

Town of Hampton



TRUSTEES OF THE TRUST FUNDS
SEPTEMBER 20, 2010 3:00 p.m.

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

STAFF: Debora H. Curtis, Administrative Coordinator

PUBLIC: Selectmen Richard Nichols (3:03 to 3:40 p.m.)

The meeting was called to order at 3:00 p.m. by Chairman Hamilton, followed by the Pledge of Allegiance.

Minutes of the Last Meeting

The minutes from the meeting of August 16, 2010, were reviewed.

MOVED by Mr. Silberdick to approve the minutes.

SECONDED by Mr. Buck.

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 for the prior month.

Chairman Hamilton apprised the Trustees that Mr. Maury Friedman had contacted him relative to the AED Expendable Trust Fund. Mr. Hamilton invited Mr. Friedman to the Trustees Meeting, but he declined to attend.

Mr. Hamilton noted that the balance in the AED Trust Fund is now approximately \$7,319. The initial goal of the AED Trust Fund was to raise \$18,000 for six AEDs for the six police cruisers.

Mr. Mackensen suggested that the Trust Fund be used to purchase two or three AEDs now and terminate the Trust Fund, assuming the funds are fully exhausted. Mr. Hamilton will meet with Mr. Friedman soon.

There were no other comments about the smaller trust funds and capital reserve funds.

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. Current value is approximately \$15,568,549.

Mr. Hamilton questioned why TD Wealth Management sold Verizon when it pays an annual dividend of \$ 1.95, which represents a yield of just under 7%.

Real Estate Trust Fund Disbursements Review

The Trustees reviewed the 2010 Cash Basis Income, Fees & Distributions Summary spreadsheet provided by the Bookkeeper showing the accumulated income and distributions to the Town as of the end of last month.

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.

Town Borrowing from the Real Estate Trust Fund

The Trustee noted that on August 23, 2010, the Board of Selectmen voted against borrowing or withdrawing money from the Real Estate Trust Fund.

Alternative Investment Management Approaches

Mr. Mackensen provided the Trustees with another alternative portfolio using mutual funds and exchange-traded funds (ETFs) that improved upon the initial portfolio presented earlier. The proposed portfolio comprises 30 mutual funds and exchange-traded funds. No single security is more than 4% of the portfolio. That

will keep the portfolio within the 5% for a single security as time goes on. Rebalancing can take place whenever a fund or ETF gets to 5%, or once a year.

The yield of the proposed portfolio is 3.83%, slightly higher than the TD Wealth Management portfolio.

The portfolio asset allocation is: equities 26.47%; bonds 65.7%; preferred Stocks 4.69% (TD classifies preferred stocks as fixed income); and cash 3.1%. The cash figure cannot be controlled because it represents the cash within the funds.

The benchmark that is proposed to be used for the portfolio is a conservative benchmark comprising the following index funds: 25% S&P 500 stock index; 5% international stock index; 5% small stock index; and 65% total bond market index.

The proposed portfolio provided a 10-year average annual total return of 7.58%.

The worst one-year period was March '08 to February '09: -13.29%.

The new proposed portfolio would increase the income to the Town by \$100,000 per year over the current portfolio, which would be achieved by a combination of increased yield and reduced fees. The proposed portfolio and its various parameters were reviewed and discussed by the Trustees.

Mr. Mackensen provided the Trustees with a PowerPoint diagram showing the proposed management of the alternative investment management approach.

The Trustees amended the investment policy in April 2010 to allow TD to actively manage the fixed income portion of the current portfolio. The Trustees agreed to allow TD six months under this active fixed income strategy and then gauge their performance. Accordingly, action regarding the proposed mutual fund and ETF portfolio was deferred until a later meeting.

Mr. Silberdick inquired as to the community perception of Mackensen & Company's potential role as Investment Advisor on the proposed portfolio. Mr. Mackensen responded that his firm, Mackensen & Company, is merely an order taker from the Trustees. His firm would be providing the electronic platform to execute trades directed by the Trustees, and to provide the Trustees with quarterly reports. Mackensen & Company performs similar services for several other non-profit entities.

Mr. Mackensen emphatically asserted that Mackensen & Company and Warren J. Mackensen, personally, will not receive any compensation whatsoever by handling the account for the Trustees. He also noted that four employees of Mackensen & Company are Hampton residents, all of whom would be contributing their time to the handling of the proposed portfolio.

One Trustee asked what would happen if Mr. Mackensen was not re-elected as a Trustee. Mr. Mackensen responded that he has been a resident of Hampton for

the last 28 years, and that he is committed to his service to the Town. He offered to continue managing the proposed portfolio for no fee if he is not re-elected as a Trustee.

The Trustees then reviewed the current Investment Policy to determine changes that might be necessary to implement the proposed mutual fund and ETF portfolio. Several changes will be necessary, including identifying the responsibilities of the Investment Manager, the Investment Advisor, and the portfolio Custodian. A PowerPoint diagram was provided to the Trustees showing the various responsibilities and activities.

In addition, loosening the credit quality restrictions that are untenable with mutual funds and ETFs would be required. Specifically, up to 20% of the bond portfolio would be allowed to have a credit quality below investment grade. With mutual funds, the Trustees cannot control the credit quality of the individual bonds within a given mutual fund portfolio, so a certain percentage of each bond mutual fund may fall below investment grade.

In the Investment Policy, the fixed income Acceptable Range was proposed to be changed from a current range of 35% - 65%, to a new range of 35% - 70%. This is consistent with several of the Trustees desiring a greater fixed income percentage. The proposed mutual fund and ETF portfolio showed a fixed income percentage of 66%.

The Trustees will consider approving a revised Investment Policy at the October meeting.

Mr. Silberdick asked whether other proposals should be entertained in addition to Mr. Mackensen's proposal. Mr. Mackensen stated that the Trustees essentially have four options on the table:

- Option One: Contact DHK Investment Advisors, Portsmouth, which provided the lowest cost bid during the bidding process in 2008. Their fee was 37 basis points at that time. They would provide trust accounting through Charles Schwab. (The outcome of the 2008 bidding process was that the Trustees voted 3-2 to continue with TD Wealth Management.)
- Option Two: Portfolio Solutions, LLC, Troy, Michigan, which specializes in low-cost indexed mutual fund portfolios. Their fee is 25 basis points. They do not provide trust accounting.
- Option Three: Mr. Mackensen's proposed portfolio. Mr. Mackensen's firm will provide trade executions and reports at no cost to the Town. Trust accounting will be provided through National Advisors Trust Company for a fee of 6.6 basis points - \$10,000 per year. Income to the Town will increase by \$100,000.

- Option Four: Continue with TD Wealth Management at 50 basis points - \$75,000 per year.
- Option Five: Obtain proposals from other investment advisors.

The Trustees will consider taking action on the proposed mutual fund and ETF portfolio at a future meeting.

Next Meeting

The next meeting of the Trustees is scheduled for October 18, at 3:00 p.m.

MOVED by Mr. Silberdick to adjourn.

SECONDED by Mr. Buck.

VOTE: 5-0-0

Motion Passed

The meeting adjourned at 4:55 p.m.

Respectfully submitted,

Warren J. Mackensen

Warren J. Mackensen, Bookkeeper