

# Town of Hampton



## TRUSTEES OF THE TRUST FUNDS

JULY 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

PUBLIC: None

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

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### **Real Estate Trust Fund**

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

#### Second Quarter 2010:

Rising government debt burden, and the impact it could have on economic growth and asset prices, is a mounting concern. Europe in particular will have to exercise fiscal discipline, which will be a drag on growth. Slower growth will likely keep European interest rates lower for longer.

The European Union woes are unlikely to be self-contained; this is a worldwide financial issue that could result in global interest rates being lower for longer. Only in countries in better fiscal positions, such as Canada, are we seeing indications that interest rates are set to move higher.

Economy:

The final tally showed the U.S. economy grew at an annualized rate of 2.7% in the last quarter of 2010, following 5.6% growth in the fourth quarter of 2009 and 2.2% in the third quarter.

After five straight months of gains, the economy lost 125,000 jobs in June, as many temporary census workers finished their contracts. The unemployment rate fell to 9.5% as the labor market shrank. U.S. manufacturing expanded in June for the eleventh straight month.

Headline inflation fell 0.2% in May, pushing the annual rate down to 2.0% from 2.2% in April. Core inflation rose 0.1% in May, with the annual core rate holding at 0.9%, the lowest since 1966.

U.S. equities ended a four-quarter winning streak, as the S&P 500 Index fell 11.4% over the three months. All ten sectors finished in negative territory, led by materials, financials and energy.

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 37% in equities and 63% in fixed income and cash. The estimated portfolio yield is 3.57%.

The portfolio's total return for the 12-month period ending June 30, 2010 was 11.48% versus the performance benchmarks, which returned 11.16% for the same period.

Hampton Real Estate Trust Discussion:

Mr. O'Dowd said that all indications point to the recession being over. The U.S. is in expansion mode, but the expansion is still sluggish. TD Wealth Management (TD WM) expects 3% PE growth this year and next year. The recovery is being led by manufacturing, but manufacturing is only 11% of the economy. Therefore, the recovery will be slow. Manufacturing is leading the recovery due to the low inventories at the beginning of the recession.

Many new jobs have been government-created. Businesses are still reluctant to hire. Unemployment is expected to remain high for a while. Jobs growth has a long way to go, but keep in mind that employment is a lagging indicator.

The housing market continues to struggle. Inventories have come down, but there is still price erosion. Retail sales are improving, but the improvement is not accelerating. The recovery will be gradual.

Federal spending has grown substantially, and the liquidity issues need to be addressed to resolve the accumulating deficits. However, we run the risk of a

secondary recession if liquidity issues are addressed too soon.

Mr. Silberdick asked whether the portfolio asset allocation should be modified in light of the protracted recovery. Mr. O'Dowd indicated that the portfolio has a long time horizon. Discussion about the current recession continued among all the Trustees.

Mr. Hartley asked Mr. O'Dowd, whether TD Bank has money to lend but there is low demand. Mr. O'Dowd said that there has been some reduction in demand, but lending standards have increased as well.

Chairman Hamilton asked if anyone else had comments. Mr. Hartley suggested that we hold off making any changes to the portfolio until after the November election.

Mr. O'Dowd said the major goal is to manage risk for the long term. He said that it was especially important that equity exposure be maintained to offset the loss of purchasing power due to inflation.

Mr. Hamilton said that he is not reading anything positive about the economy. He noted that TD WM started actively managing the fixed income portfolio two months ago after the Trustees requested TD WM to do so.

Mr. O'Dowd said that TD WM is managing the portfolio according to the risk tolerance specified in the investment policy. Mr. Hamilton said that we should consider reducing the portfolio equity exposure. Mr. Silberdick felt that there was a higher probability of the market going down than going up.

Mr. O'Dowd said that, based on historical evidence when a Democratic president was serving with a Republican Congress, which is possible after the November elections, the bi-partisan combination is usually positive for the economy. The health care bill has been passed and that uncertainty is now behind us. Recently, the financial bill also passed, further removing another element of uncertainty. Of course, there is much concern for many other short-term issues.

TD WM does not see the Fed rates increasing until mid or late 2011.

Mr. Silberdick again suggested we allocate more of the portfolio to fixed income and less to equities. After further discussion and a review of the target allocations in the Investment Policy, the Trustees concluded that they will review the portfolio asset allocation again at the October meeting.

Overall, Mr. O'Dowd said that he is pleased with the portfolio performance. The underweighting in financial stocks helped. The overweighting in consumer staples also helped. With regard to equity capitalization categories, large-cap stocks comprise 74% of the portfolio, mid-cap stocks are at 14%, small-cap stocks at 6%, and international at 6%. The equity style categories for the portfolio comprise 30% growth stocks, 41% blend stocks, and 29% value stocks.

In summary, the economic and market review indicates that there is a slow but gradual recovery in place. Equities are expected to increase seven to ten percent from both domestic and global stocks. Bonds are expected to produce one to three percent, which means there is no real appreciation as interest rates rise. The risks going forward include potential policy mistakes, unsustainable debt levels, and deflation.

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### **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 struggled in June with the recent market downturn.

The Bookkeeper informed the Trustees that the Real Estate Trust Fund web page on the Trustees web site ([www.HamptonTrustFunds.org](http://www.HamptonTrustFunds.org)) has been updated to show the June 30, 2010, quarter-end market value and the cash basis income received. Mr. Hamilton confirmed that he verified all of the website values as accurate.

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### **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 June 30, 2010. The Net Income on Hand column is tracking closely with the monthly statements. Income on the last one or two days of the months is not included in the monthly income calculation because of the month-end cutoff has to be within the month. Consequently, there will always be a slight Net Income on Hand balance each month.

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

**SECONDED** by Mr. Hartley.

**VOTE: 5-0-0**

**Motion Passed**

Mr. O'Dowd left the meeting at 4:00 p.m.

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### **Real Estate Trust Fund Fee Calculation**

The Bookkeeper informed the Trustees that the recent fees for the Real Estate Trust Fund were computed correctly by TD Wealth Management.

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

The minutes from the meeting of April 19, 2010, were reviewed.

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

**SECONDED** by Mr. Hartley.

**VOTE: 5-0-0**

**Motion Passed**

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

The Trustees reviewed financial documentation on the smaller trust funds and capital reserve funds as of June 30, 2010.

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### **Campbell Sports Scholarship Fund**

The Trustees reviewed a spreadsheet for the Campbell Sports Scholarship Trust Fund for the fiscal year July 1, 2009 through June 30, 2010. The income was \$91.48. There was \$4.58 of residual income from the end of the prior fiscal year.

Per the Campbell Trust document, half of the income from the Campbell Sports Scholarship Trust Fund is paid to the Hampton Recreation & Parks Department, and the other half of the income gets added to principal per the trust indenture.

The Bookkeeper reported that he sold \$48.03 of the Vanguard GNMA Admiral Shares Fund and had the proceeds electronically transferred to the Trustees checking account.

**MOVED** by Mr. Silberdick to disburse the amount of \$48.03, as above.

**SECOND** by Mr. Buck.

**VOTE: 5-0-0**

**Motion Passed**

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Two trustees signed an income distribution check in the amount of \$48.03 for the Hampton Recreation & Parks Department.

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### **Vanguard 60-Day Restriction**

The Bookkeeper provided a two-page write-up about the 60-day buy restriction that is triggered at Vanguard each time a sell order is placed in the Vanguard GNMA Fund. Because of the annual calendar of distributions and contributions, the

60-day buy restriction does not affect the Trustees significantly. A mail deposit or a letter of instruction may be used to promptly deposit or transfer incoming monies.

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### **2009 Town Audit**

The Bookkeeper reported that the audit is in progress. There have been no questions to date.

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### **SAU #21 Audit**

The Bookkeeper reported that he provided the requested documentation to SAU #21 for the annual audit of the Winnacunnet School District Special Education Trust Fund and the Winnacunnet High School Building Maintenance Fund for the fiscal year ended June 30, 2010.

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### **Town Borrowing from the Real Estate Trust Fund**

The Bookkeeper reported that, via email, he learned that a reply to the technical assistance request to the Attorney General's Office, Charitable Trusts Unit (Atty. Terry Knowles), is about six weeks away.

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### **2011 Budget Request**

The Bookkeeper informed the Board that the Hampton Municipal Budget Committee has requested that the Trustees provide their budget request for 2011.

Chairman Hamilton inquired of the Bookkeeper as to the preparation time necessary for Trustee meetings, given that the smaller trust funds and capital reserve funds required sub-accounting for the common GNMA investment.

The Bookkeeper responded that he and his staff spend anywhere from four to eight hours of preparation time for each Trustees meeting.

The sub-accounting for the GNMA fund requires that spreadsheets be updated, portfolio management system transactions entered, and reports generated.

The Real Estate Trust Fund requires that graphs be updated. The Real Estate Trust Fund fee calculation has to be verified each month.

Word documents for the detailed meeting agenda, the meeting minutes and the meeting notices have to be prepared.

Portfolio statements and other documents have to be scanned for archiving.

Documents for the annual audits have to be assembled and provided to the town auditors, the Hampton Beach Village District auditors, and the Winnacunnet auditors.

Finally, the Trustees' website has to be maintained current.

During 2009, there were 221 files generated, which were turned in to the Town Clerk on a CD for safekeeping.

**MOVED** by Mr. Silberdick to have Chairman Hamilton look into compensating the Bookkeeper's staff for the time incurred to prepare the documents for the Trustees.

**SECONDED** by Mr. Buck.

**VOTE: 4-0-1** (Mackensen abstained)

**Motion Passed**

The Trustees discussed the 2011 budget request and determined that \$2,500 was an appropriate budget request.

**MOVED** by Mr. Mackensen to request the amount of \$2,500 for 2011.

**SECONDED** by Mr. Buck.

**VOTE: 5-0-0**

**Motion Passed**

The Bookkeeper was asked to advise the Town Manager of this budget request via email in lieu of attending the town budget work sessions.

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## Meeting

The Trustees will not meet in August. The next meeting of the Trustees is scheduled for September 20, 2010, at 3:00 p.m.

**MOVED** by Mr. Hartley to adjourn.

**SECONDED** by Mr. Silberdick.

**VOTE: 5-0-0**

**Motion Passed**

The meeting adjourned at 4:30 p.m.

Respectfully submitted,

*Warren J. Mackensen*

Warren J. Mackensen, Bookkeeper