

Town of Hampton



TRUSTEES OF THE TRUST FUNDS

December 13, 2010 3:00 p.m.

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

PUBLIC: Michael Pierce
Selectman Richard Nichols
Stephen Demarais
Barbara Birmingham
Patricia A. Mackensen
Benjamin Dunphy
Selectman Jerry Znoj
Patrick Cronin, Hampton Union

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

Attorney General Investigation

Chairman Hamilton opened the meeting by announcing that the Attorney General's office is investigating the Hampton Trustees of Trust Funds. The matter relates to the November 22, 2010, vote (3-2 in favor) where the Trustees terminated the services of TD Wealth Management, engaged the services of Mackensen & Company, Inc., accepted National Advisors Trust Company as the new custodian of the Real Estate Trust Fund, and made the Trustees the Investment Manager.

At a meeting just prior to the Trustees' meeting, Town Counsel requested full cooperation by the Trustees, to which all assented.

Mr. Hamilton indicated that the Trustees would not speak about the November 22nd decision at this meeting due to the announcement of the investigation.

Mr. Hamilton stated that the public comment period would be towards the end of the meeting when the Trustees had completed their normal business.

Minutes of the Last Meeting

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

MOVED by Mr. Mackensen to approve the minutes.

SECONDED by Mr. Hamilton.

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. The current yield on the Vanguard GNMA Admiral Shares Fund common fund investment is 3.34%. The total return for the last 12 months as of 9/30/2010 was 7.1%.

Bookkeeper Mackensen reported that 2009 Burial Trust Fund revenue of \$27,850 was received from the Town and was duly invested in the Vanguard GNMA Admiral Shares Fund common fund.

The Town also transferred the \$340,000 approved at Town Meeting in March 2010 for the DPW Equipment Capital Reserve Fund. The sum was duly invested in the Vanguard GNMA Admiral Shares Fund common fund.

The sum of \$40,000 was distributed by the Bookkeeper during November to the Town from the Town Roads Capital Reserve Fund. A voucher was obtained. Of the \$40,000, \$39.39 was distributed from accumulated income and \$39,960.61 from principal. At the recommendation of Mr. Silberdick at the last meeting, and approved by the Trustees, the remaining balance in the Town Roads Capital Reserve Fund (\$11,275.42 after the \$40,000 disbursement) was moved from the Vanguard Money Market Fund to the Vanguard GNMA Admiral Shares Fund to improve the investment return.

Bookkeeper Mackensen reported that the AED check was received by the Town Finance Director and a voucher was obtained. The transaction settled in December and the full distribution figure of \$7,392.53 will be reflected on the December statements.

The Library Trust Funds are invested in the Fidelity Balanced Fund common fund. The current yield of the fund is 1.59% and the total return for the last 12 months as of 11/30/2010 was 11.18%.

Real Estate Trust Fund Graphs

The Trustees reviewed graphs showing the month-end market values of the Real Estate Trust Fund since late 2005. The Real Estate Trust Fund performance is consistent with the recent market performance.

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.

Mr. Hartley questioned the unusually high interest income figure for the month of November. Bookkeeper Mackensen explained that the figure includes substantial accrued interest that was recognized when the bonds in the portfolio were sold by TD Wealth Management to other investors on the secondary market.

Real Estate Trust Fund

Mr. Hamilton recused himself from the meeting at 3:15 p.m. Mr. Mackensen asked Vice Chairman Buck to chair the meeting, which he did.

Mr. Mackensen provided the Trustees with a National Advisors Trust Company Trust Account Statement, which showed all activity since inception of the account. The market value in the Real Estate Trust Fund as of the close of business on December 10 was \$15,625,713.

Mr. Mackensen informed the public that TD Wealth Management sold most of the investments in the Real Estate Trust Fund on November 23, except for the recent purchases that they had made. These purchases settled over the next three days and then they were sold, followed by another three-day settlement period.

There may be a small amount of residual income that will be distributed in December, which will be transferred to National Advisors Trust once the final income distributions appear on the December statement. The residual income comes from dividends on stocks that were declared prior to the sale of the stocks but had not been received by the distribution dates of the two wire transfers.

The \$15.6 million Real Estate Trust Fund is now invested in a diverse portfolio of thirty mutual funds and exchange-traded funds, as shown on the Trust Account Statement.

The November fee for TD Wealth Management was \$7,001.97, and was debited against the Real Estate Trust Fund account income prior to the second wire transfer. The fee included the month of November, a prorated portion for the month of December, and a termination fee of \$250. TD Wealth Management promised complete documentation of the calculation soon. The calculation will be verified by the Bookkeeper when it is received.

Public Comment Period

Mr. Hamilton returned to the meeting and assumed chairmanship.

Selectman Znoj inquired about the details relating to the cemetery funds. Bookkeeper Mackensen reported that, at the end of November, there was \$450,760 in the Cemetery Burial Trust Fund, and \$22,117 in the Cemetery Perpetual Care Trust Funds. The funds are invested in the Vanguard GNMA Admiral Shares Fund common fund, receiving the returns cited earlier in the meeting. The dividends from these two Funds are distributed to the Town in January for cemetery maintenance. Capital gains, both short and long, are retained in the Funds and added to principal.

Mr. Znoj asked about the annual TD Wealth Management fee. Bookkeeper Mackensen replied that 2009 fees were \$70,028, and 2010 year-to-date fees were approximately \$73,269.

Selectman Nichols asked if there were any recognized capital gains as part of the TD Wealth Management sale of the securities in the portfolio. Bookkeeper Mackensen replied that there was approximately \$988,905 of realized gains on the November TD report.

Mr. Nichols went on to ask whether any of these capital gains are considered income, which could be distributed to the Town. Bookkeeper Mackensen reported that only interest and dividends are classified as income. Short-term and long-term capital gains recognized during the year are classified as principal. This is in accordance with direction from the Attorney General's Office, Charitable Trusts Unit, as provided during trustee training.

Barbara Birmingham expressed her concern about the newspaper stories relative to trustee conflicts of interest. Mr. Hartley countered that he, personally, is in disagreement over these reports. He was not speaking for the Board of Trustees.

Chairman Hamilton said that the Trustees cannot talk about it due to the Attorney General's investigation. Ms. Birmingham reiterated that the appearance of a conflict of interest is difficult and disturbing.

Mr. Silberdick offered that the Attorney General should expedite the investigation and get it over with.

Mr. Pierce asked who directed the Trustees to avoid talking about the Real Estate Trust Fund. Selectman Nichols reported that the Town Attorney, Mark Gearreald,

met with the Trustees just prior to the Trustees Meeting and suggested that the discussion be limited in view of the investigation.

Mr. Demarais asked what the value of the Real Estate Trust Fund was when transferred. Mr. Mackensen reported that there were two wire transfers for a total of \$15,780,940. Mr. Demarais then inquired as to the current balance in the Real Estate Trust Fund. Mr. Mackensen reported that, as of the close of business on December 10, the market value was \$15,625,713. Mr. Demarais pointed out that the Real Estate Trust Fund market value has declined about \$155,227. Mr. Mackensen commented that short-term market swings of this magnitude are quite common on a day-to-day basis for this size of an account.

Mr. Pierce asked what the two wire transfer amounts were. Bookkeeper Mackensen replied that the first wire transfer occurred on November 29 in the amount of \$14,700,000. The second wire transfer occurred on December 6 in the amount of \$1,080,940.

Mr. Nichols inquired about the total income for the year from the Real Estate Trust Fund. Mr. Mackensen showed him the 2010 Cash Basis Income, Fee & Distributions Summary spreadsheet. The distributions to the town during 2010 (year-to-date) totaled \$646,688.13. Mr. Nichols countered that his income sheet from the Town differed. The difference stemmed from the booking of income on a cash basis by the Trustees in early January, whereas the Town had booked some of the cash received by the Trustees in early January as an accrual against 2009.

Selectmen Znoj asked about the investments in the Real Estate Trust Fund. Mr. Mackensen showed him the inch-thick investment research book prepared for the Trustees a month ago by Mackensen & Company. In that book, the Morningstar report showed the Equity Style Box percentages as follows:

Large Cap Value	12%
Large Cap Core	18%
Large Cap Growth	21%
Mid-Cap Value	9%
Mid-Cap Core	10%
Mid-Cap Growth	7%
Small-Cap Value	10%
Small-Cap Core	8%
Small-Cap Growth	4%

The Fixed Income Style Box percentages showed:

Short-Term High Quality	4%
Intermediate-Term High Quality	4%
Long-Term High Quality	8%
Short-Term Medium Quality	2%

Intermediate-Term Medium Quality	25%
Long-Term Medium Quality	44%
Long-Term Low Quality	9%

Mr. Hartley commented that the portfolio is very well diversified.

Mr. Znoj asked the trustees for their comments about the portfolio.

Mr. Buck indicated that he had looked at it. Each fund had its own manager and the trustees only need to look at the asset allocation.

Mr. Silberdick said that he did not have the skills to review it and did not vote for the change.

Mr. Hartley cited his money management expertise and that he was a certified financial planner practitioner. He routinely picks low-cost mutual funds and exchange-traded funds for clients. He said that he was used to picking mutual fund managers but not individual securities. Mr. Hartley said that the portfolio proposed to the Trustees by Mr. Mackensen a month ago showed a thorough review of the various top-performing funds for each of the Morningstar categories, and that he was satisfied that the final selection of funds were top-performing funds. He was more than satisfied with the selections made.

2011 Calendar

The Trustees reviewed the proposed meeting schedule for 2011. Two trustees had scheduling conflicts with the proposed May 23 meeting. The meeting was dropped from the schedule, as the meeting activity at that time is generally low anyway.

MOVED by Mr. Buck to approve the meeting schedule.

SECONDED by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

Next Meeting

The next meeting of the Trustees is scheduled for Tuesday, January 18, 2011, at 3:00 p.m., in the Selectmen's Meeting Room. The Trustees will review the final numbers for 2010, review the draft of the Trustees' portion of the Town Report, and disburse final income from the Poor Trusts, the Library Trusts, and the Cemetery Trust Funds. The meeting will also reaffirm the three investment policies (Real Estate Trust Fund, Smaller Trust Funds (except the Library), and the Library Trust Funds), as well as the Internal Controls Policy.

MOVED by Mr. Silberdick to adjourn.

SECONDED by Mr. Hartley.

VOTE: 5-0-0

Motion Passed

The meeting adjourned at approximately 4:15 p.m.

Respectfully submitted,

Warren J. Mackensen

Warren J. Mackensen, Bookkeeper