

Town of Hampton



TRUSTEES OF THE TRUST FUNDS

April 21, 2014 4:15 p.m.

Selectmen's Conference Room

TRUSTEES: Norman Silberdick, Chairman
William A. Hartley, Vice Chairman
Stephen A. Falzone, Secretary/Clerk
John Sovich, Trustee
John Troiano, Bookkeeper

ADMIN ASSISTANT: Ms. Joan Rice

ADVISORS: Warren Mackensen, Mackensen & Company, Inc.
Jared Brock, Mackensen & Company, Inc.

The meeting was called to order at 4:20 p.m. by Chairman Silberdick.

Chairman Silberdick congratulated re-elected Trustees Stephen Falzone and John Troiano.

Election of Officers

MOVED by Mr. Falzone to re-elect Norman Silberdick as Chairman, William Hartley as Vice Chairman, Stephen Falzone as Secretary/Clerk, and John Troiano as Bookkeeper for the coming year.

SECONDED by Mr. Hartley

VOTE: 5-0-0

Motion Passed

Minutes of the Last Meeting

The minutes from the meeting of January 13, 2014 were reviewed.

MOVED by Mr. Hartley to approve the minutes.

SECONDED by Mr. Falzone.

VOTE: 5-0-0

Motion Passed

The minutes from the meeting of January 28, 2014 were reviewed.

MOVED by Chairman Silberdick to approve the minutes.

SECONDED by Mr. Sovich.

VOTE: 3-0-2 (Hartley, Troiano were absent)

Motion passed

Overall Portfolio Performance Review

The Portfolio Performance and Position Performance were reviewed. Mr. Mackensen said it was a good first quarter. All funds are doing well.

Real Estate Trust Fund Portfolio

The Month-End Market Value graphs, NATC Account Custody Statement, Morningstar Snapshot and TrustTrak Snapshot were reviewed.

Chairman Silberdick noted that investments are at an all time high. Mr. Mackensen said that was correct.

Mr. Hartley said he sees that the portfolio is 45% in equities; he thought 40% was the target. Mr. Mackensen said 40% is the target, but a range of 25% to 45% is allowed in the Investment Policy.

Chairman Silberdick asked if it would be prudent to look at some of the lower yielding equity funds. Mr. Mackensen said that some of these funds are the growth component in the portfolio. Mr. Mackensen will examine the funds and make recommendations at the next meeting.

Mr. Hartley said the focus should be on total return. Mr. Mackensen noted that the projected income for this year is estimated at \$690,000.

Common Trust Fund Portfolio

The NATC Account Custody Statement and Morningstar Snapshot were reviewed.
Mr. Mackensen said the Common Trust Fund Portfolio is doing very well.

Common Capital Reserve Fund Portfolio

The NATC Account Custody Statement and Morningstar Snapshot were reviewed.

MS-9 Report

The MS-9 Report for the first three months of the year was reviewed.

March Ballot Results

March Ballot Results were reviewed. The Trustees received \$300,000 from the Town for the Town Roads Capital Reserves Fund. The Trustees also received the \$10,500 of revenue from the sale of cemetery lots in 2013, which was deposited into the Cemetery Burial Trust Fund.

HBVD Distributions

Mr. Mackensen asked the Trustees to approve distributions to the Hampton Beach Village District.

MOVED by Chairman Silberdick to approve disbursements from the Hampton Beach Village District (HBVD) Capital Reserve Funds, as voted by the HBVD at their meeting on March 28, 2014:

- a. \$4,840.25 Playground Equipment CRF
- b. \$10,000 Capital Projects CRF

SECONDED by Mr. Falzone

VOTE: 5-0-0

Motion passed

Other Items

The Trustees signed the revised Investment Policy discussed at the last meeting.

Mr. Mackensen said there will be Trustees Training on June 11th from 8:30 a.m. until 4:00 p.m., and an Advanced Trustees Training on June 16th from 1:30 p.m. until 4:00 p.m. Both sessions will be held in Concord at the Holiday Inn.

Citizen Comments Voiced Recently at Selectmen's Meetings

The Trustees reviewed a proposed response to various citizen comments made at the Selectmen's Meetings on April 7 and April 14, 2014. After discussion, the response document was attached as an addendum to these minutes.

Next Meeting

The next meeting of the Trustees is scheduled for Monday, July 21, 2014, at 4:15 p.m. in the Selectmen's Meeting Room.

Adjournment

MOVED by Mr. Troiano to adjourn the meeting at 5:20 p.m.

SECONDED by Mr. Falzone.

VOTE: 5-0-0

Motion Passed

Respectfully submitted,

Joan Rice
Secretary

Addendum: Response to Citizen Comments during April 2014 Selectmen's Meetings

Addendum to Hampton Trustees of Trust Funds Meeting Minutes
April 21, 2014
Response to Citizen Comments during April 2014 Selectmen's Meetings

Investments by Trustees of Trust Funds:

Commons funds are allowed under the RSAs to facilitate investing.

There are three Hampton Trustees of Trust Funds Accounts:

- Common Trust Fund Account (\$569,066 @ 3/31/14) - 10 securities
- Common Capital Reserve Fund Account (\$1,435,051 @ 3/31/14) - 5 securities
- Real Estate Trust Fund Account (\$18,355,328 @3/31/14) – 40 securities

The three common accounts are custodied at National Advisors Trust Company, a Federal Savings Bank supervised by the Office of the Comptroller of the Currency, Washington, DC. NATC is headquartered in Overland Park, Kansas.

After consultation with the Trustees, the investments are selected by Mackensen & Company of Hampton, NH. The investments comprise mutual funds, exchange-traded funds, and individual bonds.

Collateralization:

All three of the common accounts with National Advisors Trust Company (NATC) are in segregated accounts in the name of the Trustees of Trust Funds. NATC does not loan out the trustees' money. Accordingly, no collateralization is required.

National Advisors Trust Company:

Mackensen & Company owns 0.35% (about one-third of one percent) of the stock of National Advisors Holdings, Inc., the parent company of National Advisors Trust Company. Without this ownership interest, Mackensen & Company would not have access to the services of National Advisors Trust Company for its clients.

There are neither fee payments to, nor fees received from, NATC. Accordingly, no disclosure is required.

NATC pays its expenses from revenue received from various mutual fund companies, including distribution fees and marketing fees. If a fund does not pay distribution fees, then NATC charges a low transaction fee for the trade. NATC also receives compensation from trustee fees when it serves as corporate trustee for private clients.

Mackensen & Company has never received any income or dividends from its ownership interest in National Advisors Holdings, Inc. Mackensen & Company has gone on record on several occasions that, if NATC pays a dividend, the dividend will be donated to the Lane Memorial Library in Hampton.

Meeting Notices:

Trustees of Trust Funds meetings are duly posted, usually three months in advance, in three places in town: the Town Office Building, the Lane Memorial Library and the Trustees' website (www.hamptontrustfunds.org). The public is always welcome to attend and ask questions of the Trustees.

Meeting Frequency:

Trustees of Trust Funds who invoke the Prudent Investor Rule are required to have outside investment assistance, and review their investments at least quarterly. The Trustees have been having quarterly meetings to meet this requirement.

Income Paid To Town:

The income generated by the Real Estate Trust Fund (RETF) is paid to the town's general fund monthly. There is no benefit to the town for the trustees to keep the monthly income on hand and pay it out only once per year or once per quarter.

When income is earned, the income is generally kept aside in a money market fund because of the forthcoming distribution liability. The town has ongoing monthly expenses. Prior trustees have deemed that it makes sense to distribute the RETF income monthly to help the town's cash flow.

The recent annual income from the Real Estate Trust Fund is:

Year	Net Income
2000	853,146
2001	766,342
2002	677,332
2003	592,522
2004	546,149
2005	568,623
2006	608,061
2007	738,263
2008	675,817
2009	542,209
2010	647,411
2011	598,486
2012	648,915
2013	648,753

Mackensen & Company Fees:

Fees for Mackensen & Company's services are computed once per year. The rate is 0.10%, which is one-tenth of one percent (ten basis points).

The annual fee is computed based on the grand total of all of the trust fund and capital reserve fund balances as of December 31. For 2013, the total was \$20,023,054.00. Accordingly the Mackensen & Company fixed fee for calendar year 2014 is \$20,023. One-fourth of the annual fee is paid in the middle of each quarter (February, May, August and November).

The annual fee paid to Mackensen & Company is disclosed on the MS-10, as well as the trustees' narrative in the town report (2013):

Investment Advisor: Mackensen & Company of Hampton served as the investment advisor and assistant bookkeeper for the Trustees. The fee rate was ten basis points (0.1%) on the overall Hampton portfolios. The annual fee was \$18,606.

Mackensen & Company is a "fee-only" firm. The firm does not receive or accept any commissions or other forms of compensation.

Mackensen & Company provides investment advice to the Trustees, as well as portfolio management and bookkeeping services. As part of its contract, Mackensen & Company produces the MS-9, the MS-10, the town report spreadsheet and the town report narrative. The Company files all the forms with the Attorney General's Office and the Department of Revenue Administration on behalf of the Trustees. The Company maintains the Trustees' website: <http://hamptontrustfunds.org>

Source of Funds for Fee Payments

The RSAs allow investment advisors to be paid from the income from trust funds. Mackensen & Company fees are being paid from the income of the Real Estate Trust Fund.

Five-Person Trustees of Trust Funds Board:

In 2007, the townspeople voted overwhelmingly (1843 Yes, 843 No) to increase the number of trustees from three to five. The five-person Board has increased the diversity of opinions and added value to the trustee processes.

Investment Policies:

Annually, the trustees review the investment policies governing all of the funds under their cognizance. At the present time, there are two investment policy documents:

1. Hampton Real Estate Trust Fund Investment Policy
http://www.hamptontrustfunds.org/trustfunds/funds/HRETF-IP_140421.pdf

2. Investment Policy for the Common Trust Fund and Common Capital Reserve Fund

http://www.hamptontrustfunds.org/trustfunds/funds/Non-HRETF_IP_130422.pdf

The schools are part of the Common Capital Reserve Fund and are covered by the latter policy.

Investment Performance of Funds:

The Common Trust Funds Account is invested 75% in bonds. The Common Capital Reserve Funds Account is invested 85% in bonds. During May and June of 2013, one of the safest possible government bond investments, the Treasury Inflation-Protected Securities (TIPS), suffered a substantial decline. Calendar year 2013 was one of the worst bond markets in 30 years.

Minor capital losses were incurred as a result of the challenging bond market in 2013. The realized capital losses were duly reported in the Principal Capital Losses column on the MS-9 for all affected accounts. That column alone for a single year does not tell the whole story. One also has to review the unrealized capital gains and the income generated. Further, a multi-year review is more appropriate.

Consider the Hampton School District (SAU 90) Special Education Trust Fund. Over its four-years of existence, the school district has deposited \$200,000. There were net capital gains of \$473. There was income of \$8,563. The 2013 year-end market value of this Trust Fund was \$210,590. The average annual total return was 1.1%. In this low interest rate economy, 1.1% average annual total return for a very conservatively invested account is respectable. One-year Treasury bills are currently paying 0.11%.

The history of the SAU 90 account is as follows:

Year	Principal Deposited	Cap Gains/(- Losses)	Interest Income	Total	Principal & Income
2010	50,000.00	1,047.19	337.73	51,384.92	51,384.92
2011	75,000.00	1,224.51	1,894.21	78,118.72	129,503.64
2012	75,000.00	3,278.95	2,981.07	81,260.02	210,763.66
2013	-	(5,077.55)	3,350.00	(1,727.55)	209,036.11
Totals	200,000.00	473.10	8,563.01	209,036.11	
1.1% Average Annual Total Return					

Library Trust Fund:

A citizen comment was made about a new Hampton Library Trust Fund where a \$250 filing fee was incurred. A review of the Hampton Library Trustees' meeting minutes revealed the following:

- October 15, 2013: A check for \$3,759.90 from the MNL Trust was accepted. [Later determined to be the Margaret N. Lovett Trust]
- November 19, 2013: Old business: New Trust Fund – a warrant article is needed and will be prepared for March.
- December 18, 2013: Old business: New Trust Fund – a letter will be forwarded to the town for a warrant article.
- January 22, 2014: Old business: New Trust Fund – Advice from town counsel to deposit check while other issues remain pending.
- February 26, 2014: Lovett Trust - Town Attorney Mark Gearreald explained the meaning of the Cy Pres motion. The motion will allow us to keep to the spirit of the Lovett donation without unnecessary encumbrances placed on the funds. Mark moved to have the town attorney represent the Trustees in a petition for Cy Pres pursuant to RSA 498:4-a. Diane seconded the motion and all were in favor.
- March 19, 2014: Cy Pres petition - filed on behalf of Library Trustees by town counsel

The Trustees of Trust Funds were unaware of this Library activity (October 2013 – March 2014), including the Cy Pres petition and the associated filing fee. The Trustees of Trust Funds have not been a party to any of the discussions. It is not known at this time if the Trustees of Trust Funds will be tasked to manage the Margaret N. Lovett Trust.

A copy of the Cy Pres petition was obtained from Town Counsel and provided to the Trustees of Trust Funds for review at the April 21, 2014, meeting.

END OF ADDENDUM