

## **Report of the Trustees of Trust Funds**

During 2011, the Trustees of Trust Funds met twelve times. The Trustees welcomed new trustee Stephen A. Falzone and John P. Troiano. The Trustees thanked former trustees Warren J. Mackensen for his four years of service and David W. Hamilton for his three years of service.

The most significant trust fund in Hampton is the Real Estate Trust Fund, whose main purpose is to provide income to reduce the tax rate in Hampton. The investment policy of the Fund has a target asset allocation of 40% equities (stocks) and 60% fixed income (bonds and cash). The purpose of this balanced asset allocation is to provide an opportunity for the principal of the Real Estate Trust Fund to grow to offset the eroding effects of inflation.

Each month, the Trustees distributed income to the Town from the Real Estate Trust Fund to reduce the tax rate. The total distributable net income (after investment management fees of \$15,658) on a cash basis was \$598,486, which represents an annual yield of 3.8% net.

In light of the extremely volatile markets and the lingering recession, there was continuing trustee discussion during the year regarding the Real Estate Trust Fund target asset allocation of 40% equities and 60% fixed income. There were no changes made to the asset allocation.

The market value of the Real Estate Trust Fund diminished from \$15,790,536 to \$15,561,852, a decrease of \$228,684. At year end, the Real Estate Trust Fund allocation to equities was 38%, which was within the allowable range of 25% to 45% specified by the Investment Policy. The allocation to fixed income was 60%, which was within the allowable range of 35% to 70%. Cash allocation was 2%.

In November 2010, the Trustees decided to end their relationship with TD Wealth Management and opted to manage the trust funds without an independent investment advisor. Mackensen & Company offered its services without charge to become investment advisor subject to the consent of the Trustees on the individual investments. Subsequently the Attorney General's Charitable Trust Unit was requested to investigate whether there was a conflict of interest and ultimately it determined that a conflict of interest existed with Warren J. Mackensen serving as Trustee and his firm acting as the investment advisor. In February 2011, the Trustees solicited investment advisor bids to resolve the controversy. Mr. Mackensen did not run for re-election. The request for proposal was sent out to thirty-three firms. Twenty firms submitted bids. After reviewing the bids, the Trustees selected eight firms for public interviews on April 18. After considering all aspects of the investment advisor responsibilities, the Trustees voted to contract with Mackensen & Company on a paid basis at a rate of ten basis points with the largest trust, the Real Estate Trust Fund, remaining with National Advisors Trust Company, Overland Park, Kansas as custodian. The Real Estate Trust Fund remains invested in a broadly-diversified portfolio of over thirty low-cost mutual funds and exchange-traded funds.

The proceeds from three municipal real estate settlements were deposited into the Real Estate Trust Fund during 2011: Galley Hatch Restaurant \$50,000; Holmes & Ells/Citizens Bank \$9,368.92; and June White \$1,100.55.

No leased-land property sales occurred at Hampton Beach during the year.

The Trustees also manage a number of smaller trust funds: the Cemetery Burial Trust Fund, the Cemetery Perpetual Care Trust Funds (71 individual trust funds), the Lane Memorial Library Trust Funds (four trust funds), the Campbell Sports Scholarship Trust Fund, the Poor Trust Funds (three individual trust funds), the Winnacunnet School District Special Education Trust Fund, the Winnacunnet High School Building Maintenance Fund, the Hampton School District Special Education Trust Fund and a Compensated Leave Trust Fund. The Compensated Leave Trust Fund was approved by the voters in March 2009 and funded during 2011.

The Winnacunnet School District Meeting voted on March 8, 2011, to raise and appropriate \$50,000 to be added to the Special Education Expendable Trust Fund created during 2007. This trust fund will help to educate educationally-disabled children. The sum of \$50,000 was delivered to the Trustees and deposited in the Fund in October. No disbursements from the Fund were made in 2011.

The Winnacunnet School District Meeting voted on March 8, 2011, to raise and appropriate \$50,000 to be added to the Winnacunnet High School Building Maintenance Expendable Trust Fund. The sum of \$50,000 was delivered to the Trustees and deposited in the Fund in October. This expendable trust fund can be disbursed by the School Board upon their vote. No disbursements from the Fund were made in 2011.

The Hampton School District Meeting voted on March 8, 2011, to raise and appropriate \$75,000 to be added to the Hampton School District Special Education Expendable Trust Fund created during 2010. The sum of \$75,000 was delivered to the Trustees and deposited in the Fund in October. This expendable trust fund can be disbursed by the School Board upon their vote. No disbursements from the Fund were made in 2011.

Dividend income of \$15,047 from the Cemetery Burial Trust Fund was distributed to the Town for cemetery maintenance. The Town added \$17,550 to the Cemetery Burial Trust Fund principal from 2010 cemetery revenue.

Half of the income from the Campbell Sports Scholarship Trust Fund (\$92) was added to the principal of the Fund, per the provisions of the trust document. The other half (\$92) was distributed to the Recreation and Parks Department.

In addition to the Real Estate Trust Fund and the smaller trust funds, the Trustees also manage six capital reserve funds: three Hampton Beach Village District capital reserve funds, the Town Management Information Systems capital reserve fund, the Town Roads capital reserve fund, and the Department of Public Works (DPW) Equipment Capital Reserve Fund.

The Town voted on March 8, 2011, to add \$300,000 to the DPW Equipment Capital Reserve Fund. There were disbursements of \$408,002 from the DPW Equipment Capital Reserve Fund in 2011, leaving an ending principal & income balance of \$296,966.

The Town voted on March 8, 2011, to add \$300,000 to the Town Roads Capital Reserve Fund. There were no withdrawals from the Town Roads Capital Reserve Fund in 2011.

There were no additions to or distributions from the three Hampton Beach Village District Capital Reserve Funds.

The smaller trust funds and capital reserve funds (with the exception of the Lane Memorial Library Trust Funds) remained invested in the Vanguard GNMA Admiral Shares Fund. Sub-accounting for each of the funds was maintained by the investment advisor and reported to the Trustees at each meeting.

The total market value (after distributing 2011 income) of these smaller trust funds and capital reserve funds (non-real-estate funds and non-library funds) at the end of 2011 was \$1,647,584. The total return on these funds during 2011 was 7.8%.

The four library trusts remained invested in the Fidelity Balanced Fund throughout 2011. The initial investment of \$7,664, deposited in June 2009 has now grown to \$9,792 at year end after income of \$187 was distributed to the Library. The total return for the four library trusts during 2011 was 1.68%.

The investment advisor maintained the Trustees of the Trust Funds website to keep the citizens of Hampton informed about the trust funds and the capital reserve funds, and to provide disclosure under RSA 91-A (the Right-to-Know Law). The website address is: [www.HamptonTrustFunds.org](http://www.HamptonTrustFunds.org). The website features a page for each trust fund and capital reserve fund. The website also lists the next meeting date and the agenda for the next meeting. Copies of past meeting minutes may be downloaded from the website. Applicable state laws (RSAs) are listed on the website for easy reference. Besides the Trustees' website, Trustee meeting notices are posted at the Lane Memorial Library and the Town Office Building.

Trustees of Trust Funds:

Norman Silberdick, Chairman  
Edward R. ("Sandy") Buck, Vice Chairman  
William A. Hartley, Bookkeeper  
Stephen A. Falzone, Secretary  
John P. Troiano