

# Town of Hampton



## TRUSTEES OF THE TRUST FUNDS

July 20, 2020 4:00 p.m.

Virtual Quarterly Meeting

### DRAFT A

TRUSTEES: Nancy Andrew  
John Bletzer  
James Dearden  
Warren Mackensen  
Christopher Nevins  
Joyce Skaperdas (Alternate)

PUBLIC: None

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ADVISOR: David Mayes, Three Bearings Fiduciary Advisors  
Zachary Zwick, Three Bearings Fiduciary Advisors

The meeting was called to order at 4:00 p.m. by Chairman Mackensen.

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### Right-To-Know Law Statement

Moderator Mackensen convened the meeting using GoToMeeting technology. The meeting was recorded, and the following statements were read into the record:

As a Trustee of the Trustees of Trust Funds, and as Moderator conducting this virtual meeting, I find that due to the State of Emergency declared by the Governor as a result of the COVID-19 pandemic, and in accordance with the Governor's

Emergency Order #12 pursuant to Executive Order 2020-04, this public body is authorized to meet electronically.

Please note that there is no physical location to observe and listen contemporaneously to this meeting, which was authorized pursuant to the Governor's Emergency Order. However, in accordance with the Emergency Order, I am confirming that we are:

**a) Providing public access to the meeting by telephone, with additional access possibilities by video or other electronic means:**

We are utilizing GoToMeeting technology for this electronic meeting. All members of the Trustees of Trust Funds have the ability to communicate contemporaneously during this meeting through this platform, and the public has access to contemporaneously listen and, if necessary, participate in this meeting at the end of the meeting when they are unmuted, through dialing the following phone number 1-408-650-3123 and entering Access Code: 680-973-029 (press#), and by clicking on the following website address: <https://global.gotomeeting.com/join/680973029>.

**b) Providing public notice of the necessary information for accessing the meeting:**

We previously gave notice to the public of the necessary information for accessing the meeting, including how to access the meeting using GoToMeeting. Instructions have also been provided on the website of the Town of Hampton at: [www.HamptonNH.GOV](http://www.HamptonNH.GOV), as well as the Trustees of Trust Funds website: [www.HamptonTrustFunds.org](http://www.HamptonTrustFunds.org). The meeting was also posted at the Town Hall.

**c) Providing a mechanism for the public to alert the public body during the meeting if there are problems with access:**

If anybody has a problem, please call 603-926-2823.

**d) Adjourning the meeting if the public is unable to access the meeting:**

In the event the public is unable to access the meeting, the meeting will be adjourned and rescheduled. Please note that all votes that are taken during this meeting shall be done by roll call vote. Let's start the meeting by taking a roll call attendance. When each member states their presence, please also state whether there is anyone in the room with you during this meeting, which is required under the Right-to-Know law.

### **Quorum Determination**

Chairman Mackensen conducted a roll call among Board members in alphabetical order by last name. No one had other persons in his or her room. There was a quorum.

Alternate Trustee Joyce Skaperdas was also in attendance.

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### **Welcome New Alternate Trustee**

Chairman Mackensen welcomed new Alternate Trustee, Joyce Skaperdas.

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### **Approval of Minutes**

**MOVED** by Mr. Nevins to approve the Minutes of April 20, 2020, as amended.

**SECONDED** by Ms. Andrew.

**VOTE: 5-0-0**

**Motion passed**

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### **2020 Town Ballot Results Provided for Reference**

- a. Hampton Article 18 - \$435,000 from Road Improvement CRF
  - b. Hampton Article 23 - \$300,000 to Road Improvement CRF
  - c. Hampton Article 35 - \$50,000 from Cemetery Maintenance Fund for tree removal
  - d. Hampton Article 38 - \$27,500 to Firefighters Turn Out Gear/Personal Protective Equipment CRF
  - e. Hampton Article 42 – Discontinue DPW Equipment CRF
  - f. Winnacunnet School District Article 5 - \$75,000 to Special Education Expendable Trust
  - g. Winnacunnet School District Article 6 - \$75,000 to Health Care Expendable Trust Fund
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## **Investment Considerations During Review**

Chairman Mackensen asked the Investment Advisor, Three Bearings Fiduciary Advisors, to address the cash on hand in each portfolio versus the immediate need for money.

Further, he asked for comments on the individual investment positions, especially the emerging market positions and the international holdings.

Mr. Mayes was given the floor for the investment review.

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## **2nd Quarter 2020**

During 2020, the Covid-19 coronavirus global pandemic affected markets worldwide. However, Mr. Mayes said the second quarter of 2020 was a significant improvement for both stocks and bonds.

- All categories of risk assets saw significant increases in Q2:
  - S&P 500 20.54%
  - Russell 2000 25.41%
  - MSCI EAFE Index 14.88%
  - Real Estate (Vanguard REIT ETF) 13.35%
  - S&P High-Yield Corporate Bond Index 12.3%
  - S&P Investment Grade Corporate Bond Index 7.9%
- Growth stocks continue to outperform Value
  - iShares S&P Growth (IUSG) 26.23%
  - iShares S&P Value (IUSV) 13.76%
- Interest rates were mixed for US Treasury securities:
  - 30-year Treasury: increased from 1.27% to 1.41%
  - 10-year: increased from 0.62% to 0.66%
  - 5-year: decreased from 0.37% to 0.29%
  - 2-year: decreased from 0.23% to 0.16%

Second Quarter Sector Trends:

Energy XLE 31.91%	Consumer Discretionary XLY 30.51%	Technology XLK 30.36%	Materials XLB 25.80%
Communication Services XLC 22.40%	Industrial XLI 16.94%	Health Care XLV 13.45%	Real Estate XLRE 13.16%
Financial Services XLF 11.85%	Consumer Staples XLP 8.50%	Utilities XLU 2.68%	

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**Real Estate Trust Fund**

Mr. Mayes said the fund market value increased by 10.3% during the second quarter of 2020. He provided the Month-end Market Values bar graph, which reflected the volatility caused by the global pandemic. The line graph showed similar results.

The Fund ended the quarter with a total market value of \$20,742,348.

The Fidelity Account Custody Statement, Quarterly Performance Report, the Morningstar Portfolio X-Ray, and TrustTrak Fund Snapshot Report were reviewed.

The approximate allocation in this Fund is 27.3% US Stocks, 12.7% Non-US Stocks, and 60.2% Bonds. Cash in the Fund is disbursed to the Town monthly.

Ms. Skaperdas asked about the credit quality of some of the fixed-income holdings.

Ms. Andrew shared the concern.

Mr. Mayes responded that the concerns are attributable to the income orientation of the portfolio. With a long-term time horizon, the portfolio can tolerate some lower quality holdings.

Ms. Andrew asked about the under-weighting of technology. Mr. Mayes responded that technology stocks generally do not provide much income.

Ms. Andrew pointed out the significant holdings in real estate. Mr. Mayes responded that there are two real estate positions. Much of the assets are in medical buildings and federal government leases, so these types of holdings are mostly unaffected by the downsizing of office leases as a result of the coronavirus pandemic.

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### **Common Trust Fund**

Mr. Mayes said the Fund rose 9.2% during the second quarter of 2020. He said this Fund ended the quarter with a total market value of \$590,097.

The Fidelity Account Custody Statement, Quarterly Performance Report Package, and Morningstar Portfolio X-Ray were reviewed.

The approximate allocation in this Fund is 3.4% Cash, 23.2% US Stocks, 5.2% Non-US Stocks, 60.1% Bonds, and 8.1% Other (including preferred stocks).

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### **Common Capital Reserve Fund**

Mr. Mayes said the Fund increased 4.3% during the second quarter of 2020. Mr. Mayes said this Fund ended the quarter with a total market value of \$3,525,386.

The Fidelity Account Custody Statement, Quarterly Performance Report Package, and the Morningstar Portfolio X-Ray were reviewed.

The approximate allocation in this Fund is 30% Cash, 17% US Stocks, and 52% Bonds.

Some concerns were expressed regarding the high level of cash.

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### **Winnacunnet School District Common Capital Reserve Fund**

Mr. Mayes said the Fund increased by 4.2% during the second quarter of 2020.

Mr. Mayes said this Fund ended the quarter with a total market value of \$755,660. He said this Fund is very similar to the Common Capital Reserve Fund.

The Fidelity Account Custody Statement, Quarterly Performance Report Package, and the Morningstar Portfolio X-Ray were reviewed.

The approximate allocation in this Fund is 31% Cash, 17% US Stocks, and 52% Bonds.

Some concerns were expressed regarding the high level of cash.

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### **MS-9 Report**

The TrustTrak MS-9 Report for the second quarter of 2020 was reviewed.

Mr. Mackensen explained that the MS-9 report now has a “How Invested” Summary on the last page. The Summary facilitates tying the MS-9 numbers to the Fidelity Statements.

Some minor caption edits on this report footer will be considered by the investment Advisor.

Mr. Mackensen commented that the Cemetery Maintenance Trust Fund alone (\$543,007) dominates the Common Trust Fund total of \$590,097. He suggested that perhaps the Cemetery Maintenance Trust Fund should be invested differently than the rest of the smaller trust funds totaling \$47,090.

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### **Combined Transactions Listing**

The TrustTrak Combined Transactions Listing was reviewed.

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### **Fidelity Statements Cost Basis**

Mr. Mackensen request that Three Bearings Fiduciary Advisors contact their Fidelity Relationship Manager about changing the Fidelity statements so that Fidelity statement cash accounts have cost basis, as opposed to the “not applicable” annotation that we see now. The current statement presentation causes Total Cost Basis in the “Holdings” section to be “off” by the value of the cash accounts.

Mr. Mayes said that he had asked Fidelity about this.

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### **MS-9 Portal Format**

Chairman Mackensen reported that proposed changes to the NHTTF.org portal were submitted in April to the Director of Charitable Trusts, Dept. of Justice (Tom Donovan).

Mr. Donovan responded to Chairman Mackensen in May. The response acknowledged the terminology issues with respect to:

“Cash Capital Gains” = Capital Gain Distributions (the standard term on investment statements)

“End of Year Fair Value,” which included Unrealized Capital Gains, should be dropped

Adopt: Principal + Income + Unrealized Capital Gains/(-Losses) = Market Value

Discussions with the Dept of Revenue Administration (MS-9 Owner) and Axiomatic (portal vendor) to revise the portal algorithms are in progress.

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### **Distribution from the Campbell Sports Scholarship Fund**

The income generated by the Campbell Sports Scholarship Fund from 7/1/2019 through 6/30/2020 was \$268.58.

**MOVED** by Mr. Mackensen to approve the distribution of ½ of income (\$134.29) from the Campbell Sports Scholarship Fund to the Hampton Parks & Recreation Department. The other half of the income (\$134.29) will be journaled to principal, per the trust indenture.

**SECONDED** by Mr. Nevins.

**VOTE: 4-0-0**

**Motion passed**

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### **Road Improvement Distribution of Funds**

The disbursement relates to the shimming and paving of Route 1 between High Street and Winnacunnet Road.

The expenditure was authorized by Warrant Article 9 of the 2018 Town Meeting. The project started in April 2020.

**MOVED** by Mr. Mackensen to rescind the motion made on April 20, 2020, in the amount of \$350,000 (an estimated amount) for the paving of Route 1 between High Street and Winnacunnet Road be rescinded (no funds were disbursed); and

Moved to approve the distribution of \$427,060.48 from the Town Roads Capital Reserve Fund for the paving of Route 1 between High Street and Winnacunnet Road, which is the actual cost requested by Town Finance Director, Kristi Pulliam. Paid invoices for the work were submitted for review.

**SECONDED** by Ms. Andrew.

**VOTE: 4-0-0**

**Motion passed**

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### **Winnacunnet High School Building Maintenance Expendable Trust**

During May, a unanimous email vote occurred to approve \$5,500 for consulting fees relative to roof repairs on Winnacunnet High School.

**MOVED** by Mr. Mackensen to affirm an earlier email vote that approved the disbursement of \$5,500 for the roof consulting fees; and

Moved to approve the disbursement of up to an additional \$53,600 from the Winnacunnet High School Building Maintenance Expendable Trust Fund as requested by the SAU 21 Finance Director, Nancy Tuttle, for roof repairs. Paid invoices for the work must be submitted for review before the funds are released

**SECONDED** by Mr. Bletzer.

**VOTE: 4-0-0**

**Motion passed**

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### **Trustee Website Expenses**

During April, a unanimous email vote occurred to approve \$719.40 for the renewal of the GoDaddy trustees' website hosting costs for the next five years.

**MOVED** by Mr. Mackensen to affirm the email vote and have the Town reimburse Three Bearings Fiduciary Advisors as an incidental trustee expense, per RSA 31:24.

**SECONDED** by Mr. Nevins.

**VOTE: 4-0-0**

**Motion passed**

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### **Trustees Training Expenses**

During June, three Trustees attended Trustee Training (virtually). The trustees who attended training were Christopher Nevins, Jim Dearden and Warren Mackensen. Each trustee charged their \$65 training fee to their personal credit cards.

Moved to approve the reimbursement of Trustee expenses by the Town per RSA 31:24, Trustee Expenses

**MOVED** by Mr. Mackensen to affirm the email vote.

**SECONDED** by Mr. Bletzer.

**VOTE: 5-0-0**

**Motion passed**

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## **Public Comment**

There were no public comments at the end of the session.

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## **Cash on Hand**

Mr. Mackensen provided a summary spreadsheet of cash on hand in each of the four portfolios. A renewed effort will be made to invest the cash rather than sit on cash that may or may not be requested for a long time. The cash should be invested in securities that may be sold readily when requests for disbursements are requested.

Mr. Nevins generally agreed. Mr. Nevins asked what the cash balance might be.

Mr. Mackensen said that, for the Common Trust Fund, \$5,000 to \$10,000 makes sense (to cover the annual income distributions). The rest of the cash should be fully invested appropriately.

Ms. Andrew agreed. She mentioned the need to maintain the quality of the investments. Mr. Nevins agreed.

Mr. Mayes was comfortable with this approach.

Ms. Skaperdas agreed.

There was consensus that the cash in SAU21 CRFs should be handled similarly.

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## **Emerging Market Investments and International Investments**

Mr. Mackensen expressed his concern about the presence of emerging market investments in the aftermath of the global pandemic. He also expressed his concerns about international investments where so many countries are struggling. Discussion ensued, and there were differences of opinions among the Trustees.

Regarding the Common Trust Fund, Mr. Mackensen was bothered by the performance of some positions. He requested that some improvements be made.

Mr. Nevins concurred that performance could be improved.

Ms. Andrew deferred to the Investment Advisor.

Ms. Skaperdas agreed with the overall concerns.

Mr. Nevins observed that the higher risks seem to be in the exchange-traded funds (ETFs). He recommended that the trustees review the percentages of the portfolios that are in ETFs.

Mr. Mackensen pointed out that the Dodge & Cox Global Bond Fund has been performing very well over extended periods and suggested increasing the allocation to that holding.

Regarding the Real Estate Trust Fund, Mr. Mackensen recommended that we get out of emerging market stock funds. He showed a bar chart of a comparable fund, the Vanguard Emerging Market Stock Index Fund, which showed steadily declining emerging markets performance and a risk rating of 5, the highest on a 1 to 5 scale.

A review of the risk in emerging market income funds should also be performed.

Mr. Nevins commented that the Trustees should talk more about this in the future.

Ms. Andrew questioned the role of the Trustees.

Mr. Bletzer chose to rely on Three Bearings as the investment advisor and recommended that specific securities be placed on a watch list, with periodic review of the watch list.

Mr. Mayes cautioned about chasing performance and looking at back performance. He cited that Three Bearings follows a strategic allocation approach.

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### **Next Meeting**

The next meeting will be Monday, October 19, 2020, at 4:00 p.m. in the Selectmen's Meeting Room, or by virtual meeting if necessary.

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### **Adjournment**

**MOVED** by Ms. Andrew to adjourn the meeting at 5:40 p.m.

**SECONDED** by Mr. Nevins.

**VOTE: 3-0-0**

**Motion Passed**

Respectfully submitted,

Warren J. Mackensen, Chairman