The unemployment rate is still rising, but it is a lagging indicator.

With regard to inflation, the substantial amount of economic slack currently existing in the U.S. economy limits the risk of inflation over the near term. Empty factories and rising unemployment give businesses and workers little room to build up prices and wages.

With regard to housing, the inventory of unsold new homes fell by 1.7 months in the second quarter and will fall further in the third quarter. The reduction in housing inventories in the second and third quarters is positive for the rebounding U.S. economy. This rebound in home construction could add 0.6% to the U.S. real GDP in the second half of 2009. Overall, investors have become less pessimistic.

The dividend yield on the equity portion of the portfolio is 2.98%, which compares favorably against the benchmark equity yield of 1.95%. The overall portfolio yield of the portfolio is 4.03%.

The portfolio equity capitalization comprises 77% large cap stocks, 13.8% mid-cap stocks, 5.5 in small cap stocks and 3.8% in international stocks.

In response to Mr. Buck's concern at a prior Trustees meeting about insufficient value stocks in the portfolio, Mr. O'Dowd pointed out that the equity portion of the portfolio now has 31.4% in value-oriented stocks. This compares with the S&P 500 Index, which has about 40% in value stocks.

There is a 9.2% allocation to financial stocks versus 15.4% in the S&P 500 Index. There is a 13.3% allocation to information technology while the S&P 500 has an 18.8% allocation. These two stock sectors tend to lead coming out of a recession, but the portfolio's income focus dictates a lesser allocation to these two sectors.

The fixed income portion of the portfolio will see significant maturities in the next three years. This posture bodes well for purchasing bonds at higher rates in the future.

Mr. Hamilton asked Mr. O'Dowd about the \$750 of original issue discount (OID) received from the maturation of the SBC Communications bond. Mr. O'Dowd responded that the OID is classified as principal upon maturity, and is not distributable income.

Mr. O'Dowd reported that preferred stock holdings are now classified as fixed income on TD Wealth Management Group statements, which now match the performance reports closely.

MOVED by Mr. Mackensen to accept the investment advisor's report and include it in these minutes.

SECOND by Mr. Hamilton.

VOTE: 4-0-0

Motion Passed

Real Estate Trust Fund Quarterly Disbursement:

The Trustees reviewed a 2009 Cash Basis Income, Fees & Distributions Summary spreadsheet provided by the Bookkeeper. The Trustees discussed the accumulated income to determine the appropriate amount to distribute to the Town as a 3rd quarter distribution. There is currently \$149,300 of undistributed accumulated income on hand.

MOVED by Mr. Silberdick to distribute \$140,000 to the Town as a 3rd quarter distribution.

SECOND by Mr. Buck.

VOTE: 4-0-0

Motion Passed

Mr. O'Dowd left the meeting at 2:43 p.m.

Minutes of the Last Meeting:

The minutes from the meeting of September 21, 2009, were reviewed.

MOVED by Mr. Silberdick to approve the minutes, as amended.

SECOND by Mr. Buck.

VOTE: 4-0-0

Motion Passed

Real Estate Trust Fund Quarterly Reporting:

The Trustees reviewed graphs showing the month-end market values of the Real Estate Trust Fund since late 2005. The portfolio uptrend continues and corresponds with the recent market increases.

The Bookkeeper informed the Trustees that the Real Estate Trust Fund web page on the Trustees web site (www.HamptonTrustFunds.org) has been updated to show the September 30, 2009, quarter-end market value and the cash basis income received.

Smaller Trust Funds and Capital Reserve Funds

The Trustees reviewed financial documentation on the smaller trust funds and capital reserve funds as of September 30, 2009.

The Bookkeeper provided the Trustees with two capital reserve fund withdrawal requests. Both requests are for withdrawals from the Department of Public Works Equipment Capital Reserve Fund: one in the amount of \$180,000 for a vacuum street sweeper and the other for \$96,120 for a sidewalk tractor with blower. After reviewing the Board of Selectmen written approvals for these items, the Trustees authorized the issuance of two checks.

Winnacunnet High School Building Maintenance Expendable Trust Fund:

The Bookkeeper reported that Winnacunnet High School sent a check in the amount of \$25,000 for the Winnacunnet High School Building Maintenance Expendable Trust Fund approved by the voters on March 10, 2009. The documentation for this new trust fund was provided to each Trustee in advance of today's meeting.

MOVED by Mr. Mackensen to accept the Winnacunnet High School Building Maintenance Expendable Trust Fund for management by the Trustees, and to place the funds in the Vanguard Prime Money Market Fund.

SECOND by Mr. Buck.

VOTE: 4-0-0

Motion Passed

Mr. Lessard arrived at the meeting at 3:04 p.m.

Checking Account Signatories

The Bookkeeper noted that only two of the sitting trustees (Mr. Lessard and Mr. Mackensen) are authorized to sign checks. Each check requires two signatures. An additional trustee should be added to the account as an authorized signatory.

MOVED by Mr. Hamilton to add Mr. Buck as an additional signatory on the Trustee checking account.

SECOND by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

Poor Trust Funds

The Trustees discussed the three Poor Trust Funds and what can be done to improve their stature. The Trustees agreed that the relatively modest sum in the three trusts, which are managed as a common fund comprising a total of \$530, precludes investing the funds to include appreciation of principal.

The only way to obtain some growth in the Poor Trust Funds is for one or more philanthropically-oriented citizens to create additional trusts designated for the worthy poor of Hampton such that the overall capital in the common fund would be larger.

Next Meeting:

The next meeting of the Trustees is scheduled for Monday, November 16, 2009, at 3:00 p.m. The Trustees will review a proposed 2010 meeting schedule and a draft narrative for the Trustees' section of the 2009 Town Report. Further, the Trustees will likely disburse the \$300,000 from the Town Roads Capital Reserve Fund authorized by the 2009 Town Meeting for the repair and improvement of specific roads under Article 20.

MOVED by Mr. Buck to adjourn.

SECOND by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

The meeting adjourned at 3:25 p.m.

Respectfully submitted,

Warren J. Mackensen

Warren J. Mackensen, Bookkeeper