

Town of Hampton



TRUSTEES OF THE TRUST FUNDS

APRIL 19, 2010 3:00 p.m.

TRUSTEES: David Hamilton, Chairman
Edward (Sandy) Buck, Vice Chair
Warren J. Mackensen, Bookkeeper
Norman Silberdick
William A. Hartley

ADVISOR: John O'Dowd, TD Wealth Management, Private Client Services
Dennis Woessner, TD Fixed Income Portfolio Manager, Burlington, MA

PUBLIC: None

The meeting was called to order at 2:54 p.m. by Chairman Hamilton.

Real Estate Trust Fund

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

First Quarter 2010:

Data continue to improve, notably manufacturing, house prices and employment in the U.S. However, as previously stated we believe expectations for a stronger economy have largely been priced in by the market, and valuation and sentiment indicators are neutral.

The rising government debt burden, and how this higher debt may impact economic growth and asset prices, is a mounting concern. We are seeing signs that central banks are now considering the need to remove monetary stimulus as growth and inflation expectations pick up.

While equity markets still have momentum on their side and could advance further this year, we feel a more cautious approach is warranted. Therefore, we have a neutral equity allocation.

Economy:

The final tally showed the U.S. economy grew at an annualized rate of 5.6% in the last quarter of 2009. It was the best quarterly performance in six years. For all of 2009, the economy contracted 2.4%, the worst one-year showing since 1946.

The economy added 162,000 jobs in March, the third gain in five months and the biggest since March 2007. The unemployment rate remained at 9.7% for a third month. U.S. manufacturing continued to expand in March at the fastest pace since July 2004.

Headline inflation was flat in February after rising 0.2% in January. The annual rate fell to 2.1% from 2.6% the month before. Core inflation edged up 0.1% in February, with the annual rate dipping to 1.3%, the lowest since February 2004, from 1.6%.

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 40% in equities and 60% in fixed income and cash. The estimated portfolio yield is 4.11%.

The portfolio's total return for the 12-month period ending March 31, 2010 was 21.54% versus the performance benchmarks which returned 20.27% for the same period.

The April 19, 2010, online account activity status shows that over \$690,000 of equities had been sold recently to bring the equity percentage back down to 40%, from 44% at the end of March. This rebalancing is consistent with the Investment Policy.

Mr. O'Dowd provided a TD WM U.S. Fixed Income Management presentation to the Trustees. The TD WM fixed income guiding principals stated that consistent outperformance results from extensive independent credit research and exposure, sound yield and credit curve analysis, and strategic portfolio construction to ensure risk control. Interest rate speculation is not a primary source of added value. Rather, a credit-focused approach should add value while managing risk.

TD WM's philosophy is to follow the Federal Reserve's lead and moderately tilt the duration of the portfolio accordingly to adjust the interest rate sensitivity of the portfolio. Yield has proven to be the dominant component of total return in bond portfolios. TD WM overweights corporate bonds, mortgage pass-through securities, asset-backed securities, and agency securities, as opposed to treasury bonds.

The next chart showed that economists' forecasts from 1982 to 2008 were wrong in 35 of the 52 six-month average forecasted periods – 67% of the time, concluding that interest rate forecasting is a loser's game.

Yield matters considerably as 91% of the total return results from 2000 through 2009 came from the bond coupons. The remaining 9% of the total return came from price appreciation.

The TD WM process includes identifying the most attractive sectors and sub-sectors; identifying the most attractive securities within each sector; selecting the most attractive securities along the credit curve, and then assuring risk control. This latter factor includes guideline compliance, strategy compliance, and monitoring and reviewing portfolio exposure to various market risks. Finally, an effort is made to minimize duration mismatch versus the benchmark.

Security selection follows a structured screening process using quantitative and qualitative analysis to identify stable and improving credits. Securities must have liquidity. Bonds are selected for their attractiveness within the issuer's credit curve and relative to other similar issuers. The sell discipline involves liquidating a position when the company or industry fundamentals change. Also, when valuations are fully priced into the bonds, they are sold.

Mr. O'Dowd introduced Dennis Woessner, CFA, the TD WM Fixed Income Portfolio Manager assigned to the Real Estate Trust Fund portfolio.

Mr. Woessner described the TD WM active management product that the Trustees could consider. Like a three-legged stool, there is the bottoms up approach of reviewing the fundamentals of corporations issuing bonds; reviewing the economic environment; and then risk budgeting, which is the notion of maximizing expected return while minimizing risk. Effectively, the Trustees' Investment Policy is overlaid on the TD WM strategies to find appropriate investments.

TD WM has analysts in New York City and Toronto who follow companies in each industry. TD WM has internal rating agencies to ferret out risky investments.

Mr. Silberdick focused on a Federal Farm Credit holding in the current portfolio. The position cost \$806,000 and is currently worth \$804,000. On May 11, 2010, the bond will mature at \$800,000. He asked TD WM why this position was not sold earlier to lessen the capital loss. Mr. Woessner responded that the position is being held for diversification in the portfolio and for its position on the U.S. Treasury yield curve.

Mr. O'Dowd added that TD WM can begin to sell positions to capture the appreciation on bonds and actively manage the portfolio. He apprised the Trustees that the active management strategy involves about 35% turnover in the portfolio each year. He said that the Trustees need to decide to manage for yield, or for total return. It was pointed out that the current Investment Policy states on Page 5: "The goal of the fixed income component is to maximize income given the constraints cited in this Investment Policy." The Investment Policy would have to be amended to include total return language.

Chairman Hamilton asked, "If the Investment Policy is amended, does that allow active fixed income management?"

Mr. Hartley queried further asking TD WM if they (TD WM) want to manage the portfolio for total return.

Mr. O'Dowd responded that active management could benefit the portfolio, but that the portfolio will become more volatile. To date, TD WM has been following the current Investment Policy. A total return approach may impact short-term returns. He pointed out that this portfolio is a trust with specific intent. It is incumbent on everyone to minimize the risk parameters.

Mr. Silberdick brought the discussion back to the Federal Farm Credit holding in the current portfolio. He expressed his concern that the long-term loss incurred by holding this bond to maturity has to be made up from other positions in the portfolio, primarily the equity positions. If TD WM had sold the bond, attractive new offerings, such as those found in the *New York Times* each week, could have been purchased.

Mr. Woessner said that the TD investment Committee looks at current holdings weekly, as well as new issues.

Mr. Hartley pointed out that, with respect to mortgage-backed securities, the ratings agencies have failed us. Agency securities, such as Fannie Mae and Freddie Mac, are being guaranteed by the U.S. taxpayers.

Mr. Woessner mused that it is unknown how the U.S. is going to reset the mortgage market given all that has gone on in the last few years.

Mr. Hartley suggested managing interest rate risk bets, and that we need more consideration for maturities.

Mr. Woessner said that the portfolio mimics the average maturity and duration of the benchmark, which is the Barclays Intermediate Government Credit Index where the average maturity is 4-1/2 years.

Mr. Hartley suggested that we go outside the Barclays Intermediate Government Credit Index to lengthen maturities.

Mr. O'Dowd reminded the Trustees that the Investment Policy would need to be changed.

Mr. Mackensen asked TD WM about lengthening the fixed income maturities. The portfolio has a 100-year time horizon.

Mr. Woessner concurred with Mr. Mackensen that longer maturities make sense for this portfolio.

Mr. Silberdick reinforced the need for fixed income active management.

Investment Policy Change

Chairman Hamilton suggested the Board should include total return language in an amendment to the Investment Policy, and that he would entertain such a motion.

MOVED by Mr. Silberdick to amend the current Investment Policy to include total return language.

SECONDED by Mr. Buck.

The discussion that followed proposed changing the Fixed Income Strategy on Page 5 of the current Investment Policy to read, "The goal of the fixed income component is to *manage* for income *and total return* given the constraints cited in this Investment Policy."

MOVED by Mr. Mackensen to amend the original motion to also change Page 9 of the Investment Policy to read, "Fixed income securities shall have a weighted average maturity of not more than *fifteen (15) years*, and a maximum single issue maturity of thirty (30) years." This change will generally permit the investment advisor to invest in longer maturities.

Further, Mr. Mackensen proposed to change Page 11 of the Investment Policy regarding the performance benchmark to read, "Fixed income performance shall be measured against the *Barclays Capital Government Credit Index*." Lehman no longer exists as an entity, and the Intermediate Government Credit Index has too short a duration for the direction that the Trustees want to go in the fixed income arena.

SECONDED by Mr. Buck.

VOTE: 5-0-0

Amendment Passed

The trustees then voted on the original motion:

VOTE: 5-0-0

Original Motion Passed, as Amended

Mr. Hartley pointed out that Page 6 of the Investment Policy states: "Proposed modifications to this Investment Policy will be documented in writing and provided to the Trustees for review at least one week prior to the meeting wherein the adoption of such changes will be considered."

MOVED by Mr. Buck to waive this provision of the Investment Policy in light of the ongoing Trustee discussions about the fixed income investment policy since the January 2010 meeting.

SECONDED by Mr. Hartley.

VOTE: 5-0-0

Motion Passed

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

SECONDED by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

Real Estate Trust Fund Disbursements Review

The Trustees reviewed a 2010 Cash Basis Income, Fees & Distributions Summary spreadsheet provided by the Bookkeeper showing the accumulated income and associated distributions to the Town as of March 31, 2010. The Trustees noted that there appears to be \$11,305.54 of net income on hand that should be distributed to the Town. Mr. O'Dowd will review the Net Income on Hand figures on the spreadsheet with his staff and inform the Trustees of the disposition of this income in order to clear the Net Income on Hand column.

Real Estate Trust Fund Fee Calculation Review

In light of the agreement by TD WM to waive their fee on cash in the Real Estate Trust Fund portfolio, the Trustees reviewed a Fee Verification spreadsheet prepared by the Bookkeeper. There was a small discrepancy in the calculation of cash, causing the fee to be off by \$0.42. TD WM will review the calculation and correct their fee calculation algorithm so that the error does not occur again.

Messrs. O'Dowd and Woessner left the meeting at 4:20 p.m.

Real Estate Trust Fund Trend Graphs

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 March 31, 2010, quarter-end market value and the cash basis income received. Mr. Hamilton confirmed that he verified all of the website values as accurate.

Minutes of the Last Meeting

The minutes from the meeting of March 22, 2010, were reviewed.

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

SECONDED by Mr. Hartley.

VOTE: 5-0-0

Motion Passed

Approval of Bookkeeper Expenses

The Trustees approved two expense reports prepared by the Bookkeeper. The first expense report was for office expenses and postage incurred by Mackensen & Company from 6/30/2008 through 3/15/2010 in the amount of \$280.27. The second expense report was for reimbursement of the Bookkeeper for renewal of the domain name for the Trustees' website, www.hamptontrustfunds.org, in the amount of \$239.52. The domain was renewed for five years, to 4/20/2015.

MOVED by Mr. Buck to approve reimbursement of the Bookkeeper expenses.

SECONDED by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

Smaller Trust Funds and Capital Reserve Funds

The Trustees reviewed financial documentation on the smaller trust funds and capital reserve funds as of March 31, 2010.

The Trustees noted that there have not been any subsequent donations to the AED Trust Fund since the initial deposit. Chairman Hamilton offered to contact Mr. Maury Friedman to suggest that the AED Trust Fund consider purchasing two or three AEDs to dissipate the trust fund as the goal of purchasing six AEDs seems to have stalled. The Trustees felt that it was better to start deploying a few AEDs to the police cruisers rather than wait until enough money had been garnered to purchase all six of them at one time.

Beach Playground

The Bookkeeper reported that the recent warrant article approved by the Hampton Beach Village District (HBVD) to spend \$2,000 on the Beach Playground will be expended directly by the District Commissioners without involving the HBVD Capital Reserve Fund for the Beach Playground.

2009 Town Audit

The Bookkeeper reported that he has submitted a CD containing 241 electronic files (PDFs and spreadsheets) for 2009 to the audit firm of Plodzik & Sanderson of Concord, NH. Further, the Bookkeeper has submitted another copy of the same CD to the Town Clerk for archiving with the Trustee records in the Town vault.

Real Estate Trust Fund Fixed Income Portfolio

The Trustees attention turned back to the presentation heard earlier in the meeting from TD WM. After some discussion, the Trustee agreed to review the fixed income portfolio in detail at the Trustees' scheduled meeting on October 18, 2010. This will give TD WM about six months to implement the Investment Policy changes approved earlier in the meeting.

Burial Trust Fund CD

MOVED by Mr. Mackensen to liquidate the approximate \$331,000 in the Burial Trust Fund 2-year CD at TD Bank Government Banking Division, currently yielding 2.05%, in favor of investing the proceeds in the Vanguard GNMA Fund, yielding approximately 3.55%. This move will increase the yield of the Burial Trust Fund by \$4,965 per year.

SECONDED by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

DPW Equipment Capital Reserve Fund

Mr. Mackensen proposed to move the approximate \$45,000 in the DPW Equipment Capital Reserve Fund, currently held in the Vanguard Money Market Fund yielding almost nothing, to the Vanguard GNMA Fund, yielding approximately 3.55%. The Vanguard GNMA Fund is liquid and funds may be distributed to the Town within a week upon request. Town Finance Director Mike Schwotzer and Town Manager Fred Welch concurred by email prior to the meeting that the funds would probably not be withdrawn from the Capital Reserve Fund until late in the fall of 2010.

Mr. Mackensen noted that the Trustees voted at the December 14, 2009, meeting to maintain \$100,000 in the Vanguard Money Market Fund.

MOVED by Buck to transfer the DPW Equipment Capital Reserve Fund to the Vanguard GNMA Fund, and to remove the restriction requiring a \$100,000 cash minimum in the Vanguard Prime Money Market Fund.

SECONDED by Mr. Hartley.

VOTE: 5-0-0

Motion Passed

Cemetery Burial Trust Fund

Mr. Mackensen proposed to move the approximate \$5,000 in the Cemetery Burial Trust Fund, currently held in the Vanguard Money Market Fund yielding almost nothing, to the Vanguard GNMA Fund, yielding approximately 3.55%.

MOVED by Silberdick to transfer the small balance of \$5,000 in the Cemetery Burial Trust Fund, currently held in the Vanguard Money Market Fund, to the Vanguard GNMA Fund

SECONDED by Mr. Buck.

VOTE: 5-0-0

Motion Passed

Next Meeting

There will not be a Trustees meeting in May. The next meeting of the Trustees is scheduled for Monday, June 21, 2010, at 3:00 p.m.

MOVED by Mr. Buck to adjourn.

SECONDED by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

The meeting adjourned at 5:11 p.m.

Respectfully submitted,

Warren J. Mackensen

Warren J. Mackensen, Bookkeeper