

Investment Policy

Hampton Real Estate Trust Fund

Town of Hampton



Trustees of the Trust Funds

Town of Hampton

100 Winnacunnet Road

Hampton, NH 03842

INVESTMENT POLICY DISCUSSION

Definition of an Investment Policy

An investment policy outlines and prescribes a prudent and acceptable investment philosophy. The policy defines the investment management procedures and goals of the portfolio.

The Need for a Written Policy

The formal requirement for a written investment policy is required by RSA 31:25:

The trustees shall formally adopt an investment policy for all investments made by them or by their agents for any trust funds in their custody in conformance with the provisions of applicable statutes. Such investment policy shall be reviewed and confirmed at least annually. A copy of the investment policy shall be filed with the attorney general.

The development of an investment policy follows the basic approach of assessing financial condition, setting goals, developing a strategy to meet the goals, implementing the strategy, regularly reviewing the results and adjusting the strategy or the implementation as circumstances dictate.

A written investment policy helps maintain a long-term policy when short-term market movements may be distressing and the policy is in doubt.

OVERVIEW

The Hampton Real Estate Trust Fund was created by a 1975 legislative act (Chapter 314) which required funds from the sale of land to be placed with the trustees of trust funds "to be invested and reinvested by them; the income thereof shall be paid annually or more often into the town's general fund, and that the principal, or portions thereof, may from time to time, when authorized by any regular meeting of the town, be used for the purchase, construction, or improvement of real estate for the town."

The law was amended in 1983 (Chapter 3; SB 19) by striking the language of the 1975 law and replacing it with the following:

314:1 Authorization for Real Estate Trust Fund. The town of Hampton may, at any regular or special meeting, provide that the proceeds of sales of land, or interests in lands, other than land or interests in land acquired by taking for nonpayment of taxes or land under the administration of the town's conservation commission, shall be paid over to the town's trustees of trust funds, to be invested and reinvested by them. The trustees are authorized to obtain the services of a bank or professional management company. The income from the

fund shall be paid annually or more often into the town's general fund. The principal of the fund shall remain intact.

In 2003, the law was again amended to remove the requirement that the fund's income be paid into the town's general fund, giving the voters the option to retain and reinvest the income in the trust fund in anticipation of future projects, or to have it paid into the general fund to reduce the current tax rate. In addition, the 2003 amendment allows the town to borrow up to 75% of the fund for up to 15 years at the prevailing bank rate charged to municipalities, as determined by the trustees.

Because the principal of the fund must remain intact under the establishing legislation, the Real Estate Trust Fund has a long-term investment time horizon.

The fund shall be invested in accordance with the Prudent Investor Rule under RSA 31:25-d. The NH Uniform Prudent Investor Rule (RSA 564-B:9-902) provides the following guidance to trustees and their investment advisor for making investment decisions for the fund:

564-B:9-902 Standard of Care; Portfolio Strategy; Risk and Return Objectives. –

- (a) A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.
- (b) A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.
- (c) Among circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries:
 - (1) general economic conditions;
 - (2) the possible effect of inflation or deflation;
 - (3) the expected tax consequences of investment decisions or strategies;
 - (4) the role that each investment or course of action plays within the overall trust portfolio, which may include financial assets, interests in closely held enterprises, tangible and intangible personal property, and real property;
 - (5) the expected total return from income and the appreciation of capital;
 - (6) other resources of the beneficiaries;
 - (7) any other trust if one or more of the beneficiaries also are beneficiaries of that trust;

- (8) needs for liquidity, regularity of income, and preservation or appreciation of capital; and
- (9) an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.

(d) A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets. For purposes of subsections (c)(6) and (c)(7), the trustee has a duty to investigate the relevant information and a duty to monitor the relevant information, and the trustee is not liable to any person to the extent that the trustee performs those duties in good faith and, in accordance with this section, considers the information that the trustee obtains through the good faith performance of those duties.

(e) A trustee may invest in any kind of property or type of investment consistent with the standards of this chapter.

The remainder of this Investment Policy Statement details the objectives, investment strategy, asset allocation, and investment selection criteria that the trustees believe to be consistent with the NH Uniform Prudent Investor Rule when applied to the Real Estate Trust Fund.



INVESTMENT OBJECTIVES

The first objective of the Real Estate Trust Fund is to provide a steady and growing income to the Town of Hampton.

The second objective is to preserve the purchasing power of the fund's principal by growing its value by the annual change in the Consumer Price Index.

RESPONSIBILITIES

The oversight of the Fund is the responsibility of the Trustees of Trust Funds. In this oversight role, the Trustees shall be responsible for monitoring the investment process and will adhere to the provisions of N.H. RSA 31:25, as amended, in the exercise of their actions or decisions.

Under the Prudent Investor Rule, the Trustees must engage an investment advisor as defined in RSA 31:38-a to provide investment advice and assistance (RSA 31:25-d).

TIME HORIZON

The time horizon for the Fund is perpetual. The Fund is effectively an endowment fund. The Fund has no unusual liquidity needs.

RISK TOLERANCE

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected while investing in the capital markets. In general, higher risk (e.g., volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Fund is the determination of an appropriate risk tolerance. There are two primary factors that affect risk tolerance:

- ◆ Financial ability to accept risk within the investment program, and;
- ◆ Willingness to accept return volatility.

Taking these two factors into account, this Fund will be managed based on a moderate risk level. Even with moderate risk, short-term declines in the value of this fund should be expected.

INVESTMENT RISKS

Risk drives returns. Theoretically, the greater the risk, the greater the potential for a higher return over time. All investment decisions involve calculated risks. The challenge is to maximize a portfolio's return while minimizing its downside risk. There are several types of risks inherent in portfolio management.

Systematic Risks

Systematic risks are those risks affecting the entire market that cannot be diversified.

Market Risk: The price of a security, bond, mutual fund, or market may drop rapidly and stay low for a long period of time. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions may trigger market events.

Interest-rate Risk: Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds may become less attractive, causing their market values to decline.

Inflation Risk: A dollar today will not buy as much next year, because purchasing power is eroding at the rate of inflation. Inflation is commonly measured by the Consumer Price Index.

Non-systematic Risks

Non-systematic risks are those unique to a specific asset that can be reduced through diversification.

Business and Financial Risk: These risks are associated with a particular industry or company within an industry. For example, oil-drilling companies depend on finding oil and then refining it. They carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like. Also, during periods of financial stress, a company's inability to meet loan obligations may result in bankruptcy and/or a declining stock market value.

Liquidity Risk: Liquidity is the ability to readily convert an investment into cash. If there is no buyer immediately available for your investment when you want to sell it, the investment is illiquid. Real estate is relatively illiquid. Blue-chip stocks are traded on major stock exchanges and are generally liquid. Mutual funds are similarly liquid.

Country/Currency Risk: Overseas investments are subject to fluctuations in the value of the dollar against the currency of the investment in a particular country. For example, when the value of the dollar declines relative to a foreign currency, an investment in that country increases in value per dollar.

Reinvestment Risk: This is the risk that future proceeds paid from investments may have to be reinvested at a different rate of return (i.e., interest rate). This risk primarily relates to income-producing securities.

No guarantees can be given about future performance, and this Investment Policy shall not be construed as offering such a guarantee.

INVESTMENT STRATEGIES

Total Return

The Fund has a primary total return objective of exceeding the long-term rate of inflation, as measured by the CPI, by 3%. The Investment Advisor shall maintain a portfolio employing a moderate growth investment strategy to achieve the required total return.

Equity Strategy

The goal of the equity component is to invest in a well-diversified portfolio of stocks where growth in dividends and earnings exceeds the long-term rate of inflation. Emphasis in the selection and retention of equities should favor issues that combine reasonable market valuations with superior long-term operating characteristics.

Fixed Income Strategy

The goal of the fixed income component is to manage for income and total return given the constraints cited in this Investment Policy.

ASSET ALLOCATION

Academic research suggests that the decision to allocate total investment assets among various asset classes outweighs security selection and other decisions that impact Fund performance.

The following is the Fund target asset allocation (as a percentage of Fair Market Value):

Category	Target Allocation	Acceptable Ranges
Cash & Cash Equivalents	5%	0% - 10%
Fixed Income	55%	35% - 70%
Equities	40%	25% - 45%
Total	100%	

Adjustment of the Asset Allocation Targets and Ranges

The target allocation and acceptable ranges may be amended annually by the Trustees.

REBALANCING PROCEDURES

Market conditions will cause the Fund's investment in various asset classes to vary from the established allocation. To remain consistent with the asset allocation established by this Investment Policy, at a minimum once a year the Trustees and the Investment Advisor shall review the Fund and each asset class in which the Fund is invested. If the actual weighting differs from the target range by 5% or more from the recommended range, the Fund will be rebalanced.

If the cash equivalents and fixed income portion of the Fund falls below 40% of the total Fund, the Trustees will decide whether to rebalance.

FREQUENCY OF REVIEW

The Trustees will conduct a review of the Investment Policy, the investment accounts and the investment advisor's performance at least once a year, generally at the January quarterly meeting. Modifications to the Investment Policy shall be made when warranted.

The reports cited in the *Investment Monitoring and Control Procedures* section of this Investment Policy shall be provided to the Trustees each year during a January meeting to support the annual review of the Investment Policy.

Proposed modifications to this Investment Policy will be documented in writing and provided to the Trustees for review at least one week prior to the meeting wherein the adoption of such changes will be considered.

In accordance with RSA 31:25, a copy of the Investment Policy will be filed with the NH Attorney General on an annual basis.

INCOME DISTRIBUTIONS

Income shall be paid to the Town annually, or more frequently at the Trustees' discretion.

monthly

DIVERSIFICATION

Permitted Asset Classes

1. Cash and Cash equivalents
2. Fixed Income – domestic, non-U.S., emerging markets and sovereign debt
3. Equities – domestic, non-U.S. and emerging markets

Permitted Security Types

1. Individual stocks, including preferred stocks
2. Individual bonds
3. No-load and low-load mutual funds
4. US Treasury
5. Bank certificates of deposit
6. Government agency bonds
7. Corporate bonds
8. Municipal bonds
9. High-yield bonds
10. Exchange-Traded Funds (ETFs)
11. Real Estate Investment Trusts (REITs)
12. Non-U.S. currencies

Prohibited Asset Classes, Strategies and/or Security Types

1. Precious metals
2. Venture capital
3. Short sales
4. Purchases of letter stock, private placements, or direct payments
5. Leveraged transactions

6. Direct commodities transactions through the futures markets
7. Puts, calls, straddles, or other option strategies, except as permitted above
8. Direct purchases of real estate and land
9. Unit investment trusts

OVERALL CONSTRAINTS

The minimum number of individual securities (stocks, bonds, and mutual funds) for this portfolio may not be less than 25.

Not more than 5% of the portfolio (at market value) shall be invested in the securities of any one issuer, except for government and government-guaranteed securities.

The portfolio will be diversified by sector.

The portfolio shall comply with the provisions of N.H. RSA Chapter 31, Sections 19 through 38.

SELECTION AND RETENTION CRITERIA FOR INVESTMENTS

Cash Equivalent Vehicles

Investments in cash and cash equivalents shall be limited to:

Insured or collateralized bank deposits

U. S. Treasury Bills

Repurchase agreements

Money market funds whose investments are limited to short-term direct obligations of the U. S. Treasury, US government agencies or domestic corporations, where the fund's share price is intended to remain constant and the fund's yield is comparable with the current risk-free rate of return.

Individual Fixed Income Securities

Investments must comply with N.H. RSA Chapter 31:25, which generally limits equity investments to the top three grades of Moody's, Standard & Poor's or Fitch rating agencies. Individual securities must have a minimum rating of Baa3 or BBB- (investment grade) by Moody's or S&P.

The fixed income portfolio may invest in the following securities:

- U. S. Government bonds, including Treasury Inflation Protected Securities (TIPS)
- Federal agencies, including Mortgage Backed Securities (MBS)
- Certificates of Deposit up to the limits of FDIC insurance
- U. S. corporate bonds
- Municipal bonds
- Asset Backed Securities (ABS) rated AAA
- Preferred stocks

Fixed income securities shall have a weighted average maturity of not more than fifteen (15) years, and a maximum single issue maturity of thirty (30) years.

Individual Equity Securities

Investments must comply with N.H. RSA Chapter 31:25, which generally limits equity investments to the top three grades of Moody's, Standard & Poor's or Fitch rating agencies.

No single equity will comprise more than 5% of the total value of the equity portfolio. The portfolio may be diversified across capitalizations and may include international holdings, as follows:

Large /Mid capitalization equities	within target strategy
Small capitalization equities	0% - 15% of equity portion of portfolio
International equities	0% - 15% of equity portion of portfolio
REITS	0% - 10% of equity portion of portfolio

Mutual Funds

Mutual funds shall be pooled investment vehicles, such as publicly traded open-end or closed-end mutual funds, providing daily asset valuations. The following criteria will be used for the selection and retention of any pooled investment vehicles:

The mutual fund will have an investment track record of no less than three years.

The mutual fund shall not charge 12b-1 fees.

The mutual fund is qualified for sale in the State of New Hampshire.

The mutual fund is registered with the U. S. Securities and Exchange Commission (SEC).

A prospectus is available to the Trustees outlining the investment philosophy of the mutual fund and the major holdings in the mutual fund.

The mutual fund can invest in equities or bonds or both.

Performance reviews of each of the mutual funds will be conducted on an annual basis.

In the event any mutual fund underperforms the applicable averages for a period of three years, the mutual fund will be placed on probation for the subsequent twelve months. If over the subsequent year the fund's average return for the applicable three-year period remains below that earned by the average equivalent pooled investment vehicle sharing the same investment objective, a determination will be made by the Investment Manager as to whether the mutual fund continues to be a prudent and appropriate investment.

Exchange-Traded Funds

Exchange-Traded Funds shall be publicly traded on major exchanges, providing daily asset valuations.

INVESTMENT MONITORING AND CONTROL PROCEDURES

Quarterly Reports

The Investment Advisor will provide the Trustees with quarterly performance data and be available to meet with the Trustees at least quarterly. The agenda for the meeting will include, at a minimum, the following:

Current investment strategy.

The Portfolio performance with respect to the Investment Objectives, the Investment Strategies and the relative benchmarks.

Performance for the last three months, one year, three years, and five years once historical data has been achieved.

Annual Reports

The Trustees shall make available to the citizens of Hampton upon request an annual report that lists all assets held, values for each asset and all transactions affecting assets within the Fund, including additions and withdrawals.

The Trustees shall receive no less frequently than on an annual basis the following management reports:

Year-end statements on the investment accounts.

Yield-to-maturity report for the fixed income portion of the Fund.

Fund performance results over the last year, 3 years and 5 years once historical data has been achieved.

Individual equity performance shall be measured against the Standard and Poor's 500.

Individual fixed income performance shall be measured against the Barclays Capital Government Credit Index.

Overall portfolio performance shall be measured against a blended benchmark comprising:

- 30% S&P 500 Index
- 5% Russell 2000 Index
- 5% MSCI EAFE Index (Net Return)
- 60% Bloomberg Barclays US Aggregate Bond Index

Performance of the blended benchmark shall be calculated assuming quarterly rebalancing of the benchmark components.

End-of-year status regarding asset allocation — current versus policy.

Any recommendations for changes to the above.

CUSTODY AND DISCRETIONARY CONTROL

The Trustees shall employ a qualified custodian for the portfolio. The Investment Advisor will not take title to any assets.

The Trustees may appoint an Investment Advisor to execute securities transactions on behalf of the Trustees. The Trustees may delegate transaction discretion to the Investment Advisor, but in no event shall the advisor exceed the asset allocation ranges stated in this Investment Policy without prior approval of the Trustees.

DUTIES AND RESPONSIBILITIES: TRUSTEES

The Trustees are expected to enforce compliance with this Investment Policy in accordance with State and Federal law and the Uniform Prudent Investor Act.

The Trustees shall be responsible for:

1. Approving an appropriate asset allocation plan consistent with the investment objectives, time horizon, risk profile, guidelines and constraints outlined in this Investment Policy.
2. Approving appropriate custodians to safeguard the Fund assets.
3. Reviewing the selection of and the allocation of asset categories.
4. Monitoring the performance of all assets.
5. Reviewing periodic investment reports.

DUTIES AND RESPONSIBILITIES: INVESTMENT ADVISOR

The Investment Advisor shall be responsible for:

1. Identifying specific assets and investment managers within each asset category.
2. Recommending changes to assets within an asset category when so indicated by market performance or asset deterioration.
3. Periodically reviewing the suitability of the individual investments for the Fund.
4. Being available to meet each quarter, and being available at such other times within reason at the Trustees' request.
5. Ensuring that the custodians provide a current prospectus, where applicable, for each investment proposed for the Fund.
6. Exercising all rights, including voting rights, as are acquired through the purchase of securities, where practical.
7. Voting proxies according to the guidelines and restrictions outlined herein where applicable and otherwise using the best judgment possible.
8. Providing bookkeeping support including maintaining trust and capital reserve fund sub-accounting as required if investments are held in common funds and making related records available in electronic format.
9. Providing, on a quarterly basis, a "Certificate of Compliance" attesting that the adviser is in compliance with applicable federal and/or state securities laws. Such certificate shall be signed by a firm principal and its Chief Compliance Officer and/or outside compliance counsel.

INVESTMENT ADVISOR EVALUATION

The Investment Advisor shall be evaluated at least annually, preferably at the January quarterly meeting, on performance criteria to include, at a minimum, the following five categories:

1. Advice
2. Service
3. Portfolio Construction
4. Portfolio Management
5. Cost

Subcategories may be added to the above criteria as deemed appropriate by the Trustees. The Trustees may solicit proposals from alternative investment advisors to compare investment strategies, historical performance and fees.

Because investment costs are significant factors in investment success, investment advisor fees, custodian fees, trading fees and fund expense ratios must be given significant consideration. Further, best execution, as defined by the US Securities and Exchange Commission, must be fully addressed in all proposals. Report formats provided to Trustees must clearly provide principal and income accounting totals to support annual preparation of the MS-9 and MS-10.

The Trustees reserve the right to terminate the Investment Advisor at any time with 30-days written notice.

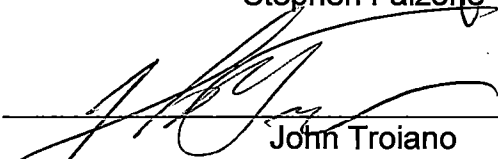


ADOPTION

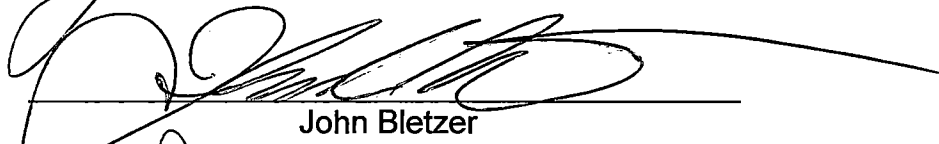
Adopted by the Board of Trustees:



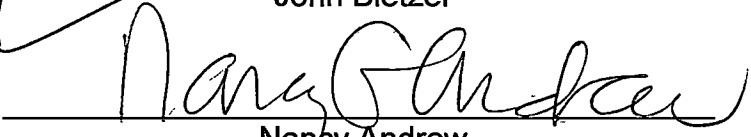
Stephen Falzone



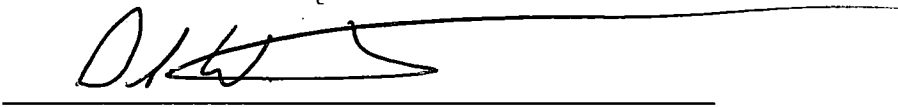
John Troiano



John Bletzer



Nancy Andrew



David Hamilton

Adopted January 22, 2019