

Town of Hampton



TRUSTEES OF THE TRUST FUNDS

January 18, 2011 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
Patrick Cronin, Hampton Union

The meeting was called to order at 3:05 p.m. by Chairman Hamilton, followed by the Pledge of Allegiance.

Attorney General Investigation

Chairman Hamilton opened the meeting by announcing that the five Trustees had received a response from the Attorney General's office. The Trustees received an email response from the Attorney General's office at 2:14 p.m., but most were in transit and unable to review it if they saw it at all. At about 2:45 p.m., just minutes before the Trustees meeting, Town Attorney Mark Gearreald hand-delivered copies of the Attorney General response to the Trustees.

Attorney Gearreald, prior to the meeting, suggested to Chairman Hamilton that the Trustees recess from their regularly scheduled meeting to attend a non-meeting with him before continuing the regular Trustees meeting. Accordingly, Chairman Hamilton recessed the regular Trustees meeting.

The Trustees left the Selectmen's Meeting Room and joined Attorney Gearreald upstairs in the Selectmen's Conference Room. Attorney Gearreald suggested that, in light of the fact that the Trustees just received the Attorney General's letter minutes before their regularly scheduled meeting, the Trustees would be well-advised to postpone discussion on the letter until they each have had time to read

the letter. That would also give the Trustees an opportunity to ask the Attorney General's office any questions that they may have. The non-meeting ended and the Trustees returned to the Selectmen's Meeting Room at 3:20 p.m.

Real Estate Trust Fund

The Trustees reviewed the December 31, 2010, National Advisors Trust Company Trust Account Statement. Mr. Hamilton asked the Trustees about modifying the bond portfolio, in particular, the PIMCO funds that are currently performing poorly – resulting in a net unrealized loss. Mr. Hartley suggested that the Trustees wait until March to make any changes.

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.

MOVED by Mr. Buck to disburse the final 2010 income payment of \$76,828.16 to the Town.

SECONDED by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

Bookkeeper Mackensen requested that the Trustees authorize Mackensen & Company to disburse monthly income, as shown on the Real Estate Trust Fund monthly statement, as soon as possible as a routine task for the benefit of the Town without prior approval by the Trustees in order to reduce Town borrowing costs. The income is transferred electronically from National Advisors Trust Company to the Town checking account via the automated clearing house (ACH).

MOVED by Mr. Mackensen to make the monthly disbursement to the Town and report the disbursement at the next regularly scheduled meeting.

SECONDED by Mr. Hamilton.

Mr. Hartley commented that the Trustees will see the disbursement on their next monthly statement and any error could be corrected with the next disbursement.

VOTE: 5-0-0

Motion Passed

Real Estate Trust Fund Investment Policy Review

Review and approval of a revised Real Estate Trust Fund Investment Policy was tabled.

Minutes of the Last Meeting

The minutes from the meeting of December 13, 2010, were reviewed.

MOVED by Mr. Hamilton to approve the minutes.

SECONDED by Mr. Hartley.

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.

Bookkeeper Mackensen requested that, going forward, the sub-accounting for the smaller trust funds and capital reserve funds be based on dollars rather than on shares. Allocating shares to the individual trust funds was cumbersome and time consuming. Splitting shares to many decimal places to reflect the actual dollar allocations, especially when funds are received or disbursed mid-month, was found to be difficult. The other Trustees agreed with the approach of just using dollars rather than shares and dollars.

Annual Income Distribution Requests

The Trustees reviewed the income for the smaller trust funds for the calendar year. The Bookkeeper provided the Trustees with trust fund distribution requests, as follows:

Poor Trust Funds: \$18.64 (Town of Hampton)

Library Trust Funds: \$187.71 (Lane Memorial Library)

Cemetery Perpetual Care Trust Fund: \$722.84 (Town of Hampton)

Cemetery Burial Trust Fund: \$12,204.81 (Town of Hampton)

MOVED by Mr. Mackensen to approve the above distributions to the Town and the Library.

SECONDED by Mr. Buck.

VOTE: 5-0-0

Motion Passed

Mr. Hartley will prepare the checks for Trustee signatures on Tuesday.

Trust Funds Annual Briefing

The Trustees reviewed a PowerPoint presentation that summarized the activities of the trust funds and capital reserve funds in 2010. Minor changes to the draft document were made.

Mr. Mackensen reported that, during 2010, the smaller trust funds were invested in the Vanguard GNMA Admiral Shares Fund, which garnered a total return of 7.08%. The Fund distributed capital gains of \$24,817.44, which is a first for Hampton in that this capital was added to the principal of each of the smaller trust funds and capital reserve funds on a proportionate basis.

The Library Trust Funds are invested in the Fidelity Balanced Fund common fund. The total return for 2010 was 13.76%. The 2010 year-end market value of the Library Trust Funds was \$9,813.

MOVED by Mr. Silberdick to forward the presentation, as revised, to the Selectmen and to post the presentation on the Trustees' website.

SECONDED by Mr. Buck.

VOTE: 5-0-0

Motion Passed

Investment Policy Reviews

The Trustees reviewed the non-Real Estate Trust Funds Investment Policy.

MOVED by Mr. Buck to affirm the Policy.

SECONDED by Mr. Hartley.

VOTE: 5-0-0

Motion Passed

The Trustees reviewed the Library Trust Funds Investment Policy.

MOVED by Mr. Buck to affirm the Policy.

SECONDED by Mr. Hamilton.

VOTE: 5-0-0

Motion Passed

Internal Controls Policy

The Trustees reviewed the Internal Controls Policy. Bookkeeper Mackensen pointed out minor editorial changes made to reflect current practices. As proposed, the Policy better accommodates Vanguard and Fidelity as custodians, and also allows for electronic receipt of custodial statements. After-the-fact receipt of vouchers was also added to reflect the current process whereby the Town receives funds through ACH and the voucher is signed by the Town Finance Director after receipt of the funds has been verified.

MOVED by Mr. Hartley to approve the revised Internal Controls Policy.

SECONDED by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

The Trustees signed the revised Internal Controls Policy.

2010 Town Report

The trustees reviewed the narrative and the spreadsheet for the Town report.

MOVED by Mr. Buck to approve the narrative and the spreadsheet for the 2010 Town Report.

SECONDED by Mr. Hamilton.

VOTE: 5-0-0

Motion Passed

State of New Hampshire MS-9 and MS-10 Reports

The Trustees reviewed the MS-9 and MS-10 reports prepared by the Bookkeeper.

MOVED by Mr. Buck to approve the MS-9 and MS-10 reports for the State of New Hampshire.

SECONDED by Mr. Silberdick.

VOTE: 5-0-0

Motion Passed

The Trustees signed the MS-9 Report of Trust and Capital Reserve Funds and the MS-10 Report of Common Trust Fund Investments.

Trustee Travel Expenses

The Trustees reviewed expense reports for the Trustees' travel to Concord on January 4, 2011, for the Attorney General investigation. Mr. Buck had already submitted his expense report for mileage. Mr. Hartley said that he was not going to submit an expense report. Mr. Hamilton conducted business while he was in Concord, so he was not going to submit an expense report. Mr. Silberdick was not going to submit an expense report. Mr. Mackensen submitted an expense report for \$51 reflecting mileage expense.

MOVED by Mr. Hamilton to approve the travel expenses of Mr. Buck and Mr. Mackensen.

SECONDED by Mr. Hartley.

VOTE: 5-0-0

Motion Passed

Bookkeeper Expenses

The Bookkeeper submitted an expense reimbursement request in the amount of \$1,508.10. Of this amount, \$248.10 had been previously paid by the Town. The remaining \$1,260 was for legal assistance with the preparation of the documents in December for the Attorney General investigation.

MOVED by Mr. Buck to approve the bookkeeper expenses of \$1,508.10.

SECONDED by Mr. Hartley.

Chairman Hamilton and Mr. Silberdick did not concur with the inclusion of the \$1,260 for legal expenses in the request.

VOTE: 3-2-0

Motion Passed

Public Comment Period

Mr. Hamilton opened the meeting for public comment. There were no comments.

Trustee Comments

Mr. Silberdick complimented Mr. Mackensen for his service to the Trustees as their Bookkeeper over the last four years.

Mr. Silberdick went on to say that his role as a Trustee seems meaningless. He felt that the Trustees made a horrible error in not obtaining bids when the Real Estate Trust Fund was moved from TD Wealth Management to National Advisors Trust Company. He feels that it is a one-man show and that Mr. Mackensen should consider resigning and become the bookkeeper for the Trustees for a fee.

Mr. Silberdick said that when Mr. Mackensen serves as the Investment Advisor, the Town is the beneficiary but Mr. Silberdick does not have time to analyze things. He felt his effectiveness is seriously impaired. He maintained that the Real Estate Trust Fund should be put out to bid via a request for proposals. He suggested that Mackensen & Company would be allowed to bid and get paid for their services.

Mr. Hartley countered that the decision made on November 22, 2010, (to engage Mackensen & Company as the Investment Advisor and National Advisors Trust as the custodian) was best for the Town. The recent decrease in the market value of the bond portfolio would have been the same whether the portfolio was at National Advisors Trust or TD Wealth Management. Over the long term, the broad diversification in the Real Estate Trust Fund will ameliorate things. As time goes on, when interest rates go up permanently, the Trustees should re-evaluate the asset allocation of the portfolio, but it is too soon to do so. Any changes that the Trustees would make in the short term would be very short-sighted.

Mr. Silberdick expressed his frustration that there is no one to talk to about the Real Estate Trust Fund portfolio. He stated that he recognized his own limitations and did not have the skills to do the job. He ended by articulating his frustration once again.

Mr. Buck said that he is generally concerned and would like to see more people come in.

Mr. Mackensen countered that, at Mr. Silberdick's request, the trustees voted in March 2010 to have TD Wealth Management more actively manage the bond portion of the portfolio. A six-month period was given to improve the bond portfolio.

Mr. Mackensen said that his assessment of TD's efforts did not show a significant improvement. Mr. Hartley agreed that the TD effort was not noticeable.

Mr. Mackensen went on to point out that the Real Estate Trust Fund now has 30 managers for the 30 funds. The importance of diversification was stressed before the vote was taken in November. The current investments meet the long-term investment objective of a broadly-diversified portfolio established for a perpetual trust.

Mr. Mackensen stated that no one can predict markets accurately. TD Wealth Management made a serious mistake with the Royal Bank of Scotland security, which cost the Town over \$200,000 in capital losses. This sort of serious mistake is avoided by having many broadly-diversified mutual funds across many market sectors and time periods.

Mr. Mackensen pointed out that the Real Estate Trust Fund has a significant income objective to offset the tax rate. The day-to-day market value of the bond holdings are not as important as ensuring that the income level is maintained. The managers of each bond fund are working daily to preserve the income stream and the market value of each bond fund.

In summary, Mr. Mackensen said that the asset allocation of the portfolio needs to be reviewed quarterly and adjustments to the asset allocation made as needed.

Mr. Silberdick cited a recent article in the *New York Times* regarding PIMCO Funds.

Mr. Hartley provided a handout of his own research from Morningstar (as of 12/31/2010) and highlighted the four PIMCO Funds that the Real Estate Trust Fund portfolio holds. The total returns for the four funds are as follows:

	<u>4th Qtr.</u>	<u>2010</u>
• PIMCO Long Duration Total Return Institutional	-5.36%	11.64%
• PIMCO Investment Grade Corporate Bond	-1.10%	11.72%
• PIMCO Long-Term US Government Institutional	-7.74%	12.09%
• PIMCO Total Return Institutional	-0.92%	8.83%

As is evident, the total returns for the last quarter are all negative, but the full-year 2010 total returns are notably positive.

Mr. Hamilton stated that the Trustees directed TD Wealth Management to actively manage the bonds in the portfolio. Now the Trustees are relying on mutual fund managers to do the same thing. He re-iterated his interest in putting the Real Estate Trust Fund out to bid and urged that the Trustees look at the entire picture, not just fees.

Mr. Hartley expressed his frustration that the Trustees gave TD Wealth Management six months to improve the bond portfolio. The bond portfolio did not improve after six months. Now, some of the Trustees want to make changes to the portfolio and the portfolio has not even been in existence three months.

Next Meeting

The next meeting of the Trustees is scheduled for Monday, January 31, 2011, at 3:00 p.m., in the Selectmen's Meeting Room. The Trustees will discuss the Attorney General's letter.

MOVED by Mr. Buck to adjourn.

SECONDED by Mr. Hamilton.

VOTE: 5-0-0

Motion Passed

The meeting adjourned at approximately 5:04 p.m.

Respectfully submitted,

Warren J. Mackensen

Warren J. Mackensen, Bookkeeper